PEOPLES BANCORP INC
Form 10-K
March 01, 2019

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, 2018

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: 000-16772
PEOPLES BANCORP INC.
(Exact name of registrant as specified in its charter)

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

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

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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. x

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o
	Emerging growth company o

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter:

As of June 29, 2018, the aggregate market value of the registrant’s common shares (the only common equity of the registrant) held by non-affiliates was $706,643,000 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: 19,681,659 common shares, without par value, at February 28, 2019.

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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 on April 25, 2019 ("2019 Annual Meeting of Shareholders"), 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, which was organized in 1980. Peoples operates principally through its wholly-owned subsidiary, Peoples Bank, an Ohio state-chartered bank. Peoples' other wholly-owned subsidiary is Peoples Investment Company ("PIC"), Peoples also holds all of the common securities of NB&T Statutory Trust III. Peoples Bank's operating subsidiaries include Peoples Insurance Agency, LLC ("Peoples Insurance") and an asset management company, Peoples Tax Credit Equity, LLC.

Peoples Bank was first chartered in 1902 as an Ohio banking corporation under the name "The Peoples Banking and Trust Company" in Marietta, Ohio, and in 2000 was reorganized as a national banking association under the name "Peoples Bank, National Association." Effective December 30, 2015, the banking subsidiary converted from a national banking association back to an Ohio state-chartered bank, which is a member of the Federal Reserve System. As a result of the charter conversion, the legal name of Peoples' banking subsidiary was changed to "Peoples Bank" and the converted bank continues to operate under the trade name and federally registered service mark "Peoples Bank." Peoples Insurance is an Ohio limited liability company that operates as a subsidiary of Peoples Bank.

PIC was formed in 2001 and Peoples Tax Credit Equity, LLC was formed in 2014, in each case to provide new investment opportunities as a means of enhancing profitability. The common securities of NB&T Statutory Trust III were acquired in connection with the acquisition of NB&T Financial Group, Inc. ("NB&T") on March 6, 2015.

Business Overview

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

- various demand deposit accounts, savings accounts, money market accounts and certificates of deposit;
- commercial loans, residential real estate loans, home equity lines of credit, consumer loans and Overdraft Privilege;
- 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;
- third-party insurance administration services;
- brokerage services; and
- custom-tailored fiduciary, employee benefit plan and asset management and administration 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. Indirect consumer lending activities are offered through approved dealerships. Peoples Bank credit card and merchant processing services are provided through joint marketing arrangements with third parties.

Peoples' business activities are currently limited to one reporting unit and reportable operating segment, which is community banking. For a discussion of Peoples' financial performance for the fiscal year ended December 31, 2018, 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

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banking and loan production offices located in or near Peoples' existing market area. Acquisitions have consisted of traditional banking offices and loan production offices, both individually and as part of entire financial institutions, insurance agencies and financial advisory books of business. The primary objectives of Peoples' expansion efforts include: (1) providing opportunities to integrate non-traditional products and services, such as insurance and investment administration and management, 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 investment and investment management; and (4) improving operating efficiency by directing resources toward offices and markets with the greatest earnings opportunities.

Recent Corporate Developments

On October 29, 2018, Peoples entered into an agreement and plan of merger (the "First Prestonsburg Merger Agreement") with First Prestonsburg Bancshares Inc. ("First Prestonsburg"), which calls for First Prestonsburg to merge into Peoples. First Prestonsburg is the parent company of The First Commonwealth Bank of Prestonsburg, Inc. ("First Commonwealth"), which operates nine full-service branches located in eastern Kentucky. Following the merger of First Prestonsburg into Peoples, First Commonwealth will merge into Peoples Bank. This transaction is expected to close during the second quarter of 2019, subject to the satisfaction of customary closing conditions. As of December 31, 2018, First Prestonsburg had approximately $308.5 million in total assets, which included approximately $140.1 million in total loans, and approximately $236.6 million in total deposits. Under the terms of the First Prestonsburg Merger Agreement, shareholders of First Prestonsburg will be entitled to receive 12.512 Peoples common shares for each First Prestonsburg share of common stock they own at the effective time of the merger. In addition, immediately prior to the closing of the merger, First Prestonsburg will pay a special cash distribution of $140.30 per share to its shareholders.

On April 13, 2018, Peoples completed the acquisition of ASB Financial Corp. ("ASB"). ASB merged into Peoples, and ASB's wholly-owned subsidiary, American Savings Bank, fsb, which operated seven full-service bank branches and two loan production offices in southern Ohio and eastern Kentucky, merged into Peoples Bank. Under the terms of the merger agreement with ASB, Peoples paid total consideration of $41.5 million. The ASB acquisition added $239.2 million of loans, net of deferred fees and costs, and loans held for sale in the aggregate, and $198.6 million of total deposits at the acquisition date, after acquisition accounting adjustments.

Refer to Note 19 Acquisitions of the Notes to the Consolidated Financial Statements for additional information.

Primary Market Area and Customers

Peoples considers its primary market area to be comprised of those counties where it has a physical branch presence and their contiguous counties. This includes northeastern, central, southwestern and southeastern Ohio, west central West Virginia and eastern Kentucky. Peoples currently operates 62 locations in Ohio, 13 locations in West Virginia and 6 locations in Kentucky. Peoples' market area consists of rural, small urban and metropolitan markets and serves a diverse group of industries and employers. Principal industries served in Peoples' primary markets include manufacturing, distribution, real estate, health care, education, municipal, agricultural, petrochemical, oil, gas and coal production, wholesale and retail trade, tourism, and service-related industries. This broad-based economy provides diversity, which helps prevent Peoples' revenue and earnings from being largely dependent upon any single industry segment.

Lending Activities

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

Peoples Bank's loans consist of credit extensions to borrowers spread over a broad range of industrial classifications. At December 31, 2018, Peoples Bank had no concentration of loans to borrowers engaged in the same or similar industries that exceeded 10% of total loans (also referred to as "loans, net of deferred fees and costs"), nor did it have any loans outstanding to non-United States ("U.S.") entities.

Commercial Lending

Commercial loans include commercial and industrial loans, commercial real estate loans, and commercial real estate construction loans, and represented the largest portion of Peoples Bank's total loan portfolio, comprising approximately 55.7% and 57.2% of total loans at December 31, 2018 and December 31, 2017, respectively.

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Commercial lending inherently involves a significant degree of risk of loss since commercial loan relationships generally involve larger loan balances than other loan classes.

Commercial 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 three to ten years. At December 31, 2018, the commercial loan portfolio consisted of 76.2% in variable interest rate loans and 23.8% in fixed interest rate loans. In determining whether to grant a commercial loan, Peoples Bank primarily reviews 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 also originates variable rate loans with interest rate swaps, where the customer enters into an interest rate swap with Peoples Bank on terms that match the terms of the loan. By entering into the interest rate swap with the customer, Peoples Bank effectively provides the customer with a fixed rate loan while creating a variable rate asset for Peoples Bank. Peoples Bank offsets its exposure in the swap by entering into an offsetting interest rate swap with an unaffiliated institution. These interest rate swaps do not qualify as designated hedges; therefore, each swap is accounted for as a standalone derivative.

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

Commercial and Industrial Loans

Commercial and industrial loans are loans to operating companies for purposes of financing working capital needs, fixed asset acquisitions, acquisitions of other businesses, and other business activities. Typically, these loans are secured with business assets and, in some cases, owner-occupied real estate, and personally guaranteed by the owners of the operating companies. The primary source of repayment of this type of loan is generally cash flows generated from operations of the business, which can be susceptible to adverse changes in economic conditions of the general economy as a whole or within a specific industry.

Commercial Real Estate Loans

Peoples Bank originates commercial real estate loans which are typically secured by stabilized real estate, which can be owner-occupied commercial real estate or non-owner-occupied investment commercial real estate, and personally guaranteed by the owners of the borrowing entities. Typically, owner-occupied commercial real estate loans are secured by office buildings, warehouses, manufacturing facilities and other commercial and industrial properties occupied by operating companies. The source of repayment of this type of loan is typically cash flow from the operating company occupying the real estate. Investment commercial real estate generally includes office buildings and complexes, retail facilities, multifamily complexes, land under development, industrial properties, as well as other commercial or industrial real estate. Typically, the primary source of repayment of this type of loan is rental income generated from leasing activities.

Commercial Real Estate Construction Loans

Peoples Bank originates construction loans to provide temporary financing during the construction phase for commercial and residential properties. 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 apartment, office, retail, and industrial complexes and other commercial and residential projects. The underwriting criteria for construction loans are generally the same as for non-construction loans.
Construction financing is generally considered to involve higher credit risk since Peoples Bank is dependent largely upon the accuracy of the initial estimate of the property's value at the completion of construction and the estimated cost (including interest) of construction. If the estimated construction cost proves to be inaccurate, Peoples Bank may be required to advance funds beyond the amount originally committed to enable completion of the project.

If the estimate of value proves inaccurate, Peoples Bank may be confronted, at or prior to the maturity of the loan, with a property having a value insufficient to ensure full repayment, should the borrower default. In the event a default on a construction loan occurs and foreclosure follows, Peoples Bank must take control of the project and attempt to either arrange for completion of construction or sell the collateral 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 repay the loan if the property is not sold upon completion.

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 residential real estate loans originated by Peoples Bank may either be retained in its loan portfolio, or sold into the secondary market with servicing either retained by Peoples Bank or sold with the loan. Peoples Bank's portfolio of residential real estate loans comprised 21.8% of total loans at December 31, 2018, and 20.8% at December 31, 2017. Peoples Bank also had $5.5 million of residential real estate loans held for sale and was servicing $461.3 million of loans, consisting primarily of one-to-four family residential mortgages, which had previously been sold into the secondary market, in each case, as of December 31, 2018. Peoples Bank also originates and retains jumbo residential mortgage loans for primary and secondary residences, which are nonconforming loans that are higher than the loan amounts acceptable for sale to the government-sponsored enterprises to which Peoples Bank typically sells residential mortgage loans.

Peoples Bank originates both fixed rate and variable rate residential real estate loans. Typically, Peoples Bank sells its longer-term fixed rate real estate loans into the secondary market. In select cases, Peoples Bank may retain certain fixed rate real estate loans.

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 or through a designated low-to-moderate income loan program. 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. Peoples Bank requires evidence of insurance at the time of the loan closing. Additionally, Peoples Bank has a blanket insurance policy to cover loans secured by real estate with outstanding balances of less than $1 million that do not include an insurance escrow account. For loans secured by real estate with outstanding balances over $1 million or those that include an insurance escrow account, Peoples Bank force-places an insurance policy to cover residential real estate loans when the borrower fails to maintain adequate insurance. 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, 2018, outstanding home equity lines of credit comprised 4.9% of Peoples Bank's total loans, compared to 4.6% at December 31, 2017. 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. At December 31, 2018, Peoples Bank's home equity loan portfolio consisted of 95.6% in variable interest rate loans and 4.4% in fixed interest rate loans. At December 31, 2018, 16.0% of the total home equity loan portfolio was convertible rate home equity lines of credit, with total outstanding principal balances and available credit amounts of $21.4 million and $22.1 million, respectively, and a weighted-average remaining maturity was 7.3 years. The average original loan amount under these convertible rate home equity lines of credit was $37,000 at December 31, 2018.

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 10-year terms and are subject to underwriting review upon request for renewal.

Consumer Lending

Peoples Bank's consumer lending activities include consumer indirect loans and consumer direct loans, which primarily involve loans secured by automobiles, motorcycles, recreational vehicles and other personal property, as well as unsecured loans and personal lines of credit. 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.

Consumer Indirect Loans

Peoples Bank originates consumer indirect loans through select dealerships, which generally includes loans secured by automobiles, motorcycles and recreational vehicles. At December 31, 2018, consumer indirect loans comprised 14.9% of Peoples Bank's total loan portfolio compared to 14.5% at December 31, 2017.

Consumer indirect loans are originated at the point of sale, or dealership, and are subject to the same pricing structure and underwriting process as other consumer loans. Consumer indirect lending offers Peoples Bank the opportunity to access additional customers outside of its primary office locations. Peoples Bank offers consumer indirect lending through approved dealerships, including franchise dealerships or independent dealerships, which specialize in new or late-model inventory. These dealerships undergo an approval process whereby Peoples Bank reviews the dealership licensing and industry experience, evaluates customer experience with the dealership and completes an inspection of the inventory, showroom, and general facilities. On an ongoing basis, the dealerships are monitored based on monthly production volume, application approval rates and portfolio default rates.

Consumer Direct Loans

Peoples Bank originates consumer direct loans primarily through its office locations. Consumer direct loans generally include loans secured by automobiles, motorcycles, recreational vehicles and other personal property, as well as unsecured loans and personal lines of credit. Consumer direct loans differ from consumer indirect loans as they include expanded products, such as loans secured by stock or deposits, or unsecured loans. At December 31, 2018, consumer direct loans comprised 2.7% of Peoples Bank's total loan portfolio compared to 2.9% at December 31, 2017.

Overdraft Privilege

Peoples Bank grants Overdraft Privilege to qualified customers. Overdraft Privilege is a service that provides overdraft protection to deposit customers, both individual and business, 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 $400, $700 or $1,000 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, was included in Peoples Bank's allowance for loan losses. At December 31, 2018, the unfunded commitment related to Overdraft Privilege was $47.8 million.

Investment Activities
At December 31, 2018, investment securities comprised 21.8% of Peoples' total assets, compared to 24.4% at December 31, 2017. The majority of Peoples' investment activities are conducted through Peoples Bank, although Peoples Bancorp Inc. and its non-banking subsidiary, PIC, 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 at December 31, 2018 included 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. Peoples Bank also invests in tax credit funds. The investments owned by Peoples Bancorp Inc. are comprised of common stocks issued by unrelated bank holding companies. The investments owned by PIC consist of tax credit funds, municipal obligations and privately issued mortgage-backed securities.
Peoples Bank's investment activities are governed internally by a policy approved by the Board of Directors, which is administered by Peoples Bank's Asset-Liability Management Committee ("ALCO"). The primary purpose of Peoples Bank's investment portfolio is to: (1) employ excess funds not needed to support loan demand; (2) provide a source of liquid assets to accommodate unanticipated deposit and loan fluctuations, and overall liquidity needs; (3) provide eligible securities to secure public and trust funds; and (4) earn the maximum overall return commensurate with Peoples Bank's risk appetite and liquidity needs. Investment strategies to achieve these objectives are reviewed and approved by the ALCO. In its evaluation of investment strategies, the ALCO considers various factors, including the interest rate environment, balance sheet mix, actual and anticipated loan demand, funding opportunities and Peoples Bank's overall interest rate sensitivity. The ALCO also has much broader responsibilities, which are discussed in the "Interest Rate Sensitivity and Liquidity" section of "ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Form 10-K.
Funding Sources
Peoples' primary sources of funds for lending and investing activities are interest-bearing and non-interest-bearing deposits. Cash flows from both the loan and investment portfolios, which include scheduled payments, as well as prepayments, calls and maturities, also provide a relatively stable source of funds. Peoples also utilizes a variety of short-term and long-term borrowings to fund asset growth and satisfy liquidity needs. Peoples' funding sources are managed through Peoples' asset-liability management process and monitored by the ALCO which is discussed further in the "Interest Rate Sensitivity and Liquidity" section of "ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Form 10-K.
The following is a brief description of the various sources of funds utilized by Peoples:
Deposits
Peoples Bank obtains deposits principally from individuals and businesses within its primary market area by offering a broad selection of deposit products to clients. Deposits to individuals have account terms that 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. Business deposits, which include traditional commercial business as well as governmental entities, are obtained through an offering of multiple deposit account types as well as cash management solutions. Depending on the need of the entity, these deposits could be either interest or non-interest bearing. With the ability to offer competitive cash management solutions to its customers, it enables Peoples Bank to obtain valuable operating account funds as well customers' non-operating funds. Retail and business deposits are attractive sources of funding because of their stability and cost, relative to wholesale funding alternatives, 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 also purchases certain "one-way buy" CDARS deposits, which are utilized as a wholesale funding source, and these deposits are classified as brokered CDs in Note 7 Deposits of the Notes to the Consolidated Financial Statements.

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

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Peoples Bank's deposits to fund loans originated to customers located outside its primary market area, as well as provide diversity in funding sources. While these deposits may carry slightly higher interest costs than other wholesale funds, they do not require Peoples Bank to secure the funds with collateral, unlike most other borrowed funds. Additional information regarding the amounts and composition of Peoples Bank's deposits can be found in the "Deposits" section of "ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Form 10-K and in Note 7 Deposits 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 (the "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. In addition, Peoples 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. In recent years, Peoples has utilized interest rate swaps to obtain short-term borrowings at long-term fixed rates, effectively replacing maturing long-term borrowings. Long-term borrowings provide cost-effective options for funding asset growth and satisfying capital needs, due to the variety of pricing and maturity options available.

Additional information regarding the amounts and composition of Peoples' borrowed funds can be found in the "Borrowed Funds" section of "ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Form 10-K and in Note 8 Short-Term Borrowings and Note 9 Long-Term Borrowings of the Notes to the Consolidated Financial Statements.

Competition

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

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

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

Employees

At December 31, 2018, Peoples had 871 full-time equivalent employees, compared to 774 at December 31, 2017. The increase in full-time equivalent employees was primarily related to the acquisition of ASB.

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.", "Peoples Insurance (with logo)" and "peoplesbancorp.com" with the U.S. Patent and Trademark Office. These service marks currently have expiration

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dates ranging from 2021 to 2027. Additionally, Peoples has filed an application with the U.S. Patent and Trademark Office for the service mark registrations of "Peoples Investment Services" and "Peoples Investment Services (with logo)".

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 intends to continue to use its registered service marks and to timely renew the registration of each of them.

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

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 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 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 routinely required to file reports and other information with the Federal Reserve Board regarding its business operations and those of its subsidiaries.

Subsidiary Bank

Peoples Bank is subject to regulation and examination primarily by the Ohio Division of Financial Institutions ("ODFI") and the Federal Reserve Bank of Cleveland ("FRB"). 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 U.S, 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's customers.

Non-Banking Subsidiaries

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

Other Regulatory Agencies

Securities and Exchange Commission ("SEC") and The Nasdaq Stock Market ("Nasdaq")

Peoples is also under the jurisdiction of the SEC and certain state securities commissions for matters relating to the offering and sale of its securities. Peoples is subject to the registration, disclosure, reporting 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. The general insurance limit is $250,000 per separately insured depositor. This insurance is backed by the full faith and credit of the United States government.

As insurer, the FDIC is authorized to conduct examinations of and to require routine reporting by insured institutions, including Peoples Bank, to prohibit any insured institution from engaging in any activity the FDIC determines to pose a threat to the Deposit Insurance Fund, and to take enforcement actions against insured institutions. The FDIC may terminate insurance of deposits of any insured institution if the FDIC finds that the insured institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or any other regulatory agency.

Insured depository institutions are required to remit quarterly deposit insurance premiums to the FDIC, which are used to fund 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 assesses a quarterly deposit insurance premium on each insured institution based on risk characteristics of the institution and may also impose special assessments in emergency situations. Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), the FDIC has established 2.0% as the designated reserve ratio ("DRR"), which is the amount in the Deposit Insurance Fund as a percentage of all Deposit Insurance Fund insured deposits. In March 2016, the FDIC adopted final rules designed to meet the statutory minimum DRR of 1.35% by September 30, 2020, the deadline imposed by the Dodd-Frank Act. As of September 30, 2018, the DRR met the statutory minimum of 1.35%. As a result, the previous surcharge imposed on banks with assets of $10 billion or more was lifted. In addition, preliminary assessment credits have been determined by the FDIC for banks with assets of less than $10 billion, which had previously contributed to the increase of the DRR to 1.35%. These credits may be redeemed beginning in the quarterly assessment period in which the DRR reaches a minimum of

1.38%, and is not to exceed the total quarterly assessment due.
In addition, all FDIC-insured institutions are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, which was established by the government to recapitalize a predecessor to the Deposit Insurance Fund. These assessments will continue until the Financing Corporation bonds mature in September 2019. The Financing Corporation has projected that the last assessment will be collected on the March 29, 2019 FDIC invoice.

Bank Holding Company Regulation

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

In order for a financial holding company to commence any new activity permitted by the BHC Act, or to acquire a company engaged in any new activity permitted by the BHC Act, the financial holding company must be "well managed" and "well capitalized," and each insured depository institution subsidiary of the financial holding company must be well capitalized under the prompt corrective action provisions, be well managed and have received a rating of at least "satisfactory" in its most recent examination under the CRA. The CRA 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.

A financial holding company is required by law and Federal Reserve Board policy to act as a source of financial strength to each subsidiary bank and to commit resources to support each subsidiary bank. 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 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 such persons control, is subject to Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O promulgated under the Federal Reserve Act by the Federal Reserve Board. Among other things, these loans must be made on terms (including interest rates charged and collateral required) substantially the same as those offered to unaffiliated individuals, or be made as part of a benefit or compensation program and on terms widely available to employees, and must not involve a greater than normal risk of repayment. In addition, the amount of loans a bank may make to these persons is based, in part, on the bank's capital position, and specified approval procedures must be followed in making loans which exceed specified amounts.

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Capital Adequacy and Prompt Corrective Action

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

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

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

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 July 2013, the U.S. banking regulators issued new capital rules (the "Basel III Capital Rules") applicable to smaller banking organizations which also implement certain provisions of the Dodd-Frank Act. Community banking organizations, including Peoples and Peoples Bank, began transitioning to the new rules on January 1, 2015. The new minimum capital requirements became effective on January 1, 2015; whereas, the new capital conservation buffer and deductions from common equity capital phased in from January 1, 2016 through January 1, 2019, and most deductions from common equity tier 1 capital phased in from January 1, 2015 through January 1, 2019.

The rules include (a) a minimum common equity tier 1 capital ratio of 4.5%, (b) a minimum tier 1 risk-based capital ratio of 6.0%, (c) a minimum total risk-based capital ratio of 8.0%, and (d) a minimum tier 1 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, 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 were completely phased in as of January 1, 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

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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 share repurchases, and certain discretionary bonus payments to executive officers if the company does not hold a capital conservation buffer of greater than 2.5% 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% at the beginning of the quarter. The capital conservation buffer phased in beginning January 1, 2016, at 0.625%, and was subsequently increased to 1.25% as of January 1, 2017, 1.875% on January 1, 2018 and 2.50% on January 1, 2019.
In September 2017, the Federal Reserve Board, along with other bank regulatory agencies, proposed amendments to its capital requirements to simplify aspects of the capital rules for community banks, including Peoples Bank, in an attempt to reduce the regulatory burden for such smaller financial institutions. Because the amendments were proposed with a request for comments and have not been finalized, Peoples does not yet know what effect the final rules will have on Peoples Bank's capital calculations. In November 2017, the federal banking agencies extended for community banks the existing capital requirements for certain items that were scheduled to change effective January 1, 2018, in light of the simplification amendments being considered, including extending the existing capital requirements for mortgage servicing assets and certain other items. The intent was to prevent different rules from taking effect while the bank regulatory agencies consider a broader simplification of the capital rules.
In November 2018, the Federal Reserve Board, along with other bank regulatory agencies, proposed a rule that would give community banks, including Peoples Bank, the option to calculate a simple leverage ratio, rather than multiple measures of capital adequacy, if they meet certain requirements. Under the proposal, a community bank would be eligible to elect the Community Bank Leverage Ratio ("CBLR") framework if it has less than $10 billion in total consolidated assets, limited amounts of certain assets and off-balance sheet exposures, and a CBLR greater than 9.0%. Provided it has a CBLR greater than 9.0%, a qualifying community bank that chooses the proposed framework would be considered to have met the capital ratio requirements to be well capitalized for the agencies' prompt corrective action rules. It is Peoples' intent to analyze the final rule and then decide which capital option to select.
The federal banking agencies also adopted a rule providing banking organizations the option to phase in over a three-year period the day-one adverse effects on regulatory capital that may result from the adoption of new current expected credit loss methodology accounting under generally accepted accounting principles in the United States of America ("US GAAP").
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 tier 1 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 Bank meets the ratio requirements to be deemed "well capitalized" according to the guidelines described above. Additional information regarding Peoples' regulatory matters can be found in Note 16 Regulatory Matters 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, 2018, the most recent performance evaluation by the Federal Reserve Board (which was Peoples Bank's primary federal banking regulator at the time of the examination) of Peoples Bank, which was conducted in 2017, resulted in an overall rating of "Satisfactory."
Dividend Restrictions

Current banking regulations impose restrictions on Peoples Bank's ability to pay dividends to Peoples. These restrictions include a limit on the amount of dividends that may be paid in a given year without prior approval of the Federal Reserve Board and a prohibition on paying dividends that would cause Peoples Bank's total capital to be less than the required minimum levels under the capital requirements imposed by the Federal Reserve Board and the amount of the capital conservation buffer. Ohio law also limits the amount of dividends that may be paid in any given year without prior approval of the Ohio Superintendent of Financial Institutions. Peoples Bank may not declare or pay a dividend if the total of all dividends declared during the calendar year, including the proposed dividend, exceeds the sum of the bank's net income during the current calendar year and the retained net income of the prior

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two calendar years, unless the dividend has been approved by the ODFI and the FRB. 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 16 Regulatory Matters 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 FRB 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 NB&T Statutory Trust III, 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 Fair Credit Reporting Act and the authority granted to banking regulators under the Federal Trade Commission Act with respect to unfair, deceptive, or abusive acts or practices ("UDAAP"). In October 2017, the CFPB issued a final rule (the "Payday Rule") with respect to certain consumer loans to be effective on January 16, 2018, although compliance with the most recent sections is not required until August 19, 2019. The first major part of the Payday Rule makes it an unfair and abusive practice for a lender to make short-term and longer-term loans with balloon payments (with certain exceptions) without reasonably determining that the borrower has the ability to repay the loan. The second major part of the Payday Rule applies to the same types of loans, as well as longer-term loans with an annual percentage rate greater than 36%, that are repaid directly from the borrower's account. The Payday Rule states that it is an unfair and abusive practice for the lender to withdraw payment from the borrower's account after two consecutive payment attempts have failed, unless the lender obtains the consumer's new and specific authorization to make further withdrawals from the account. The Payday Rule also requires lenders to provide certain notices to the borrower before attempting to withdraw payment on a covered loan from the borrower's account.

On February 6, 2019, the CFPB issued two proposals with respect to the Payday Rule. First, the CFPB proposed to delay the compliance date for the mandatory underwriting provisions of the Payday Rule to November 19, 2020. The CFPB has requested comments on the proposed delay to be made within 30 days. Second, the CFPB proposed to rescind provisions of the Payday Rule that (1) provide that it is an unfair and abusive practice for a lender to make a covered short-term or longer-term balloon-payment loan without reasonably determining that the consumer has the ability to repay the loan according to its terms; (2) prescribe mandatory underwriting requirements for making the ability-to-repay determination; (3) provide exemptions of certain loans from the mandatory underwriting requirements; and (4) provide related definitions, reporting and recordkeeping requirements. The CFPB has requested comments to be made within 90 days on this proposal. These proposals do not change the provisions of the Payday Rule that address lender payment practices with respect to covered loans. The CFPB also stated that the CFPB will be considering other changes to the Payday Rule in response to requests received for exemptions of certain types of lenders or loan products and may commence separate additional rulemaking initiatives.

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Peoples does not currently expect the Payday Rule to have a material effect on Peoples' financial condition or results of operations on a consolidated basis.

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 deposits of depository institutions. These policies and regulations significantly affect the overall growth and distribution of loans, investments and deposits, as well as interest rates charged on loans and paid on deposits.

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

Executive and Incentive Compensation

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

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

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

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

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

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

- prohibit incentive-based compensation arrangements that are "excessive" or "could lead to material financial loss;"
- require incentive-based compensation that is consistent with a balance of risk and reward, effective management and control of risk, and effective governance; and

- require board oversight, recordkeeping and disclosure to the appropriate regulatory agency.

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

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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. Peoples has implemented a clawback policy and it is posted under the "Corporate Overview - Governance Documents" tab of the "Investor Relations" page of Peoples' Internet website.

SEC regulations require public companies such as Peoples to provide various disclosures about executive compensation in annual reports and proxy statements, and to present to their shareholders a non-binding vote on the approval of executive compensation.

Volcker Rule

In December 2013, five federal agencies adopted a final regulation implementing the Volcker Rule provision of the Dodd-Frank Act (the "Volcker Rule"). The Volcker Rule places limits on the trading activity of insured depository institutions and entities affiliated with a depository institution, subject to certain exceptions. The trading activity includes a purchase or sale as principal of a security, derivative, commodity future or option on any such instruments in order to benefit from short-term price movements or to realize short-term profits. The Volcker Rule exempts trading in specified U.S. government, agency, state and/or municipal obligations. The Volcker Rule also excepts (i) trading conducted in certain capacities; (ii) trading to satisfy a debt previously contracted; (iii) trading under certain repurchase and securities lending agreements; and (iv) trading in connection with risk-mitigating hedging activities. The Volcker Rule also prohibits a banking entity from having an ownership interest in, or substantial relationships with, a hedge fund or private equity fund, with a number of exceptions. To the extent that Peoples Bank engages in any of the trading activities or has any ownership interest in or relationship with any of the types of funds regulated by the Volcker Rule, Peoples Bank believes that its activities and relationships fall within the scope of one or more of the exceptions provided in the Volcker Rule.

In December 2018, the five federal agencies that adopted the Volcker Rule proposed a rule that would exclude certain community banks, including Peoples Bank, from the Volcker Rule, consistent with the Economic Growth, Regulatory Relief, and Consumer Protection Act. Under the proposal, community banks with $10 billion or less in total consolidated assets and total trading assets and liabilities of 5.0% or less of total consolidated assets would be excluded from the restrictions of the Volcker Rule. The agencies indicated that they will no longer enforce the Volcker Rule with respect to community banks while the rulemaking is being finalized.

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 exposure 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, and the rollback of the Dodd-Frank Act that began in 2018. Many of the regulations mentioned above were adopted or amended pursuant to the Dodd-Frank Act. Such legislation may continue to change banking statutes and regulations, and the operating environment of Peoples and its subsidiaries in substantial and unpredictable ways, and could

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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, the subsequent rollback and the continuing implementation of final rules and regulations thereunder, as well as political changes, the nature and extent of future legislative and regulatory changes affecting financial institutions remains very unpredictable.

Website Access to Peoples' SEC Filings

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

ITEM 1A RISK FACTORS

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

Economic, Political and Market Risks

- Changes in economic and political conditions could adversely affect Peoples’ earnings and capital through declines in deposits, quality of investment securities, 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, tariffs, a U.S. withdrawal from or significant renegotiation of trade agreements, trade wars and other factors beyond Peoples’ control may adversely affect its deposit levels and composition, the quality of investment securities available for purchase, demand for loans, the ability of its borrowers to repay their loans, and the value of the collateral securing the loans it makes. Recent political developments have resulted in substantial changes in economic and political conditions for the U.S. and the remainder of the world. Disruptions in U.S. and global financial markets, and changes in oil production in the Middle East also affect the economy and stock prices in the U.S., which can affect Peoples' earnings and Peoples' capital, as well as the ability of Peoples' customers to repay loans. The timing and circumstances of the United Kingdom leaving the European Union (Brexit) and their effects on the U.S. are unknown.

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. 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.

Any reversal of recent improvements in economic conditions could have an adverse effect 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.

- 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, not only could influence 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 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 borrowings.

Changes in interest rates may also negatively affect the ability of Peoples' borrowers to repay their loans, particularly as interest rates rise and adjustable-rate loans become more expensive.

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.

- A transition away from London Interbank Offered Rate ("LIBOR") as a reference rate for financial contracts could negatively impact Peoples' income and expenses, and the value of various financial contracts.

LIBOR is used extensively in the U.S. and globally as a benchmark for various commercial and financial contracts, including adjustable rate mortgages, corporate debt, interest rate swaps and other derivatives. LIBOR is set based on interest rate information reported by certain banks, which may stop reporting such information after 2021. It is uncertain at this time whether LIBOR will change or cease to exist or the extent to which those entering into financial contracts will transition to any other particular benchmark. Benchmarks that are used in place of LIBOR may perform differently than LIBOR, and such alternative benchmarks may also perform differently in the future than they have in the past. The use of alternative benchmarks may also have other consequences that cannot currently be anticipated. It is also uncertain what will happen with instruments that rely on LIBOR for future interest rate adjustments and which remain outstanding if LIBOR ceases to exist.

Peoples' primary exposure to LIBOR relates to its promissory notes with borrowers, swap contracts with clients, offsetting swap contracts with third parties related to the swap contracts with clients, Peoples' LIBOR-based borrowings (if any), and Peoples Bank's swap contracts which can be tied to LIBOR. Peoples' contracts generally include a LIBOR term (one month, three month, one year, as an example) plus an incremental margin rate. Peoples is working through this transition via a multi disciplinary project team.

- Adverse changes in the financial markets may adversely impact Peoples' results of operations.

While Peoples generally invests in securities issued by U.S. government agencies and sponsored entities, and U.S. state and local governments with limited credit risk, certain investment securities Peoples holds possess higher credit risk since they represent beneficial interests in structured investments collateralized by residential mortgages, debt obligations and similar asset-backed assets. Even securities issued by governmental agencies and entities may entail risk depending on political and economic changes. Regardless of the level of credit risk, all investment securities are subject to changes in market value due to changing interest rates, implied credit spreads and credit ratings.

- Changes in market rates and economic conditions could cause the interest rate swaps Peoples Bank has entered into to become ineffective.

The accounting treatment of the interest rate swaps entered into by Peoples as part of its interest rate management strategy, may change if the hedging relationship is not as effective as currently anticipated. These interest rate swaps are designated as cash flow hedges and involve the receipt of variable rate amounts from a counterparty in exchange for fixed payments from Peoples. As of December 31, 2018, Peoples had 12 interest rate swaps with an aggregate notional value of $110.0 million.

Although Peoples expects that the hedging relationship will be highly effective as described above, it has not assumed that there will be no ineffectiveness in the hedging relationship. As of December 31, 2018, the termination value of derivatives in a net asset position was $1.0 million, which includes accrued interest but excludes any adjustment for nonperformance risk. As of December 31, 2018, Peoples had no minimum collateral posting thresholds with certain of its derivative counterparties. However, one of the counterparties had posted collateral of $130,000 against its obligations under these agreements. If Peoples had breached any of the provisions of the agreements at December 31, 2018, it could have been required to settle its obligations under the agreements at the termination value.

- The value of Peoples' goodwill and other intangible assets may decline in the future.

As of December 31, 2018, Peoples had $162.1 million of goodwill and other intangible assets. A significant decline in expected future cash flows, a significant adverse change in the business climate, slower growth rates or a significant and sustained decline in the price of Peoples' common shares may necessitate taking charges in the future related to the

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impairment of goodwill and other intangible assets. If Peoples were to conclude that a future write-down of goodwill and other intangible assets is necessary, the appropriate charge would be recorded, which could have a material adverse effect on Peoples' business, financial condition and results of operations.

Business Operations Risks

• Peoples is exposed to operational risk.

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

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

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

Negative public opinion can result from Peoples’ actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions, and 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 and 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.

• Failures or material breaches in security of Peoples' systems and telecommunications networks, or those of a third-party service provider may have a material adverse effect on Peoples' results of operations and financial condition and the price of Peoples' common shares.

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' necessary dependence upon automated systems to record and process Peoples' transactions poses the risk that technical system flaws, employee errors, tampering or manipulation of those systems, or attacks by third parties will result in losses and may be difficult to detect. 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. Peoples also routinely reviews documentation of such controls and backups related to third-party service providers. Peoples' inability to use or access those information systems at critical points in time could unfavorably impact the timeliness and efficiency of Peoples' business operations. Risks to Peoples' 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. Other businesses have been victims of ransomware attacks in which the business becomes unable to access its own information and is presented with a demand to pay a ransom in order to once again have access to its information. Peoples is also at risk from the impact of natural disasters, terrorism and international 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 could be adversely affected if one of its employees causes a significant operational break down or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates Peoples'

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operations or systems. Peoples is further exposed to the risk that the third-party service providers may be unable to fulfill their contractual obligations (or will be subject to the same risks as Peoples). These disruptions may interfere with service to Peoples' customers, cause additional regulatory scrutiny and result in a financial loss or liability. Misconduct by employees could include fraudulent, improper or unauthorized activities on behalf of clients or improper use of confidential information. Peoples may not be able to prevent employee errors or misconduct, and the precautions Peoples takes to detect this type of activity might not be effective in all cases. Employee errors or misconduct could subject Peoples to civil claims for negligence or regulatory enforcement actions, including fines and restrictions on Peoples' business.

In addition, there have been instances where financial institutions have been victims of fraudulent activity in which criminals pose as customers to initiate wire and automated clearinghouse transactions out of customer accounts. Although Peoples has policies and procedures in place to verify the authenticity of its customers, Peoples cannot ensure that such policies and procedures will prevent all fraudulent transfers. Such activity can result in financial liability and harm to Peoples' reputation.

Peoples has implemented security controls to prevent unauthorized access to the computer systems and requires its third-party service providers to maintain similar controls. However, management cannot be certain that these measures will be successful. A security breach of the computer systems and loss of confidential information, such as customer account numbers and related information, could result in a loss of customers' confidence and, thus, loss of business. Peoples could also lose revenue if competitors gain access to confidential information about Peoples' business operations and use it to compete with Peoples. In addition, unauthorized access to or use of sensitive data could subject Peoples to litigation and liability, and costs to prevent further such occurrences.

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 debit card data, which may include the theft of Peoples' debit card personal identification 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, and Peoples' plans to continue to implement internet and mobile banking capabilities to meet customer demand. 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' assets at risk for cyber-attacks include financial assets and non-public information belonging to customers. Peoples uses several third-party vendors who have access to Peoples' assets via electronic media. Certain cybersecurity risks arise due to this access, including cyber espionage, blackmail, ransom and theft.

All of the types of cyber incidents discussed above could result in damage to Peoples' reputation, loss of customer business, increased costs of incentives to customers or business partners in order to maintain their relationships, litigation, increased regulatory scrutiny and potential enforcement actions, repairs of system damage, increased investments in cybersecurity (such as obtaining additional technology, making organizational changes, deploying additional personnel, training personnel and engaging consultants), increased insurance premiums, and loss of investor confidence and a reduction in the price of Peoples' common shares, all of which could result in financial loss and material adverse effects on Peoples' results of operations and financial condition.

- Peoples, inclusive of Peoples Bank, operates in a highly regulated industry, and the laws and regulations that govern Peoples' operations, corporate governance, executive compensation and financial accounting, or reporting, including changes in them, or failure to comply with them, may adversely affect Peoples.

The banking industry is highly regulated. Peoples is subject to supervision, regulation and examination by various federal and state regulators, including the Federal Reserve Board, SEC, CFPB, FDIC, Financial Industry Regulatory

Authority, Inc. (also known as FINRA), and various state regulatory agencies. The statutory and regulatory framework that governs Peoples is generally intended to protect depositors and customers, the Deposit Insurance Fund, the U.S. banking and financial system, and financial markets as a whole - not to protect shareholders. These laws and regulations, among other matters, prescribe minimum capital requirements, impose limitations on Peoples' business activities (including foreclosure and collection practices), limit the dividends or distributions that Peoples can pay, restrict the ability of institutions to guarantee Peoples' debt, and impose certain specific accounting requirements that may be more restrictive and may result in greater or earlier charges to earnings or reductions in capital than US GAAP. Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations often impose additional

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compliance costs. Both the scope of the laws and regulations and the intensity of the supervision to which Peoples is subject have increased in recent years in response to the financial crisis, as well as other factors such as technological and market changes. Such regulation and supervision may increase Peoples' costs and limit the ability to pursue business opportunities. Further, Peoples' failure to comply with these laws and regulations, even if the failure was inadvertent or reflects a difference in interpretation, could subject Peoples to restrictions on business activities, fines, and other penalties, any of which could adversely affect results of operations, the capital base, and the price of Peoples' common shares. Further, any new laws, rules, and regulations could make compliance more difficult or expensive or otherwise adversely affect Peoples' business and financial condition.

- Noncompliance with the Bank Secrecy Act and other anti-money laundering statutes and regulations could cause Peoples a material financial loss.

The Bank Secrecy Act and the USA Patriot Act contain anti-money laundering and financial transparency provisions intended to detect and prevent the use of the U.S. financial system for money laundering and terrorist financing activities. The Bank Secrecy Act, as amended by the USA Patriot Act, requires depository institutions and their holding companies to undertake activities including maintaining an anti-money laundering program, verifying the identity of clients, monitoring for and reporting suspicious transactions, reporting on cash transactions exceeding specified thresholds, and responding to requests for information by regulatory authorities and law enforcement agencies. Financial Crimes Enforcement Network (also known as FinCEN), a unit of the Treasury Department that administers the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the federal bank regulatory agencies, as well as the U.S. Department of Justice, Drug Enforcement Administration, and Internal Revenue Service.

There is also increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control (also known as OFAC). If Peoples' policies, procedures, and systems are deemed deficient or the policies, procedures, and systems of the financial institutions that Peoples has already acquired or may acquire in the future are deficient, Peoples would be subject to liability, including fines and regulatory actions such as restrictions on Peoples' ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain planned business activities, including acquisition plans, which would negatively impact Peoples' business, financial condition, and results of operations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for Peoples.

For a more complete discussion of the Bank Secrecy Act and the USA Patriot Act, see "Supervision and Regulation" in "ITEM 1 BUSINESS" of this Form 10-K.

- Peoples is at risk of increased losses from fraud.

Criminals are committing fraud at an increasing rate and are using more sophisticated techniques. In some cases, these individuals are part of larger criminal rings, which allow them to be more effective. The fraudulent activity has taken many forms, ranging from debit card fraud, check fraud, mechanical devices attached to ATM machines, social engineering and phishing attacks to obtain personal information, or impersonation of clients through the use of falsified or stolen credentials. Additionally, an individual or business entity may properly identify itself, yet seek to establish a business relationship for the purpose of perpetrating fraud. An emerging type of fraud even involves the creation of synthetic identification in which fraudsters "create" individuals for the purpose of perpetrating fraud. Further, in addition to fraud committed directly against Peoples, Peoples may suffer losses as a result of fraudulent activity committed against third parties. Increased deployment of technologies, such as chip card technology, defray and reduce aspects of fraud; however, criminals are turning to other sources to steal personally identifiable information, such as unaffiliated healthcare providers and government entities, in order to impersonate the consumer and thereby commit fraud.

- Peoples' business could be adversely affected through third parties who perform significant operational services on behalf of Peoples.

The third parties performing operational services for Peoples are subject to risks similar to those faced by Peoples relating to cybersecurity, breakdowns or failures of their own systems, or misconduct of their employees. Like many other community banks, Peoples also relies, in significant part, on a single vendor for the systems which allow Peoples to provide banking services to Peoples’ customers, with the systems being maintained on Peoples' behalf by this single vendor.

One or more of the third parties utilized by Peoples may experience a cybersecurity event or operational disruption and, if any such event does occur, it may not be adequately addressed, either operationally or financially, by such third party. Certain of these third parties may have limited indemnification obligations to Peoples in the event of a cybersecurity event or operational disruption, or may not have the financial capacity to satisfy their indemnification obligations.

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Financial or operational difficulties of a third-party provider could also impair Peoples' operations if those difficulties interfere with such third party's ability to serve Peoples. If a critical third-party provider is unable to meet the needs of Peoples in a timely manner, or if the services or products provided by such third party are terminated or otherwise delayed and if Peoples is not able to develop alternative sources for these services and products quickly and cost-effectively, Peoples' business could be materially adversely effected.
Additionally, regulatory guidance adopted by federal banking regulators addressing how banks select, engage and manage their third-party relationships, affects the circumstances and conditions under which Peoples works with third parties and the cost of managing such relationships.

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

On March 4, 2016, Peoples entered into a Credit Agreement (the "RJB Credit Agreement") with Raymond James Bank, N.A. ("Raymond James Bank"), which has a three-year term and provides Peoples with a revolving line of credit in the maximum aggregate principal amount of $15 million. The RJB Credit Agreement 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. The RJB Credit Agreement matures on March 3, 2019. Peoples is in the process of renewing this facility and expects that it will be renewed prior to its expiration.

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

There are certain risks inherent in making loans. These risks include interest rate changes over the time period in which loans may be repaid, risks resulting from changes in the economy, risks that Peoples will have inaccurate or incomplete information about borrowers, risks that borrowers will become unable to repay loans, and, in the case of loans secured by collateral, risks resulting from uncertainties about the future value of the collateral.
Commercial loans comprise a significant portion of Peoples' loan portfolio. Commercial loans generally are viewed as having a higher degree of 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 "Critical Accounting Policies" included in "ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Form 10-K.
Peoples' estimation of future loan losses is susceptible to changes in economic, operating and other conditions, including changes in regulations and interest rates, which may be beyond Peoples' control, and the losses may exceed current estimates. Peoples cannot be assured of the amount or timing of losses, nor whether the loan loss allowance will be adequate in the future.

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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.

On June 16, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2016-13 "Financial Instruments - Credit Losses", which replaces the incurred loss model with an expected loss model, and is referred to as the current expected credit loss ("CECL") model. Under the incurred loss model, loans are recognized as impaired when there is no longer an assumption that future cash flows will be collected in full under the originally contracted terms. The new accounting guidance is effective for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2019. Under the CECL model, financial institutions will be required to use historical information, current conditions and reasonable forecasts to estimate the expected loss over the life of the loan. The transition to the CECL model will bring with it significantly greater data requirements and changes to methodologies to accurately account for expected losses under the new parameters.

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

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

Peoples and Peoples Bank are required by federal and state regulatory authorities to maintain adequate levels of capital to support their operations. Federal banking agencies have adopted extensive changes to their capital requirements, including raising required amounts and eliminating the inclusion of certain instruments from the calculation of capital. If Peoples Bank experiences significant losses, additional capital may be needed. In addition, Peoples and Peoples Bank may elect to raise additional capital to support the businesses or to finance acquisitions, if any, or for other unanticipated reasons. The ability to raise additional capital, if needed, will depend on financial performance, conditions in the capital markets, economic conditions and a number of other factors, many of which are outside of Peoples' 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, obtaining deposits, and maintaining and growing insurance and trust customers, principally from other commercial banks, savings associations, credit unions, trust and brokerage companies, insurance agencies, fintechs and online service providers. Several of Peoples' competitors have greater resources, larger branch systems and a wider array of banking and non-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 may not be able to attract and retain skilled people.

Peoples' success depends, in large part, on its ability to attract, retain, motivate and develop key employees. Competition for key employees is ongoing and intense, and Peoples may not be able to attract, retain or hire the key employees who are wanted or needed, which may also negatively impact Peoples' ability to execute identified business strategies. Many of Peoples’ offices are located in rural areas, resulting in the possible need for Peoples to offer higher compensation than normal to attract or retain key employees, which may adversely affect salaries and benefits costs.

Various restrictions on the compensation which may be paid to certain executive officers were imposed under the Dodd-Frank Act and other legislation and regulations. In addition, Peoples' incentive compensation structure is subject to review by regulators, who may identify deficiencies in the structure or issue additional guidance on Peoples' compensation practices, causing Peoples to make changes that may affect its ability to offer competitive compensation to these individuals or that place it at a disadvantage to non-financial service competitors. Peoples' ability to attract and retain talented employees may be affected by these developments, or any new executive compensation limits and regulations.

- 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 16 Regulatory Matters of the Notes to the Consolidated Financial Statements.

- 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 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.

- Climate change, severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact Peoples' business.

Natural disasters, including severe weather events of increasing strength and frequency due to climate change, acts of war or terrorism, and other adverse external events could have a significant impact on Peoples' ability to conduct business or upon third parties who perform operational services for Peoples or its customers. Such events could affect the stability of Peoples' deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in lost revenue or cause Peoples to incur additional expenses.

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

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

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

When Peoples Bank sells a mortgage loan, it may agree to repurchase or substitute a mortgage loan if it is later found to have breached any representation or warranty Peoples Bank made about the loan or if the borrower is later found to have committed fraud in connection with the origination of the loan. While Peoples Bank has underwriting policies and procedures designed to avoid breaches of representations and warranties as well as borrower fraud, there can be no assurance that a breach or fraud will never occur. Required repurchases, substitutions or indemnifications could have an adverse effect on Peoples’ liquidity, results of operations and financial condition.

- 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

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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.

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

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

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

Legislative, Regulatory and Tax Change Risks

- 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 FRB, the FDIC and the CFPB. These regulations are primarily intended to protect depositors and the Deposit Insurance Fund, not Peoples' common shareholders. Peoples' non-bank subsidiaries are also subject to the supervision of the Federal Reserve Board, in addition to other regulatory and self-regulatory agencies, including the SEC, and state securities and insurance regulators.

Regulations affecting banks and financial services businesses are undergoing continuous change, and management cannot predict the effect of those changes. While such changes are generally intended to lessen the regulatory burden on financial institutions, 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, the appropriateness of an institution's allowance for loan losses and the ability to complete acquisitions. Additionally, actions by regulatory agencies or significant litigation against Peoples could cause Peoples to devote significant time and resources to defending its business and may lead to penalties that materially affect Peoples and its shareholders. Even the reduction of regulatory restrictions could have an adverse effect on Peoples and its shareholders if such lessening of restrictions increases competition within the financial services industry or Peoples' market area.

In light of conditions in the global financial markets and the global economy that occurred in the last decade, regulators have increased their focus on the regulation of the financial services industry. Most recently, the

government 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 government 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 July 2013, Peoples' primary federal regulator, the Federal Reserve Board, published the Basel III Capital Rules, establishing a new comprehensive capital framework for U.S. banking organizations. The rules implemented the Basel

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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 revised 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 replaced 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 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 have been fully phased in, and have not had a material impact on Peoples' or Peoples Bank's capital ratios.

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.

- 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 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. In June 2016, FASB issued a new accounting standard for recognizing current expected credit losses, commonly referred to as CECL. CECL will result in earlier recognition of credit losses and requires consideration of not only past and current events but also reasonable and supportable forecasts that affect collectability. Peoples will be required to comply with the new standard in the first quarter of 2020. Upon adoption of CECL, credit loss allowances may increase, which would decrease retained earnings and regulatory capital. The federal banking regulators have adopted a regulation that will allow banks to phase in the day-one impact of CECL on regulatory capital over three years. CECL implementation poses operational risk, including the failure to properly transition internal processes or systems, which could lead to call report errors, financial misstatements or operational losses.

In February 2016, FASB issued a new accounting standard for lease accounting, which Peoples will be required to comply with in the first quarter of 2019. The new standard will require Peoples to recognize a right-of-use asset and a lease liability for certain leases. Peoples owns the majority of its properties and is the lessor for a small number of properties. Peoples recorded the right-of-use asset on January 1, 2019, which was approximately $5.2 million, and a lease liability of approximately $5.3 million.

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.

- Changes in tax laws could adversely affect Peoples' performance, including the Tax Cuts and Jobs Act, and uncertainty or speculation pending the enactment of such changes.

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

On December 22, 2017, H.R.1, formally known as the "Tax Cuts and Jobs Act," was enacted into law. The Tax Cuts and Jobs Act, among other changes, imposed additional limitations on the federal income tax deductions individual taxpayers may take for mortgage loan interest payments and for state and local taxes, including real estate taxes. The Tax Cuts and Jobs Act also imposed additional limitations on the deductibility of business interest expense, and eliminated other deductions in their entirety, including deductions for certain home equity loan interest payments. Such limits and

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eliminations may result in customer defaults on loans Peoples Bank has made and decrease the value of mortgage-backed securities in which Peoples has invested. Peoples' tax benefit for certain tax advantaged assets, including obligations of state and political subdivisions held in People's investment securities portfolio and investments in affordable housing limited partnerships, could be negatively impacted as the tax benefit rate was reduced from 35% to 21%, and the market value of such assets could be negatively impacted.

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

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

The FDIC has adopted rules revising its assessments in a manner benefiting banks with assets totaling less than $10 billion. Effective July 1, 2016, the FDIC changed the deposit insurance premium assessment method for banks with less than $10 billion in assets that have been insured by the FDIC for at least five years. This revision changed the assessment method to the financial ratios method so that it is based on a statistical model estimating the probability of failure of a bank over three years. The FDIC also updated the financial measures used in the financial ratios method consistent with the statistical model; eliminated risk categories for established small banks; and used the financial ratios method to determine assessment rates for all such banks (subject to minimum or maximum initial assessment rates based upon a bank’s composite examination rating). This change to the assessment decreased Peoples' premiums beginning in late 2016. In addition, the Deposit Insurance Fund reached the 1.35% target as of September 30, 2018. This achievement may result in credits being utilized on future FDIC insurance assessments by Peoples. However, there can be no assurance that the assessment will continue to be at the lower rate indefinitely.

Strategic Risks

- Completion of the merger contemplated by the agreement with First Prestonsburg is subject to many conditions, and if these conditions are not satisfied or waived, the merger between Peoples and First Prestonsburg will not be completed.

The respective obligations of Peoples and First Prestonsburg to complete the merger contemplated by the agreement between Peoples and First Prestonsburg are subject to the fulfillment or written waiver of many conditions, including absence of orders prohibiting completion of the merger, the continued accuracy of the representations and warranties by both parties, and the performance by both parties of their respective covenants and agreements. These conditions to the consummation of the merger may not be fulfilled and, accordingly, the merger may not be completed. In addition, if the merger is not completed by June 30, 2019, either Peoples or First Prestonsburg, by a vote of a majority of the members of its entire board, may choose not to proceed with the merger, or the parties can mutually decide to terminate the merger agreement at any time, before or after the approvals by the requisite vote of the First Prestonsburg shareholders. In addition, Peoples or First Prestonsburg may elect to terminate the merger agreement in certain other circumstances.

- Peoples could experience difficulties in managing its growth and effectively integrating the operations of First Prestonsburg and First Commonwealth.

The earnings, financial condition and prospects of Peoples after the merger of First Prestonsburg into Peoples will depend in part on Peoples’ ability to integrate successfully the operations of First Prestonsburg and First Commonwealth, and to continue to implement Peoples’ own business plan. Peoples may not be able to fully achieve the strategic objectives and projected operating efficiencies anticipated in the merger. The costs or difficulties relating to the integration of First Prestonsburg and First Commonwealth with the Peoples organization may be greater than expected or the cost savings from any anticipated economies of scale of the combined organization may be lower or take longer to realize than expected. Inherent uncertainties exist in integrating the operations of any acquired entity, and Peoples may encounter difficulties, including, without limitation, loss of key employees and customers, and the disruption of its ongoing business or possible inconsistencies in standards, controls, procedures and policies. These factors could contribute to Peoples not fully achieving the expected benefits from the merger.

- The integration of Peoples Bank and First Commonwealth will present significant challenges that may result in the combined business not operating as effectively as expected or in the failure to achieve some or all of the anticipated benefits of the transaction.

The benefits and synergies expected to result from the proposed merger of First Prestonsburg into Peoples will depend in part, on whether the operations of First Commonwealth can be integrated in a timely and efficient manner with

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those of Peoples Bank. Peoples Bank may face challenges in consolidating its functions with those of First Commonwealth, and integrating the organizations, procedures and operations of the two businesses. The integration of Peoples Bank and First Commonwealth will be complex and time-consuming, and the management of both banks will have to dedicate substantial time and resources to it. These efforts could divert management’s focus and resources from other strategic opportunities and from day-to-day operational matters during the integration process. Failure to successfully integrate the operations of Peoples Bank and First Commonwealth could result in the failure to fully achieve some of the anticipated benefits from the merger, including cost savings and other operating efficiencies, and Peoples Bank may not be able to capitalize on the existing relationships of First Commonwealth to the extent anticipated, or it may take longer, or be more difficult or expensive than expected to achieve these goals. This could have an adverse effect on the business, results of operations, financial condition or prospects of Peoples and/or Peoples Bank after the merger.

- Unanticipated costs relating to the merger of First Prestonsburg into Peoples could reduce Peoples’ future earnings per share.

Peoples and Peoples Bank believe that each has reasonably estimated the likely costs of integrating the operations of First Prestonsburg and First Commonwealth, and the incremental costs of operating as a combined bank. However, it is possible that unexpected transaction costs such as taxes, fees or professional expenses or unexpected future operating expenses such as increased personnel costs or increased taxes, as well as other types of unanticipated adverse developments, could have a material adverse effect on the results of operations and financial condition of the combined company. If unexpected costs are incurred, the merger could have a dilutive effect on Peoples’ earnings per share. In other words, if the merger is completed, the earnings per Peoples common share could be less than anticipated or even less than they would have been if the merger had not been completed.

- Estimates as to the future value of the combined company after the merger of First Prestonsburg into Peoples are inherently uncertain.

Any estimates as to the future value of the combined company, including estimates regarding the earnings per share of the combined company, are inherently uncertain. The future value of the combined company will depend upon, among other factors, the combined company’s ability to achieve projected revenue and earnings expectations and to realize anticipated synergies, all of which are subject to risks and uncertainties.

- Peoples' ability to complete acquisitions and integrate completed acquisitions could have an adverse effect 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. In addition, 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.

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, Peoples may issue equity securities in connection with acquisitions, which could dilute the economic and voting interests of its shareholders. Recent changes in the stock price of financial institutions could impact the valuation of potential target companies, and therefore, Peoples' ability to compete for acquisitions.

ITEM 1B UNRESOLVED STAFF COMMENTS

None.

ITEM 2 PROPERTIES

Peoples' sole banking subsidiary, Peoples Bank, generally owns its offices, related facilities and unimproved real property. In Ohio, Peoples Bank operates offices in Akron (2 offices), Athens (2 offices), Baltimore, Batavia, Beachwood, Belpre, Blanchester, Byesville, Caldwell, Cambridge (2 offices), Carlisle, Cincinnati (3 offices), Coshocton, Cuyahoga Falls, Franklin, Gallipolis, Georgetown, Heath, Hillsboro, Jackson, Lancaster (2 offices), Lebanon, Lowell, Maineville, Marietta (3 offices), Mason, McConnelsville, Milford (2 offices), Mount Orab, Mount Vernon, Munroe Falls, Nelsonville, New Vienna, Newark, Norton, Pomeroy (2 offices), Portsmouth (2 offices), Reno, Sabina, Sardinia, Springboro, Waverly, Waynesville, Wellston, Wheelersburg, Williamsburg, Wilmington (2 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, Sistersville and Vienna (2 offices). In Kentucky, Peoples Bank's office locations include Ashland (2 offices), Greenup, Russell, and South Shore. Of these 79 offices, 19 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 Lyndhurst, Ohio, and in Pikeville, Kentucky.

Rent expense on the leased properties totaled $1.1 million in both 2018 and 2017, which excludes intercompany rent expense. The following are the only properties that have a lease term expiring on or before June 2020:

Location	Address	Lease Expiration Date
New Martinsville Walmart Office	1142 S Bridge Street New Martinsville, West Virginia	March 2019 (a)
Akron Business Office	348 South Main Street Suite 200 Akron, Ohio	June 2019 (a)
Charleston Office	135-161 Summers Street Suite 300 Charleston, West Virginia	June 2019 (b)
Vienna Walmart Office	701 Grand Central Avenue Vienna, West Virginia	June 2019 (a)
South Parkersburg Walmart Office	2900 Pike Street Parkersburg, West Virginia	January 2020 (a)
Sardinia Office	7110 Bachman Road Sardinia, Ohio	February 2020 (c)
Lancaster Fair Avenue Office	2211 West Fair Avenue Lancaster, Ohio	March 2020 (d)

(a) Current lease agreement has no remaining extensions available.
(b) Current lease agreement has one five-year extension remaining.
(c) Current lease agreement has two five-year extensions remaining.
(d) Current lease agreement has one one-year extension remaining.

Additional information concerning the property and equipment owned or leased by Peoples and its subsidiaries is incorporated herein by reference from Note 5 Bank Premises and Equipment of the Notes to the Consolidated Financial Statements found immediately following "ITEM 9B OTHER INFORMATION" of this Form 10-K.

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, 2018, Peoples had 2,514 shareholders of record. The table presented below provides the high and low sales prices for

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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
2018			
Fourth Quarter	$35.74	$28.35	$ 0.30
Third Quarter	39.55	34.75	0.28
Second Quarter	39.58	34.29	0.28
First Quarter	36.99	32.71	0.26
2017			
Fourth Quarter	$34.62	$30.84	$ 0.22
Third Quarter	34.60	29.55	0.22
Second Quarter	35.43	29.71	0.20
First Quarter	33.56	29.81	0.20

On January 21, 2019, Peoples declared a quarterly dividend of $0.30 per common share, which was the same as that declared in the fourth quarter of 2018. This dividend represented the payout related to the fourth quarter of 2018 earnings.

Peoples plans to continue to pay quarterly cash dividends, subject to certain regulatory restrictions described in Note 16 Regulatory Matters of the Notes to the Consolidated Financial Statements found immediately following "ITEM 9B OTHER INFORMATION", 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, 2018:

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, 2018	780	(2)	$ 34.75	(2)	—	$ 15,049,184
November 1 - 30, 2018	—		$ —		—	$ 15,049,184
December 1 - 31, 2018	1,634	(2)(3)	$ 34.64	(2)(3)	—	$ 15,049,184
Total	2,414		$ 34.68		—	$ 15,049,184

(1) On November 3, 2015, Peoples announced that on that same date, Peoples' Board of Directors authorized a share repurchase program authorizing Peoples to purchase up to $20 million of its outstanding common shares. No common shares were purchased under this share repurchase program during the three months ended December 31, 2018. Additional information regarding the share repurchase program can be found in Note 10 Stockholders' Equity of the Notes to the Consolidated Financial Statements found immediately following "ITEM 9B OTHER INFORMATION" of this Form 10-K.

(2) Information includes 780 common shares and 360 common shares purchased in open market transactions during October 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 1,274 common shares withheld during December 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 graphs compare the five-year cumulative total shareholder return of Peoples' common shares, based on an initial investment of $100 on December 31, 2013, and assuming reinvestment of dividends, against two indices. The first is the Russell 2000 Index, which is a leading benchmark for small cap domestic stocks and is comprised of the stocks ranked 1,001 to 3,000 in order of descending market capitalization in the Russell 3000 Index. The second is the Russell 2000 Financial Services Index, which is comprised of the financial services companies within the Russell 2000 Index. Historically, Peoples has included line graphs that compare the five-year cumulative total shareholder return of Peoples' common shares 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"). Peoples has included the comparison of the five-year cumulative total shareholder return of Peoples' common shares against that of the Russell 2000 Index and the Russell 2000 Financial Services Index, as management believes they are more representative of a broad equity market index and peer group comparable to Peoples than Nasdaq Stocks (U.S. Companies) and Nasdaq Bank Stocks.

COMPARISON OF FIVE-YEAR TOTAL SHAREHOLDER RETURN AMONG
PEOPLES BANCORP INC., RUSSELL 2000 INDEX,
AND RUSSELL 2000 FINANCIAL SERVICES INDEX

	At December 31,					
	2013	2014	2015	2016	2017	2018
Peoples Bancorp Inc.	$100.00	$118.09	$88.17	$156.26	$161.12	$153.48
Russell 2000 Index	$100.00	$104.90	$100.27	$121.61	$139.45	$124.15
Russell 2000 Financial Services Index	$100.00	$108.86	$109.51	$143.52	$151.77	$135.27

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

	At December 31,					
	2013	2014	2015	2016	2017	2018
Peoples Bancorp Inc.	$100.00	$118.09	$88.17	$156.26	$161.12	$153.48
NASDAQ Stocks (U.S. Companies)	$100.00	$114.83	$122.99	$134.00	$173.96	$169.11
NASDAQ Bank Stocks	$100.00	$104.92	$114.19	$157.49	$166.10	$139.38

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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,				
	2018	2017	2016	2015	2014
Operating Data (a)					
Total interest income	$151,264	$126,525	$115,444	$108,333	$80,200
Total interest expense	21,652	13,148	10,579	10,721	10,694
Net interest income	129,612	113,377	104,865	97,612	69,506
Provision for loan losses	5,448	3,772	3,539	14,097	339
Net (loss) gain on investment securities	(146)	2,983	930	729	398
Net loss on asset disposals and other transactions	(334)	(63)	(1,133)	(1,788)	(431)
Total non-interest income excluding net gains and losses	57,234	52,653	51,070	47,441	40,053
Total non-interest expense	125,977	107,975	106,911	115,081	83,875
Net income	$46,255	$38,471	$31,157	$10,941	$16,684
Balance Sheet Data (a)					
Total investment securities	$871,837	$874,486	$859,455	$868,830	$713,659
Loans, net of deferred fees and costs ("total loans")	2,728,778	2,357,137	2,224,936	2,072,440	1,620,898
Allowance for loan losses	20,195	18,793	18,429	16,779	17,881
Goodwill and other intangible assets	162,085	144,576	146,018	149,617	109,158
Total assets	3,991,454	3,581,686	3,432,348	3,258,970	2,567,769
Non-interest-bearing deposits	607,877	556,010	734,421	717,939	493,162
Other interest-bearing deposits	2,083,734	2,014,702	1,759,605	1,784,148	1,400,221
Brokered certificates of deposits	263,854	159,618	38,832	47,635	53,904
Short-term borrowings	356,198	209,491	305,607	160,386	88,277
Junior subordinated debentures held by subsidiary trust	7,283	7,107	6,924	6,736	—
Other long-term borrowings	102,361	136,912	138,231	106,934	179,083
Total stockholders' equity	520,140	458,592	435,261	419,789	340,118
Tangible assets (b)	3,829,369	3,437,110	3,286,330	3,109,353	2,458,611
Tangible equity (b)	$358,055	$314,016	$289,243	$270,172	$230,960
Per Common Share Data (a)					
Earnings per common share – basic	$2.42	$2.12	$1.72	$0.62	$1.36
Earnings per common share – diluted	2.41	2.10	1.71	0.61	1.35
Cash dividends declared per common share	1.12	0.84	0.64	0.60	0.60
Book value per common share (c)	26.59	25.08	23.92	22.81	22.92
Tangible book value per common share (b)(c)	$18.30	$17.17	$15.89	$14.68	$15.57
Weighted-average number of common shares outstanding – basic	18,991,768	18,050,189	18,013,693	17,555,140	12,183,352
Weighted-average number of common shares outstanding – diluted	19,122,260	18,208,684	18,155,463	17,687,795	12,306,224
Common shares outstanding at end of period	19,565,029	18,287,449	18,200,067	18,404,864	14,836,727
Closing stock price at end of period	$30.10	$32.62	$32.46	$18.84	$25.93

	At or For the Year Ended December 31,									
	2018		2017		2016		2015		2014	
Significant Ratios (a)										
Return on average stockholders' equity	9.48	%	8.54	%	7.20	%	2.69	%	6.16	%
Return on average tangible equity (d)	14.81		13.33		11.86		5.16		9.63	
Return on average assets	1.19		1.10		0.94		0.35		0.74	
Return on average assets adjusted for non-core items (e)	1.32		1.08		0.97		0.62		0.93	
Average stockholders' equity to average assets	12.61		12.83		13.03		13.09		12.08	
Average total loans to average deposits	89.37		86.10		83.22		80.08		79.58	
Net interest margin	3.71		3.62		3.54		3.53		3.45	
Efficiency ratio (f)	65.33		62.20		65.13		75.50		75.37	
Efficiency ratio adjusted for non-core items (g)	61.32		61.85		64.30		67.49		69.55	
Pre-provision net revenue to total average assets (h)	1.57		1.65		1.48		0.96		1.10	
Dividend payout ratio	46.65		39.86		37.40		96.35		43.10	
Total investment securities as percentage of total assets (c)	21.84	%	24.42	%	25.04	%	26.67	%	27.80	%
Asset Quality Ratios (a)										
Nonperforming loans as a percent of total loans (c)(i)	0.71	%	0.73	%	1.13	%	0.94	%	0.69	%
Nonperforming assets as a percent of total assets (c)(i)	0.49		0.49		0.75		0.62		0.47	
Nonperforming assets as a percent of total loans and other real estate owned ("OREO") (c)(i)	0.71		0.74		1.16		0.98		0.75	
Criticized loans as a percent of total loans (c)(j)	4.18		3.84		4.46		5.89		4.60	
Classified loans as a percent of total loans (c)(k)	1.61		1.97		2.59		2.91		2.76	
Allowance for loan losses as a percent of total loans (c)	0.74		0.80		0.83		0.81		1.10	
Allowance for loan losses as a percent of nonperforming loans (c)(i)	104.35		108.52		73.43		86.05		159.58	
Provision for loan losses as a percent of average total loans	0.21		0.16		0.17		0.72		0.02	
Net charge-offs (recoveries) as a percent of average total loans (l)	0.15	%	0.15	%	0.09	%	0.78	%	(0.03	)%
Capital Information (a)(c)										
Common equity tier 1 capital ratio (m)	13.61	%	13.26	%	12.91	%	13.36	%	N/A	
Tier 1 risk-based capital ratio	13.87		13.55		13.21		13.67		14.32	
Total risk-based capital ratio (tier 1 and tier 2)	14.60		14.43		14.11		14.54		15.48	
Leverage ratio	9.99	%	9.75	%	9.66	%	9.52	%	9.92	%
Common equity tier 1 capital	$378,855		$327,172		$306,506		$288,416		N/A	
Tier 1 capital	386,138		334,279		313,430		295,151		241,707	
Total capital (tier 1 and tier 2)	406,333		355,977		334,957		313,974		261,371	
Total risk-weighted assets	$2,782,995		$2,466,620		$2,373,359		$2,158,713		$1,687,968	
Total stockholders' equity to total assets	13.03	%	12.80	%	12.68	%	12.88	%	13.25	%

Tangible equity to tangible assets (b)	9.35 %	9.14 %	8.80 %	8.69 %	9.39 %

(a) Reflects the impact of the acquisition of Midwest Bancshares, Inc. ("Midwest") beginning May 30, 2014, Ohio Heritage Bancorp, Inc. ("Ohio Heritage") beginning August 22, 2014, North Akron Savings Bank ("North Akron") beginning October 24, 2014, NB&T beginning March 6, 2015 and ASB beginning April 13, 2018.

(b) These amounts represent non-US GAAP financial measures since they exclude the balance sheet impact of goodwill and other intangible assets acquired through acquisitions on total stockholders' equity and total assets. Additional information regarding the calculation of this amount can be found in "ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Form 10-K under the caption "Capital/Stockholders' Equity."

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

(d) Return on average tangible equity represents a non-US GAAP financial measures since it excludes the after-tax impact of amortization of other intangible assets from earnings and it excludes the balance sheet impact of goodwill and other intangible assets acquired through acquisitions on total stockholders' equity. Additional information regarding the calculation of this amount can be found in "ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Form 10-K under the caption "Return on Average Tangible Equity."

(e) Return on average assets adjusted for non-core items represents a non-US GAAP financial measures since it excludes the release of the deferred tax asset valuation allowance, the impact of the Tax Cuts and Jobs Act on the remeasurement of deferred tax assets and deferred tax liabilities, and the after-tax impact of all gains and/or losses, core banking system conversion revenue and expenses, acquisition-related expenses, pension settlement charges, and other non-recurring expenses in earnings. Additional information regarding the calculation of this amount can be found in "ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Form 10-K under the caption "Return on Average Assets Adjusted for Non-Core Items."

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

(g) The efficiency ratio adjusted for non-core items is defined as core non-interest expense (less amortization of other intangible assets) as a percentage of fully tax-equivalent net interest income plus core non-interest income excluding all gains and losses. This amounts represents a non-US GAAP financial measure since it excludes the impact of all gains and/or losses, core banking system conversion revenue and expenses, acquisition-related expenses, pension settlement charges, and other non-recurring expenses in earnings, and uses fully tax-equivalent net interest income. Additional information regarding the calculation of this amount can be found in "ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Form 10-K under the caption "Efficiency Ratio."

(h) Pre-provision net revenue is defined as net interest income plus total non-interest income (excluding all gains and losses) minus total non-interest expense. This ratio represents a non-US GAAP financial measure since it excludes the provision for loan losses and all gains and/or losses included in earnings. This measure is a key metric used by federal bank regulatory agencies in their evaluation of capital adequacy for financial institutions. Additional information regarding the calculation of this ratio can be found in "ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Form 10-K under the caption "Pre-Provision Net Revenue."

(i) 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.

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

(k) Includes loans categorized as substandard and doubtful.

(l) Net charge-offs 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%.

(m) Peoples' capital conservation buffer was 6.60% at December 31, 2018, 6.43% at December 31, 2017, and 6.11% at December 31, 2016, compared to 2.50% for the fully phased in capital conservation buffer required by January 1, 2019.

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," "estimate," "may," "feel," "expect," "believe," "plan," "will," "would," "should," "could," "project," "goal," "target," "potential," "seek," "intend," and similar expressions are intended to identify these forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially. Factors that might cause such a difference include, but are not limited to:

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

(2) Peoples' ability to integrate future acquisitions, including the pending merger with First Prestonsburg, may be unsuccessful, or may be more difficult, time-consuming or costly than expected, and expected cost savings, synergies and other financial benefits may not be realized or take longer than anticipated;

(3) Peoples' ability to obtain regulatory approvals of the proposed merger of Peoples with First Prestonsburg on the proposed terms and schedule, may be unsuccessful;

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

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

(6) uncertainty regarding the nature, timing, cost, and effect of legislative or regulatory changes or actions, promulgated and to be promulgated by governmental and regulatory agencies in the State of Ohio, the FDIC, 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, and the Basel III regulatory capital reform;

(7) the effects of easing restrictions on participants in the financial services industry;

(8) local, regional, national and international economic conditions (including the impact of tariffs, a U.S. withdrawal from or significant renegotiation of trade agreements, trade wars and other changes in trade regulations) and the impact these conditions may have on Peoples, its customers and its counterparties, and Peoples' assessment of the impact, which may be different than anticipated;

(9) the existence or exacerbation of general geopolitical instability and uncertainty;

(10) changes in policy and other regulatory and legal developments, including the Tax Cuts and Jobs Act, and uncertainty or speculation pending the enactment of such changes;

(11) Peoples may issue equity securities in connection with future acquisitions, including the pending merger with First Prestonsburg if consummated, which could cause ownership and economic dilution to Peoples' current shareholders;

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

(13) adverse changes in the economic conditions and/or activities, including, but not limited to, potential or imposed tariffs, continued economic uncertainty in the U.S., the European Union (including the uncertainty surrounding the actions to be taken to implement the referendum by British voters to exit the European Union), Asia, and other areas, which could decrease sales volumes, add volatility to the global stock markets, and increase loan delinquencies and defaults;

(14) slowing or reversal of the current U.S. economic expansion;

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

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

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

(18) the discontinuation of LIBOR and other reference rates may result in increased expenses and litigation, and adversely impact the effectiveness of hedging strategies;

(19) 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;

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

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

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

(23) 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;

(24) the costs and effects of new federal and state laws, and other regulatory and legal developments, including the outcome of potential regulatory or other governmental inquiries and legal proceedings and results of regulatory

examinations;

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(25) Peoples' ability to secure confidential information through the use of computer systems and telecommunications networks, including those of Peoples' third-party vendors and other service providers, which may prove inadequate, and could adversely affect customer confidence in Peoples and/or result in Peoples incurring a financial loss;
(26) Peoples' reliance on, and the potential failure of, a number of third-party vendors to perform as expected, including its primary core banking system provider;
(27) Peoples' ability to anticipate and respond to technological changes which can impact Peoples' ability to respond to customer needs and meet competitive demands;
(28) operational issues stemming from and/or capital spending necessitated by the potential need to adapt to industry changes in information technology systems on which Peoples and its subsidiaries are highly dependent;
(29) changes in consumer spending, borrowing and saving habits, whether due to tax reform legislation, changes in business and economic conditions, legislative or regulatory initiatives, or other factors, which may be different than anticipated;
(30) the adequacy of Peoples' risk management program in the event of changes in market, economic, operational, asset/liability repricing, liquidity, credit and interest rate risks associated with Peoples' business;
(31) the impact on Peoples' businesses, as well as on the risks described above, of various domestic or international widespread natural or other disasters, pandemics, cyber attacks, civil unrest, military or terrorist activities or international conflicts;
(32) significant changes in the tax laws, which may adversely affect the fair values of deferred tax assets and liabilities, and obligations of states and political subdivisions held in Peoples' investment securities portfolio;
(33) Peoples' continued ability to grow deposits; and
(34) other risk factors relating to the banking industry or Peoples as detailed from time to time in Peoples' reports filed with the SEC, including those risk factors included in the disclosures under the heading "ITEM 1A. RISK FACTORS" of this Form 10-K.

All forward-looking statements speak only as of the filing date of this Form 10-K and are expressly qualified in their entirety by the cautionary statements. Although management believes the expectations in these forward-looking statements are based on reasonable assumptions within the bounds of management's knowledge of Peoples' business and operations, it is possible that actual results may differ materially from these projections. Additionally, Peoples undertakes no obligation to update these forward-looking statements to reflect events or circumstances after the filing date of this Form 10-K or to reflect the occurrence of unanticipated events except as may be required by applicable legal requirements. Copies of documents filed with the SEC are available free of charge at the SEC's website at www.sec.gov and/or from Peoples' website – www.peoplesbancorp.com under the "Investor Relations" section.

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

Summary of Significant Transactions and Events

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

On October 29, 2018, Peoples entered into a merger agreement with First Prestonsburg, which calls for First Prestonsburg to merge into Peoples. First Prestonsburg is the parent company of First Commonwealth, which operates nine full-service branches located in eastern Kentucky. Following the merger of First Prestonsburg into Peoples, First Commonwealth will merge into Peoples Bank. This transaction is expected to close during the second quarter of 2019, subject to the satisfaction of customary closing conditions. Refer to Note 19 Acquisitions of the Notes to the Consolidated Financial Statements for additional information.

At the close of business on April 13, 2018, Peoples closed the acquisition of ASB. ASB merged into Peoples, and ASB's wholly-owned subsidiary, American Savings Bank, fsb, which operated seven full-service bank branches and two loan production offices in southern Ohio and eastern Kentucky, merged into Peoples Bank. Under the terms of the merger agreement, Peoples paid total consideration of $41.5 million. The acquisition added $239.2 million of

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loans, net of deferred fees and costs, and loans held for sale in the aggregate, and $198.6 million of total deposits at the acquisition date, after acquisition accounting adjustments. Peoples also recorded $2.6 million of other intangible assets and $18.1 million of goodwill. Refer to Note 19 Acquisitions of the Notes to the Consolidated Financial Statements for additional information.

Multiple items impacted Peoples' income tax expense during 2018 and 2017, primarily as a result of the Tax Cuts and Jobs Act, which lowered the statutory federal corporate income tax rate to 21% as of January 1, 2018, from a previous rate of 35%.

Beginning on January 1, 2018, Peoples began recognizing income tax expense at the 21% statutory federal corporate income tax rate, which resulted in lower income tax expense for 2018, compared to the 35% statutory federal corporate income tax rate for 2017.

During the fourth quarter of 2018, Peoples finalized the remeasurement of its net deferred tax assets and liabilities at the new statutory federal corporate income tax rate of 21%, which resulted in a reduction to income tax expense of $0.7 million in 2018. The final adjustment was mainly due to Peoples' contribution of $3.2 million to Peoples' defined benefit pension plan during 2018.

During 2018, Peoples released a valuation allowance which reduced income tax expense by $0.8 million. The valuation allowance was related to a historical tax credit that Peoples had invested in during 2015. Peoples sold $6.7 million of equity investment securities in the second quarter of 2018, which resulted in a capital gain for tax purposes. This capital gain was large enough to offset an anticipated future capital loss, which is expected to be recognized due to the structure of the historical tax credit investment, resulting in the release of the valuation allowance.

During the fourth quarter of 2017, as a result of its initial remeasurement at the new statutory federal corporate income tax rate, Peoples' wrote down its net deferred tax assets by $0.9 million.

During 2018, Peoples incurred $7.5 million of acquisition-related costs, which included $203,000 of losses recorded in net loss on asset disposals and other transactions, and $7.3 million in total non-interest expense. The acquisition-related costs incurred in 2018 were primarily related to fees associated with early termination of contracts, severance costs and write-offs associated with assets acquired. During 2017, Peoples incurred $341,000 in acquisition-related costs, which was all recorded in total non-interest expense. The acquisition costs in 2017 and 2018 were primarily related to the ASB acquisition.

During 2018, Peoples incurred $267,000 in pension settlement costs 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 costs of $242,000 were recognized during 2017.

On July 31, 2018, Peoples entered into $50.0 million of interest rate swaps, which will mature between 2021 and 2028, with interest rates ranging from 2.92% to 3.00%. Additionally, the three interest rate swaps acquired with the ASB acquisition matured in July of 2018. On January 27, 2017, Peoples entered into $20.0 million of forward starting interest rate swaps, which became effective in January and April of 2018 and mature between 2025 and 2027, with interest rates ranging from 2.47% to 2.53%. During 2016, Peoples entered into five forward starting interest rate swaps, with a $40 million notional value, to obtain short-term borrowings at fixed rates, with interest rates ranging from 1.49% to 1.83%, which became effective in 2018 and mature between 2022 and 2026. These swaps locked in funding rates for $40.0 million, in notional value, in FHLB advances that matured in 2018, which had interest rates ranging from 3.57% to 3.92%. For additional information regarding Peoples' interest rate swaps, refer to Note 14 Derivative Financial Instruments of the Notes to the Consolidated Financial Statements.

During 2018, Peoples provided notification that it will be closing two full-service bank branches located in West Virginia, which are currently leased. The lease terms for these locations expire in 2019 and will not be renewed. Additionally, Peoples closed one insurance office located in Ohio when the lease for the location expired at the end of January 2019. During 2017, Peoples closed six full-service bank branches, four located in Ohio, and two located in West Virginia. Peoples continues to evaluate its bank branch network in an effort to optimize efficiency.

On January 1, 2018, Peoples adopted ASU 2016-01, resulting in the reclassification of $7.8 million of equity investment securities from available-for-sale investment securities to other investment securities and the reclassification of $5.0 million in net unrealized gains on equity investment securities from accumulated other comprehensive loss to retained earnings. ASU 2016-01 also requires changes in the fair value of the equity investment securities to be recorded in non-interest income instead of other comprehensive income, which resulted in $207,000 of gains recorded in other non-interest income during 2018. During 2017, Peoples reduced its position in certain equity investment securities. This action was taken as a result of the high appreciation in the market value of

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these securities. The sales completed resulted in a net gain on investment securities of $3.0 million in 2017. As of December 31, 2018, Peoples had substantially reduced its equity investment securities portfolio.

During 2017, Peoples borrowed an additional $75.0 million of long-term FHLB non-amortizing advances, which have interest rates ranging from 1.20% to 2.03% and mature between 2018 and 2022, of which $10.0 million matured during 2018. Peoples borrowed no additional long-term FHLB non-amortizing advances during 2018.

On October 2, 2017, Peoples Insurance acquired a property and casualty focused independent insurance agency with annual net revenue of $0.8 million located in the Cleveland, Ohio area for total cash consideration of $1.7 million, and recorded $1.1 million of customer relationship intangibles, and $100,000 of fixed assets, resulting in $480,000 of goodwill.

On January 31, 2017, Peoples Insurance acquired a third-party insurance administration company located in Piketon, Ohio for total cash consideration of $0.5 million, and recorded $0.5 million of customer relationship intangibles.

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

The Federal Reserve Board began tightening monetary policy in December 2015 by raising the benchmark Federal Funds Target Rate. Since then, the rate has increased several times from a range of 0.25% to 0.50% to its current range of 2.25% to 2.50%. The recent pace of rate increases is expected to be slower in 2019, with perhaps no increases in 2019. The Federal Reserve Board began reducing the size of its $4.5 trillion balance sheet in the fourth quarter of 2017. However, in February 2019, they indicated that they could pause the unwinding of the balance sheet. If they continue to reduce the size of the balance sheet, it could result in higher interest rates. Peoples is closely monitoring interest rates, both foreign and domestic; and potential impacts of changes in interest rates to Peoples' operations. These rate increases drove higher loan and investment security yields as well as increases in deposit and wholesale funding costs.

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 Summary of Significant Accounting Policies 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.

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 provision for or recovery of loan losses by considering factors affecting losses, including specific losses, levels and trends in impaired and nonperforming loans; historical loan loss experience; current national and local economic conditions; volume; growth and composition of the portfolio; regulatory guidance and other relevant factors. Management continually monitors the loan portfolio through Peoples Bank's Credit Administration Department and Loan Loss Committee to evaluate the appropriateness of the allowance. The provision or recovery could increase or decrease each quarter based upon the results of management's formal analysis.

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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 pool based upon historical loss experience, adjusted for qualitative factors. While allocations are made to specific loans and pools of loans, the allowance is available for all loan losses.

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

There can be no assurance that the allowance for loan losses will be adequate to cover all losses, but management believes the allowance for loan losses at December 31, 2018 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.

Peoples also evaluates unfunded commitments for construction loans, floor plan lines of credit, home equity lines of credit, other credit lines and letters of credit on a quarterly basis. The calculation of the reserve for unfunded commitments utilizes the same look back period as the allowance for loan losses, and is based on the reported losses on unfunded commitments during this look back period. This annualized loss rate is then applied to the probable drawn amount of the pooled unfunded commitments to determine the required reserve. Peoples also evaluates classified credit exposures with unfunded commitments individually to determine if a loss is both probable and reasonably estimable.

Business Combinations

Peoples utilizes the acquisition method of accounting for business combinations. As of the acquisition date, Peoples records the acquired company's net assets at fair value. The determination of fair value as of the acquisition date requires management to consider various factors that involve judgment and estimation, including the application of discount rates, attrition rates, future estimates of interest rates, as well as many other assumptions. These assumptions can have a material impact on the estimated fair value, and as a result, the goodwill recorded in a business combination.

Goodwill

Peoples records goodwill as a result of acquisitions accounted for under the acquisition method of accounting. Under the acquisition method, Peoples is required to allocate the consideration paid for an acquired company to the assets acquired, including identified intangible assets, and liabilities assumed based on their estimated fair values at the date of acquisition. Goodwill represents the excess cost over the fair value of net assets acquired and is not amortized but is tested for impairment when indicators of impairment exist, and, in any case, at least annually.

The value of recorded goodwill is supported 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 and 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.

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Peoples currently maintains 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 assets (including unrecognized intangible assets), net of accumulated amortization, from the fair value of the reporting unit. The fair value of net tangible assets is calculated using the methodologies described in Note 2 Fair Value of Financial Instruments of the Notes to the Consolidated Financial Statements.

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

At October 1, 2018, management's qualitative analysis concluded that the estimated fair value of Peoples' single reporting unit exceeded its carrying value.

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

Income Taxes

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

A valuation allowance is recognized to reduce any deferred tax asset when, based upon available information, it is more-likely-than-not all, or any portion, of the deferred tax asset will not be realized. Assessing the need for, and amount of, a valuation allowance for deferred tax assets requires significant judgment and analysis of evidence regarding realization of the deferred tax assets. In most cases, the realization of deferred tax assets is dependent upon Peoples generating a sufficient level of taxable income in future periods, which can be difficult to predict. Peoples' largest deferred tax assets involve differences related to Peoples' allowance for loan losses, available-for-sale securities, and accrued employee benefits. Management determined a valuation allowance of $805,000 at December 31, 2017, to be recorded against the deferred tax assets associated with its investment in a partnership investment. In 2018, Peoples released the valuation allowance, which reduced income tax expense by $805,000. Peoples sold $6.7 million of equity investment securities in the second quarter of 2018, which resulted in a capital gain for tax purposes. This capital gain was large enough to offset an anticipated future capital loss, which is expected to be recognized due to the structure of the historical tax credit investment, resulting in the release of the valuation allowance. No other valuation allowances were recorded at December 31, 2018.

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, 2018 and 2017.

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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 Fair Value of Financial Instruments of the Notes to the Consolidated Financial Statements.

EXECUTIVE SUMMARY

Net income for the year ended December 31, 2018 was $46.3 million, compared to $38.5 million in 2017 and $31.2 million in 2016, representing earnings per diluted common share of $2.41, $2.10 and $1.71, respectively. The growth during 2018 was driven by increases of $16.2 million in net interest income and $1.2 million in non-interest income, coupled with a $10.0 million decline in income tax expense. These benefits were partially offset by a $7.1 million increase in acquisition-related costs, coupled with the ongoing costs of the ASB acquisition. The increase in earnings during 2017 was driven by higher net interest income, which grew by $8.5 million, along with investment security gains of $3.0 million. These increases were partially offset by a $0.9 million write-down of net deferred tax assets in connection with the Tax Cuts and Jobs Act.

Net interest income was $129.6 million in 2018, an increase of 14%, compared to $113.4 million in 2017, which was up 8% compared to 2016. The growth during 2018 was mostly due to originated loan growth and the acquisition of ASB. Growth during 2017 was primarily due to originated loan growth. During both years, higher yields on investment securities and loans were tempered by an increase in deposit and borrowing costs. Net interest margin was 3.71% in 2018, an increase from 3.62% in 2017 and 3.54% in 2016. Accretion income, net of amortization expense, from acquisitions added approximately 6 basis points to net interest margin in 2018, compared to 10 basis points in 2017 and 11 basis points in 2016. In 2018, proceeds of $0.9 million were received on an investment security that, in prior years, had been written-down due to an other-than-temporary impairment, which added 3 basis points to the net interest margin, compared to $0.8 million, and 3 basis points, during 2017. Similar proceeds were not received in 2016.

In 2018, Peoples recorded provision for loan losses of $5.4 million, an increase of $1.7 million compared to the $3.8 million that was recorded in 2017 and higher than the $3.5 million recorded for 2016. The increase in 2018 from 2017 was driven primarily by loan growth and an increase in net charge-offs of $638,000. Net charge-offs in 2018 included $827,000 related to one acquired commercial loan relationship. The provision for loan losses represented amounts needed, in management's opinion, to maintain the appropriate level of the allowance for loan losses. Peoples recorded net charge-offs of $4.0 million during 2018, compared to $3.4 million for 2017 and $1.9 million for 2016. Net charge-offs as a percent of average total loans were 0.15% during 2018 and 2017, and 0.09% for 2016.

Total non-interest income increased $1.2 million, or 2%, in 2018 compared to 2017. The increase was led by higher income from mortgage banking, electronic banking, trust and investments, and insurance. Mortgage banking income increased because of the benefits of the mortgage origination operations acquired from ASB. In addition, other non-interest income grew during 2018 as a result of higher income related to Small Business Administration ("SBA") loans, coupled with the change in fair value of equity investment securities during 2018. The majority of these equity investment securities were liquidated during 2018, and the fair value change in future periods should be minimal. Total non-interest income increased 9% in 2017 compared to 2016, and was primarily due to the gain on investment securities, coupled with increases in trust and investment, mortgage banking, and bank owned life insurance income.

These increases were partially offset by a decrease in deposit account service charges. The increase in trust and investment income was due largely to the growth in the value of assets under administration and management. Mortgage banking income increased due to customer demand. The increase in bank owned life insurance income was the result of the additional $35.0 million of bank owned life insurance policies that were purchased late in the second quarter of 2016, for which a full year of income was recognized in 2017.

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Total non-interest expense increased 17% during 2018, driven by the increase in acquisition-related expenses of $6.9 million compared to 2017. Also contributing to the changes were higher salaries and employee benefits costs. These costs grew $9.0 million and were the result of a combination of the one-time expenses associated with the ASB acquisition and the resulting increase in number of retained employees from the acquisition. Also contributing to the change were higher sales-based and incentive compensation, and merit increases. Merit increases included the implementation of a $15 per hour minimum wage standard established during 2018, which is expected to be fully implemented by January 1, 2020.

In 2017, total non-interest expense increased 1%, or $1.1 million, compared to 2016, largely due to higher salaries and benefit costs. The increase in salaries and benefit costs was driven by increased incentive compensation that was tied to corporate performance for 2017, coupled with higher medical insurance costs and pension settlement charges recognized in 2017. These increases were partially offset by declines in professional fees, communications expense, amortization of other intangible assets and the nonrecurring $1.3 million in core banking system conversion costs that were incurred in 2016.

Income tax expense was $8.7 million in 2018 compared to $18.7 million in 2017. The reduction in income tax expense compared to 2017 was largely a result of the Tax Cuts and Jobs Act, which lowered the federal corporate income tax rate from 35% to 21%, combined with the release of a tax valuation allowance of $0.8 million and the final impact related to the statutory federal corporate income tax rate change of $0.7 million during 2018. Income tax expense increased $4.6 million, or 33%, in 2017 compared to 2016, largely due to the increase in pre-tax income in the comparison and the remeasurement of net deferred tax assets as of December 31, 2017.

At December 31, 2018, total assets were up 11%, or $409.8 million, to $3.99 billion versus $3.58 billion at year-end 2017. The increase was primarily related to the acquisition of ASB and $213.7 million of originated loan growth. The allowance for loan losses increased slightly to $20.2 million, or 0.74% of total loans, net of deferred fees and costs, compared to $18.8 million and 0.80%, respectively, at December 31, 2017.

Total liabilities were $3.47 billion at December 31, 2018, up $348.2 million since December 31, 2017. At December 31, 2018, total deposits increased $225.1 million to $2.96 billion, compared to the prior year-end. Total demand deposits increased $32.2 million, or 3%, and were 40% of total deposits at December 31, 2018 compared to 42% of total deposits at December 31, 2017. The growth in deposits in 2018 compared to the prior year-end was primarily due to acquired ASB deposit balances of $198.6 million. An increase in total borrowed funds of $112.3 million to $465.8 million at December 31, 2018, compared to $353.5 million at December 31, 2017, also contributed to the change in total liabilities.

At December 31, 2018, total stockholders' equity was $520.1 million, up 13%, or $61.5 million, from December 31, 2017. The increase was primarily due to earnings of $46.3 million during 2018, the issuance of $40.9 million of common stock related to the acquisition of ASB, and equity-based compensation. Dividends of $21.6 million paid to shareholders and reductions in the market value of investment securities, partially offset these increases.

Peoples exceeded the capital required by the Federal Reserve Board to be deemed "well capitalized." Regulatory capital was impacted by the ASB acquisition during 2018, which created increases in capital and risk-weighted assets. Peoples' tier 1 capital ratio increased to 13.87% at December 31, 2018, versus 13.55% at December 31, 2017, while the total capital ratio was 14.60% at December 31, 2018, versus 14.43% at December 31, 2017. The common equity tier 1 risk-based capital ratio was 13.61% at December 31, 2018 compared to 13.26% at December 31, 2017. Peoples' book value and tangible book value per share were $26.59 and $18.30, respectively, at December 31, 2018, compared to $25.08 and $17.17, respectively, at December 31, 2017. Additional information regarding capital requirements can be found in Note 16 Regulatory Matters 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

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market interest rates are difficult to predict, and may have a greater impact on net interest income than adjustments management is able to make.

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 a statutory federal corporate income tax rate of 21% for 2018, as a result of the Tax Cuts and Jobs Act, and 35% for 2017 and 2016. Management believes the resulting fully tax-equivalent ("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-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)	2018	2017	2016
Net interest income	$129,612	$113,377	$104,865
Taxable equivalent adjustments	881	1,912	2,027
Fully tax-equivalent net interest income	$130,493	$115,289	$106,892

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The following table details Peoples' average balance sheets, with corresponding income/expense and yield/cost, for the years ended December 31:

(Dollars in thousands)	2018 Average Balance	Income/ Expense	Yield/Cost	2017 Average Balance	Income/ Expense	Yield/Cost	2016 Average Balance	Income/ Expense	Yield/Cost
Short-term investments	$19,462	$402	2.07 %	$12,616	$144	1.14 %	$9,667	$50	0.52 %
Investment Securities (a)(b):									
Taxable (c)	784,108	23,283	2.97 %	768,336	20,598	2.68 %	753,213	18,606	2.47 %
Nontaxable	94,023	3,123	3.32 %	107,604	4,497	4.18 %	112,808	4,810	4.26 %
Total investment securities	878,131	26,406	3.01 %	875,940	25,095	2.86 %	866,021	23,416	2.70 %
Loans (b)(d):									
Commercial real estate, construction	122,007	5,970	4.83 %	110,124	4,800	4.30 %	88,559	3,455	3.84 %
Commercial real estate, other	819,606	41,102	4.95 %	743,517	35,240	4.67 %	721,535	33,651	4.59 %
Commercial and industrial	517,026	26,042	4.97 %	439,178	19,944	4.48 %	376,881	15,769	4.12 %
Residential real estate (e)	577,858	25,965	4.49 %	514,024	22,256	4.33 %	557,537	24,279	4.35 %
Home equity lines of credit	127,852	6,712	5.25 %	110,910	4,965	4.48 %	109,164	4,853	4.45 %
Consumer, indirect	373,450	14,627	3.92 %	306,338	10,975	3.58 %	207,095	7,432	3.59 %
Consumer, direct	73,171	4,919	6.72 %	69,889	5,018	7.18 %	72,404	4,566	6.29 %
Total loans	2,610,970	125,337	4.75 %	2,293,980	103,198	4.50 %	2,133,175	94,005	4.41 %
Less: Allowance for loan losses	(19,359)			(18,713)			(17,564)		
Net loans	2,591,611	125,337	4.80 %	2,275,267	103,198	4.50 %	2,115,611	94,005	4.40 %
Total earning assets	3,489,204	152,145	4.33 %	3,163,823	128,437	4.03 %	2,991,299	117,471	3.90 %
Intangible assets	158,115			144,696			147,981		
Other assets	224,513			201,755			181,167		
Total assets	$3,871,832			$3,510,274			$3,320,447		
Deposits:									
Savings accounts	$468,624	$303	0.06 %	$442,684	$249	0.06 %	$434,140	$231	0.05 %
Government deposit accounts	306,356	1,521	0.50 %	294,053	704	0.24 %	296,590	570	0.19 %
Interest-bearing demand accounts	564,345	750	0.13 %	367,699	543	0.15 %	260,788	217	0.08 %
Money market accounts	386,607	1,359	0.35 %	389,885	877	0.22 %	401,693	702	0.17 %
Retail certificates of deposit	383,929	4,842	1.26 %	358,307	2,997	0.84 %	406,298	3,181	0.78 %
Brokered deposits	220,109	4,930	2.24 %	98,793	1,784	1.81 %	41,613	1,041	2.50 %
Total interest-bearing deposits	2,329,970	13,705	0.59 %	1,951,421	7,154	0.37 %	1,841,122	5,942	0.32 %
Borrowed Funds:									

Short-term FHLB advances	219,897	4,494	2.04 %	100,205	1,160	1.16 %	86,260	384	0.45 %
Repurchase agreements and other	79,149	744	0.94 %	82,042	374	0.46 %	72,909	124	0.17 %
Total short-term borrowings	299,046	5,238	1.75 %	182,247	1,534	0.84 %	159,169	508	0.32 %
Long-term FHLB advances	109,944	2,192	1.99 %	136,799	2,794	2.04 %	84,605	2,238	2.65 %
Wholesale repurchase agreements	—	—	— %	33,315	1,225	3.68 %	40,000	1,475	3.69 %
Other borrowings	7,338	517	7.05 %	6,977	441	6.34 %	6,781	416	6.13 %
Total long-term borrowings	117,282	2,709	2.31 %	177,091	4,460	2.52 %	131,386	4,129	3.14 %
Total borrowed funds	416,328	7,947	1.90 %	359,338	5,994	1.67 %	290,555	4,637	1.60 %
Total interest-bearing liabilities	2,746,298	21,652	0.79 %	2,310,759	13,148	0.57 %	2,131,677	10,579	0.50 %
Non-interest-bearing deposits	591,592			713,027			722,291		
Other liabilities	45,803			36,109			33,813		
Total liabilities	3,383,693			3,059,895			2,887,781		
Total stockholders' equity	488,139			450,379			432,666		
Total liabilities and stockholders' equity	$3,871,832			$3,510,274			$3,320,447		
Interest rate spread (b)		$130,493	3.54 %		$115,289	3.46 %		$106,892	3.40 %
Net interest margin (b)			3.71 %			3.62 %			3.54 %

(a) Average balances are based on carrying value.

(b) Interest income and yields are presented on a fully tax-equivalent basis using a 21% statutory federal corporate income tax rate for 2018 and a 35% statutory federal corporate income tax rate for 2017 and 2016.

(c) Interest income and yield presented for 2018 and 2017 includes $0.9 million and $0.8 million, respectively, of proceeds on an investment security for which an other-than-temporary-impairment had been recorded in previous years.

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

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

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

(Dollars in thousands)	Changes from 2017 to 2018			Changes from 2016 to 2017		
Increase (decrease) in:	Rate	Volume	Total [(a)]	Rate	Volume	Total [(a)]
INTEREST INCOME:						
Short-term investments	$155	$103	$258	$75	$19	$94
Investment Securities (b):						
Taxable	2,254	431	2,685	1,612	380	1,992
Nontaxable	(851)	(523)	(1,374)	(94)	(219)	(313)
Total investment income	1,403	(92)	1,311	1,518	161	1,679
Loans (b):						
Commercial real estate, construction	622	548	1,170	445	900	1,345
Commercial real estate, other	2,122	3,740	5,862	611	978	1,589
Commercial and industrial	2,324	3,774	6,098	1,454	2,721	4,175
Residential real estate	865	2,844	3,709	(138)	(1,885)	(2,023)
Home equity lines of credit	928	819	1,747	34	78	112
Consumer, indirect	1,090	2,562	3,652	(147)	3,559	3,412
Consumer, direct	(329)	230	(99)	740	(157)	583
Total loan income	7,622	14,517	22,139	2,999	6,194	9,193
Total interest income	9,180	14,528	23,708	4,592	6,374	10,966
INTEREST EXPENSE:						
Deposits:						
Savings accounts	38	16	54	13	5	18
Government deposit accounts	787	30	817	139	(5)	134
Interest-bearing demand accounts	(59)	266	207	214	112	326
Money market accounts	489	(7)	482	197	(22)	175
Retail certificates of deposit	1,618	227	1,845	208	(392)	(184)
Brokered certificates of deposit	515	2,631	3,146	(357)	1,100	743
Total deposit cost	3,388	3,163	6,551	414	798	1,212
Borrowed funds:						
Short-term borrowings	469	3,235	3,704	343	683	1,026
Long-term borrowings	(628)	(1,123)	(1,751)	(586)	917	331
Total borrowed funds cost	(159)	2,112	1,953	(243)	1,600	1,357
Total interest expense	3,229	5,275	8,504	171	2,398	2,569
Net interest income	$5,951	$9,253	$15,204	$4,421	$3,976	$8,397

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

(b) Interest income and yields are presented on a fully tax-equivalent basis using a 21% statutory federal corporate income tax rate for 2018 and a 35% statutory federal corporate income tax rate for 2017 and 2016.

During 2018, Peoples recognized accretion income, net of amortization expense, from acquisitions of $2.2 million, which added approximately 6 basis points to net interest margin, compared to $3.1 million and 10 basis points in 2017, and

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$3.5 million and 11 basis points in 2016. During 2018, proceeds of $894,000 were received on an investment security that had been, in previous years, written-down due to an other-than-temporary impairment, which added 3 basis points to the net interest margin, compared to $814,000, and 3 basis points, in 2017. No such amount was recorded in 2016. Additional interest income in 2018 from prepayment fees and interest recovered on nonaccrual loans was $420,000, compared to $826,000 in 2017 and $964,000 in 2016. The primary driver of the increase in net interest income during the past two years has been the higher loan balances resulting from organic growth and the ASB acquisition in 2018. During 2018 and 2017, net interest income also benefited from increases in interest rates. Funding costs increased in 2018 and 2017 as the Federal Reserve Board raised the benchmark Federal Funds Target Rate by 25 basis points in each of December of 2016, and March, June and December of 2017, as well as March, June, September, and December of 2018. These rate increases drove higher loan and investment security yields, which outpaced increases in deposit and wholesale funding costs in 2018 and 2017.

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

Provision for Loan Losses

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

(Dollars in thousands)	2018	2017	2016
Loan losses	$4,677	$3,050	$2,890
Checking account overdrafts	771	722	649
Provision for loan losses	$5,448	$3,772	$3,539
As a percent of average total loans	0.21 %	0.16 %	0.17 %

The provision for loan losses represents the amount needed to maintain the appropriate level of the allowance for loan losses based on management's formal quarterly analysis of the loan portfolio and procedural methodology that estimates the amount of probable credit losses. This process considers various factors that affect losses, such as changes in Peoples' loan quality, historical loss experience, current economic conditions, and other environmental factors such as changes in real estate market conditions, unemployment, and the economic impact of tariffs. The provision for loan losses recorded in 2018 was primarily due to continued loan growth and net charge-offs of $2.0 million related to consumer indirect lending, coupled with charge-offs of $827,000 related to one acquired commercial loan relationship. The provision for loan losses recorded in 2017 and 2016 was driven by loan growth and stable asset quality trends.

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 Gains (Losses) Included in Total Non-Interest Income

The following table details Peoples' net gains and losses, recognized in total non-interest income, for the years ended December 31:

(Dollars in thousands)	2018	2017	2016
Net (loss) gain on investment securities	$(146)	$2,983	$930
Net loss on asset disposals and other transactions	(334)	(63)	(1,133)

During 2017, Peoples reduced its position in certain equity investment securities, which resulted in net gains on investment securities of $3.0 million.

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The following table details the net loss on asset disposals and other transactions for the years ended December 31 recognized by Peoples:

(Dollars in thousands)	2018	2017	2016
Net (loss) gain on other assets	$(224)	$28	$(188)
Net loss on debt extinguishment	(13)	—	(707)
Net loss on OREO	(21)	(116)	(34)
Net (loss) gain on other transactions	(76)	25	(204)
Net loss on asset disposals and other transactions	$(334)	$(63)	$(1,133)

The net loss on other assets during 2018 was primarily due to the disposal of $190,000 of ASB fixed assets acquired coupled with $198,000 of market value write-downs related to closed offices that were held for sale. The net loss on other transactions during 2018 was due to the write-down of a limited partnership investment.

During 2017, the net loss on OREO was a result of the sale of two commercial properties. The net gain on other assets during 2017 was due to the sale of a previously closed branch, which was offset partially by a loss on the sale of a parking lot that was no longer being utilized.

The net loss on debt extinguishment in 2016 was mainly due to the prepayment of $20.0 million of long-term FHLB advances. The net loss on other transactions during 2016 was related to the write-down of an investment made in an asset that had a corresponding tax benefit to Peoples. The net loss on other assets during 2016 was due mainly to the closing of a leased office and related disposal of leasehold improvements.

Total Non-Interest Income Excluding Net Gains and Losses

Peoples generates total non-interest income excluding net gains and losses from four primary sources: insurance income; trust and investment income; electronic banking income ("e-banking"); and deposit account service charges. Peoples continues to focus on revenue growth from non-interest income sources in order to maintain a diversified revenue stream through greater reliance on total non-interest income excluding net gains and losses. As a result, total non-interest income excluding net gains and losses accounted for 30.6% of Peoples' total revenues (defined as net interest income plus total non-interest income excluding net gains and losses) in 2018, compared to 31.7% in 2017 and 32.8% in 2016. The slight decline in Peoples' total non-interest income excluding net gains and losses as a percent of total revenue during 2018 from 2017 was primarily due to increased net interest income due to originated loan growth and the acquisition of ASB, as well as interest rate increases. The decline in the ratio in 2017 compared to 2016 was primarily due to increased net interest income resulting from loan growth and higher interest rates.

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)	2018	2017	2016
Property and casualty insurance commissions	$10,512	$10,298	$10,064
Life and health insurance commissions	2,276	1,759	1,733
Performance-based commissions	1,452	1,457	1,742
Other fees and charges	572	690	307
Insurance income	$14,812	$14,204	$13,846

The majority of performance-based commissions typically are recorded annually in the first quarter and are based on a combination of factors, such as loss experience of insurance policies sold, production volumes and overall financial performance of the individual insurance carriers. The increase in life and health insurance commissions was primarily due to timing of revenue recognition attributable to the implementation of ASU 2014-09. The increase in other fees and charges during 2017 was due to the acquisition of a third-party insurance administration company that occurred in January 2017.

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

(Dollars in thousands)	2018	2017	2016
Fiduciary	$6,579	$6,360	$5,929
Brokerage	4,001	3,538	3,171
Employee benefits	$1,963	$1,660	$1,489
Trust and investment income	$12,543	$11,558	$10,589

The following table details Peoples’ assets under administration and management at year-end December 31:

(Dollars in thousands)	2018	2017	2016
Trust assets under administration and management	$1,384,113	$1,452,959	$1,301,509
Brokerage assets under administration and management	849,188	887,303	777,771
Total assets under administration and management	$2,233,301	$2,340,262	$2,079,280
Annual average	$2,342,102	$2,221,747	$2,002,537

During 2018, the increases in fiduciary and brokerage revenues were due to a combination of growth of new business, primarily in fee-based accounts, and growth in retirement benefit plans. 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. Average assets under administration and management during 2018 increased compared to 2017 due primarily to new assets under administration and management, coupled with an increase in the market value of accounts. The U.S. financial markets shifted downward at the end of 2018, resulting in the decline in end-of-period assets under administration and management at December 31, 2018 compared to December 31, 2017. During 2017, the increase in fiduciary and brokerage revenues was primarily due to the increase in assets under administration and management, which were positively impacted by the U.S. financial markets, and retirement benefits plans.

E-banking income increased $1.1 million to $11.5 million in 2018, compared to $10.4 million in both 2017 and 2016. Peoples' e-banking services include ATM and debit cards, direct deposit services, internet and mobile banking, and remote deposit capture, and serve as alternative delivery channels to traditional sales offices for providing services to clients. Revenue is derived largely from ATM and debit cards, as other services are mainly provided at no charge to the customers. The amount of e-banking income is largely dependent on the timing and volume of customer activity. The increase in e-banking income in 2018 was the result of the increased usage of debit cards by more customers, which includes the impact of additional customers and accounts related to the acquisition of ASB. In 2018, Peoples' customers used their debit cards to complete $801 million of transactions, versus $729 million in 2017 and $728 million in 2016.

Deposit account service charges, 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)	2018	2017	2016
Overdraft and non-sufficient funds fees	$6,571	$6,720	$7,849
Account maintenance fees	2,718	2,276	2,260
Other fees and charges	489	618	553
Deposit account service charges	$9,778	$9,614	$10,662

The amount of deposit account service charges, particularly fees for overdrafts and non-sufficient funds, is largely dependent on the timing and volume of customer activity. Management periodically evaluates its cost recovery fees to ensure they are reasonable based on operational costs and similar to fees charged in Peoples' markets by competitors. The slight decline in overdraft and non-sufficient funds fees between 2018 and 2017 was partially due to changes made to the calculation of fees to be more in line with industry practices. The increase in account maintenance fees in 2018, compared to 2017, was largely due to implementation of new consumer checking products that occurred near the end of 2017. Other fees and charges declined in 2018, compared to 2017, mainly due to changes made in the calculation of personalized check fees. The increase between 2017 and 2016 in account maintenance fees was the result of higher fees received on commercial and consumer checking accounts.

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The following table details the other items included within Peoples' total non-interest income for the years ended December 31:

(Dollars in thousands)	2018	2017	2016
Mortgage banking income	$3,333	$1,872	$1,304
Bank owned life insurance income	1,955	1,950	1,414
Commercial loan swap fee income	681	1,232	1,076
Other non-interest income (a)	2,655	1,865	1,826

(a) As of January 1, 2018, Peoples adopted ASU 2016-01, resulting in a gain in income of $207,000 for 2018.

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 well as servicing income for sold loans. As a result, the amount of income recognized by Peoples is largely dependent on customer demand and long-term interest rates for residential real estate loans offered in the secondary market. Mortgage banking income increased 78.0% in 2018, largely due to gains on sale of real estate loans originated by the mortgage origination operation acquired as part of the ASB acquisition, and increased 43.6% in 2017, due to customer demand. In 2018, Peoples sold approximately $66.3 million of loans to the secondary market with servicing retained and sold approximately $56.4 million in loans with servicing released. Peoples sold $65.2 million of loans to the secondary market with servicing retained during 2017 and $67.1 million in 2016.

Bank owned life insurance income was essentially flat during 2018 compared to 2017. Peoples purchased no additional bank owned life insurance policies during 2018 and 2017; however, $4.8 million was acquired in the ASB acquisition. During 2017, bank owned life insurance income increased to $2.0 million, compared to $1.4 million in 2016. The increase in bank owned life insurance income was the result of the additional $35.0 million of bank owned life insurance policies that were purchased in the second quarter of 2016, for which a full year was recognized in 2017.

Commercial loan swap fee income is largely dependent on the timing and volume of customer activity. During 2018, an increase in the number of individual transactions was more than offset by a decline in the average size of each transaction, resulting in lower commercial loan swap fee income in 2018, compared to 2017.

The increase in other non-interest income in 2018 compared to 2017 was primarily due to an increase of $318,000 in the income related to the sale of SBA loans. During 2018, other non-interest income also included $207,000 recorded in connection with the implementation of a new accounting standard, which modified how the change in the fair value of equity investment securities was recorded effective January 1, 2018.

Total Non-Interest Expense

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

(Dollars in thousands)	2018	2017	2016
Base salaries and wages	$46,438	$39,669	$39,422
Sales-based and incentive compensation	11,703	10,223	8,752
Employee benefit costs	6,528	6,487	5,682
Stock-based compensation	2,575	1,802	1,392
Deferred personnel costs	(2,151)	(1,835)	(1,779)
Payroll taxes and other employment costs	4,215	3,930	3,964
Salaries and employee benefit costs	$69,308	$60,276	$57,433
Full-time equivalent employees:			
Actual at end of the period	871	774	782
Average during the period	840	778	804

Base salaries and wages in 2018 included $2.2 million of one-time expenses associated with the acquisition of ASB. The ongoing retention of ASB employees also contributed to the increase in base salaries and wages, and in the number of employees in 2018 compared to 2017. Merit increases also contributed to the increase in base salaries and wages during 2018, which included the implementation of a $15 per hour minimum wage throughout the company, which was announced in early 2018 and will be fully implemented by January 1, 2020.

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Sales-based and incentive compensation increased in 2018 and 2017 largely due to higher incentive compensation related to the mortgage banking income growth, coupled with improvement in corporate performance for 2018. Peoples' sales-based and incentive compensation plans are designed to grow core earnings while managing risk, and do not encourage unnecessary and excessive risk-taking that could threaten the value of Peoples. The sales-based and incentive compensation plans reward employees for appropriate behaviors and include provisions for inappropriate practices with respect to Peoples and its customers, including clawbacks for executives.

During 2018, employee benefit costs were relatively flat compared to 2017. Employee benefit costs increased during 2017 compared to 2016 from higher medical insurance costs and pension settlement charges recognized. Settlement charges are largely based on the timing of retirements of plan participants and their election of lump-sum distributions. A pension settlement charge is recognized when the aggregate amount of lump-sum distributions to participants in Peoples' defined benefit pension plan exceeds threshold for recognizing such charges during the period. Management anticipates continued pension settlement charges in future years as plan participants retire and elect lump-sum distributions from the pension plan.

Stock-based compensation is generally recognized over the vesting period, which can range from immediate vesting to three-year vesting, for the portion of awards that are 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 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 the years presented in the table above, Peoples granted restricted common shares to officers and key employees with performance-based vesting periods and time-based vesting periods, generally with a three-year vesting. The increase in stock-based compensation during the three years presented in the table above correlates to Peoples' improved performance during recent years. The increase in 2018, compared to 2017, was also impacted by the Board of Directors granting 12,144 unrestricted common shares to full-time and part-time employees who did not already participate in the Peoples Bancorp Inc. Third Amended and Restated 2006 Equity Plan, which resulted in stock-based compensation of $416,000. Additional information regarding Peoples' stock-based compensation plans and awards can be found in Note 17 Stock-Based Compensation 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 in interest income. As a result, the amount of deferred personnel costs for each year corresponds directly with the level of new loan originations. Higher loan originations in 2018 compared to 2017 drove the increase in deferred personnel costs during 2018. Additional information regarding Peoples' loan activity can be found later in this discussion under the caption "Loans."

Payroll taxes and other employee costs increased during 2018 as a result of higher base salaries and wages, sales-based and incentive compensation, and employee benefits compared to 2017.

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

(Dollars in thousands)	2018	2017	2016
Depreciation expense	$4,937	$4,850	$5,079
Repairs and maintenance costs	2,825	2,573	2,345
Net rent expense	961	931	901
Property taxes, utilities and other costs	2,549	2,279	2,410
Net occupancy and equipment expense	$11,272	$10,633	$10,735

Net occupancy and equipment expense increased during 2018 primarily due to the increased maintenance costs, property taxes, utilities and other costs related to the addition of seven full-service bank branches and two loan production offices from the ASB acquisition and ongoing increased operating costs associated with the expanded footprint. Increases in depreciation expense related to the additional branches were partially offset by the full-year impact of the closure of six full-service branches during 2017.

During 2017, depreciation expense decreased as assets became fully depreciated, branches were closed and new fixed asset purchases decreased. Management continues to monitor capital expenditures and explore opportunities to enhance Peoples' operating efficiency.

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The following table details the other items included within Peoples' total non-interest expense for the years ended December 31:

(Dollars in thousands)	2018	2017	2016
Professional fees	$7,862	$6,575	$7,436
Electronic banking expense	6,057	5,874	5,992
Data processing and software expense	5,419	4,441	3,763
Amortization of other intangible assets	3,338	3,516	4,030
Franchise tax expense	2,771	2,246	2,192
Marketing expense	1,962	1,714	1,594
FDIC insurance expense	1,546	1,816	1,899
Foreclosed real estate and other loan expenses	1,431	873	859
Communication expense	1,265	1,475	2,261
Other non-interest expense	13,746	8,536	8,717

Professional fees increased in 2018 compared to 2017 due to higher consulting expenses and an increase of $785,000 in acquisition-related expenses (investment banking and legal fees).

Peoples' e-banking expense is comprised of costs associated with debit and ATM cards, as well as internet and mobile banking costs. The increase in 2018 and 2017 was due to customers completing a higher volume of transactions using their debit cards, and Peoples' internet and mobile banking service. Also contributing to the increase in 2018 was the addition of accounts related to the ASB acquisition. These factors also produced a greater increase in the corresponding e-banking revenues over the same period.

Data processing and software expense includes software support, maintenance and depreciation expense. These costs increased during 2018 due to the implementation of enhanced functionalities for Peoples' core banking system, including making certain mobile banking tools available to customers, growth in the number of accounts, implementation of customer relationship profitability and a new floor plan system implemented at the end of 2017. The increase during 2017 was due to the increase of software support and higher depreciation related to software and the core banking system conversion in late 2016, which provides additional customer services and capabilities.

Peoples' amortization of other intangible assets is driven by acquisition-related activity. Amortization of other intangible assets declined during 2018 and 2017 as a result of the amortization schedules related to core deposit and customer relationship intangible assets arising from acquisitions. The decline during 2018 was partially offset by additional amortization related to the acquisition of ASB.

Peoples is subject to state franchise taxes, which are based largely on Peoples' equity at year-end, in the states where Peoples has a physical presence. Franchise tax expense also includes the 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 Ohio FIT is based on the total equity capital in proportion to the taxpayer's gross receipts in Ohio. Expenses related to state franchise taxes, which includes Ohio FIT, increased in 2018 due to additional equity from the issuance of common shares related to the acquisition of ASB and from operating results.

In 2018, marketing expense, which includes advertising, donations and other public relations costs, increased $248,000 from 2017. The increase during 2018 includes $119,000 of one-time acquisition-related expenses and additional marketing campaigns in the new market areas. During 2017, marketing expense increased primarily due to higher donations to Peoples Bank Foundation, Inc. Peoples formed this private foundation in 2004 to make charitable contributions to organizations within Peoples' primary market area. Future contributions to Peoples Bank Foundation, Inc. will be evaluated on an annual basis, with the determination of the amount of any contribution based largely on the perceived level of need within the communities Peoples serves.

The FDIC quarterly assessment rate is applied to average total assets less average tangible equity, and is based on the leverage ratio, net income before taxes, nonperforming loans as a percent of total assets, OREO, loan mix and asset growth. Peoples experienced improvements in each of these categories during 2017 and 2018, leading to a reduction in the quarterly FDIC assessment rate, which offset increases in the expense that are attributable to the asset growth experienced during the last two years. Peoples' 2017 FDIC insurance expense also decreased slightly from 2016 as assessment changes became effective July 1, 2016. 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."

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Foreclosed real estate and other loan expenses increased during 2018 due to higher real estate loan expense and collection expenses. The higher real estate loan expense was due to additional mortgage processing associated with the acquired origination group from the ASB acquisition. The increase in collection expenses was related to the growth in indirect consumer lending.

The decrease in communication expense during 2018 was attributable to the re-negotiation of contracts with vendors. The decrease in 2017 compared to 2016 resulted from the consolidation of traditional phone lines to a method of transmitting all voice traffic over the internet and the discontinuation of overlapping traditional phone line contracts that occurred during the transition.

Other non-interest expense increased $5.2 million in 2018 compared to 2017, and decreased $181,000 in 2017 compared to 2016. The increase during 2018 was driven by $3.6 million of one-time acquisition-related expenses in 2018 compared to $14,000 in 2017. The 2018 acquisition-related expenses related mainly to contract termination fees and other costs related to the system conversion. The remaining increase in 2018 compared to 2017 was made up of various other small items. During 2016, Peoples recorded $0.7 million of expense related to the core system conversion costs.

Income Tax Expense

A key driver for the amount of income tax expense or benefit recognized by Peoples each year is the amount of pre-tax income. In addition to the expense recognized, Peoples receives tax benefits from tax-exempt investments and loans, bank owned life insurance, stock awards that settled or vested during the year, and 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 Income Taxes of the Notes to the Consolidated Financial Statements.

On January 1, 2018, the Tax Cuts and Jobs Act lowered the statutory federal corporate income tax rate from 35% to 21%, and was the primary cause of the decline in Peoples' income tax expense for 2018 compared to 2017. The difference of 14% in the statutory federal corporate income tax rate between 2018 and 2017, applied to the income before income taxes for 2018, equates to a $7.7 million reduction in income tax expense. During the fourth quarter of 2018, the final remeasurement of deferred tax assets and deferred tax liabilities at the new statutory federal corporate income tax rate of 21%, down from 35%, resulted in a reduction to income tax expense of $0.7 million. During the fourth quarter of 2017, as a result of its initial remeasurement of deferred tax assets and deferred tax liabilities at the new statutory federal corporate income tax rate, Peoples wrote down its net deferred tax assets by $0.9 million, which had a direct impact on income tax expense recorded during 2017. Additionally, as of December 31, 2017, Peoples early adopted ASU 2018-02 Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income and elected to reclassify, from accumulated other comprehensive income to retained earnings, the stranded income tax effects in accumulated other comprehensive loss resulting from the Tax Cuts and Jobs Act.

In 2018, Peoples released a valuation allowance, which reduced income tax expense by $0.8 million. The valuation allowance was related to a historic tax credit that Peoples had invested in during 2015. Peoples sold $6.7 million of equity investment securities in 2018, which resulted in a capital gain for tax purposes. This capital gain was large enough to offset an anticipated future capital loss, which is expected to be recognized due to the structure of the historic tax credit investment, resulting in the release of the valuation allowance.

Peoples recorded a tax benefit of $332,000 in 2018 and a tax benefit of $154,000 in 2017, as the result of the adoption of ASU 2016-09, which became effective January 1, 2017. The tax benefit related to stock awards that settled or vested during the year, with the majority recorded in the first quarter of each year.

Pre-Provision Net Revenue (non-US GAAP)

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 total non-interest income (excluding all gains and losses) minus total non-interest expense and, therefore, excludes the provision for (recovery of) loan losses and all gains and/or losses included in earnings. As a result, PPNR represents the earnings capacity that can be either retained in order to build capital or used to absorb unexpected losses and preserve existing capital.

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

(Dollars in thousands)	2018	2017	2016	2015	2014
Income before income taxes	$54,941	$57,203	$45,282	$14,816	$24,178
Add: provision for loan losses	5,448	3,772	3,539	14,097	339
Add: net loss on debt extinguishment	13	—	707	520	—
Add: net loss on OREO	21	116	34	529	68
Add: net loss on investment securities	146	—	—	—	—
Add: net loss on other assets	224	—	188	696	430
Add: net loss on other transactions	76	—	204	43	—
Less: net gain on debt extinguishment	—	—	—	—	67
Less: net gain on investment securities	—	2,983	930	729	398
Less: net gain on other assets	—	28	—	—	—
Less: net gain on other transactions	—	25	—	—	—
Pre-provision net revenue	$60,869	$58,055	$49,024	$29,972	$24,550
Total average assets	$3,871,832	$3,510,274	$3,320,447	$3,111,853	$2,240,534
Pre-provision net revenue to total average assets	1.57 %	1.65 %	1.48 %	0.96 %	1.10 %

During 2018, PPNR was higher while the pre-provision net revenue to total average assets ratio declined compared to 2017. The growth of average assets during the year, which was partially attributable to the ASB acquisition, outpaced the increase in PPNR, which was diminished by $7.3 million of acquisition-related expenses. The increase in PPNR in 2017 was due to the increase in revenue as a result of net interest income growth offset partially by a slight increase in total non-interest expenses. The increase in the PPNR in 2016 was primarily due to an increase in revenue as a result of net interest income growth coupled with a decrease in total non-interest expense. The increase in the PPNR in 2015 was primarily due to the completion of the NB&T acquisition and recognition of a full year of revenue for acquisitions completed during 2014. The decrease in the pre-provision net revenue to total average assets ratio for 2015 compared to 2014 reflected the increase of average assets, which also was reflective of the NB&T acquisition, offsetting the increase in PPNR, which was diminished by acquisition-related expenses of $10.7 million.

Core Non-Interest Income and Expense (non-US GAAP)

Core non-interest income and core non-interest expense are financial measures used to evaluate Peoples' recurring revenue and expense streams. These measures are non-US GAAP since they exclude the impact of all gains and/or losses, core banking system conversion revenue and expenses, acquisition-related expenses, pension settlement charges and other non-recurring expenses.

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

(Dollars in thousands)	2018	2017	2016	2015	2014
Core non-interest income:					
Total non-interest income	$56,754	$55,573	$50,867	$46,382	$40,020
Less: net (loss) gain on investment securities	(146)	2,983	930	729	398
Less: net loss on asset disposals and other transactions	(334)	(63)	(1,133)	(1,788)	(431)
Total non-interest income excluding net gains and losses	$57,234	$52,653	$51,070	$47,441	$40,053
Plus: core banking system conversion revenue waived	—	—	85	—	—
Core non-interest income excluding net gains and losses	$57,234	$52,653	$51,155	$47,441	$40,053

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(Dollars in thousands)	2018	2017	2016	2015	2014
Core non-interest expense:					
Total non-interest expense	$125,977	$107,975	$106,911	$115,081	$85,009
Less: system conversion expenses	—	—	1,259	—	—
Less: acquisition-related expenses	7,262	341	—	10,722	4,752
Less: pension settlement charges	267	242	—	459	1,400
Less: other non-core charges	—	—	—	592	298
Core non-interest expense	$118,448	$107,392	$105,652	$103,308	$78,559

Efficiency Ratio (non-US GAAP)

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

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

(Dollars in thousands)	2018	2017	2016	2015	2014
Efficiency ratio:					
Total non-interest expense	$125,977	$107,975	$106,911	$115,081	$85,009
Less: amortization of other intangible assets	3,338	3,516	4,030	4,077	1,428
Adjusted total non-interest expense	122,639	104,459	102,881	111,004	83,581
Total non-interest income excluding net gains and losses	57,234	52,653	51,070	47,441	40,053
Net interest income	129,612	113,377	104,865	97,612	69,506
Add: fully tax-equivalent adjustment (a)	881	1,912	2,027	1,978	1,335
Net interest income on a fully tax-equivalent basis	130,493	115,289	106,892	99,590	70,841
Adjusted revenue	$187,727	$167,942	$157,962	$147,031	$110,894
Efficiency ratio	65.33 %	62.20 %	65.13 %	75.50 %	75.37 %
Efficiency ratio adjusted for non-core items:					
Core non-interest expense	$118,448	$107,392	$105,652	$103,308	$78,559
Less: amortization of other intangible assets	3,338	3,516	4,030	4,077	1,428
Adjusted core non-interest expense	115,110	103,876	101,622	99,231	77,131
Core non-interest income excluding net gains and losses	57,234	52,653	51,155	47,441	40,053
Net interest income on a fully tax-equivalent basis	130,493	115,289	106,892	99,590	70,841
Adjusted core revenue	$187,727	$167,942	$158,047	$147,031	$110,894
Efficiency ratio adjusted for non-core items	61.32 %	61.85 %	64.30 %	67.49 %	69.55 %

(a) Based on a 21% statutory federal corporate income tax rate for 2018 and a 35% statutory federal corporate income tax rate for 2017 and prior periods.

The increase in the efficiency ratio between 2018 and 2017 was driven by acquisition-related expenses of $7.3 million in 2018, compared to $341,000 in 2017. The continued decline in the efficiency ratio adjusted for non-core items in recent years has been driven by acquisitions, coupled with the focus of growing revenues at a higher rate than expenses on a

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percentage basis. Managing expenses has been a major focus over the last three years, however, during this time Peoples has continued to make meaningful investments in its infrastructure and systems.

Return on Average Assets Adjusted for Non-Core Items (non-US GAAP)

In addition to return on average assets, management uses return on average assets adjusted for non-core items to monitor performance. The return on average assets ratio adjusted for non-core items represents a non-US GAAP financial measure since it excludes the release of the deferred tax asset valuation allowance, the impact of the Tax Cuts and Jobs Act on the remeasurement of deferred tax assets and deferred tax liabilities, and the after-tax impact of all gains and losses, core banking system conversion revenue and expenses, acquisition-related expenses, pension settlement charges, and other non-recurring expenses in earnings.

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

(Dollars in thousands)	2018	2017	2016	2015	2014
Return on average assets:					
Net income	$46,255	$38,471	$31,157	$10,941	$16,684
Total average assets	3,871,832	3,510,274	3,320,447	3,111,853	2,240,534
Return on average assets	1.19 %	1.10 %	0.94 %	0.35 %	0.74 %
Return on average assets adjusted for non-core items:					
Net income	46,255	38,471	31,157	10,941	16,684
Add: core banking system conversion revenue waived, net of tax (a)	—	—	55	—	—
Add: net loss on investment securities, net of tax (a)	115	—	—	—	—
Less: net gain on investment securities, net of tax (a)	—	(1,939)	(605)	(474)	(259)
Add: net loss on asset disposals and other transactions, net of tax (a)	264	41	736	1,162	280
Add: system conversion expenses, net of tax (a)	—	—	818	—	—
Add: acquisition-related expenses, net of tax (a)	5,737	222	—	6,969	3,089
Add: pension settlement charges, net of tax (a)	211	157	—	298	910
Add: other non-core charges, net of tax (a)	—	—	—	385	194
Less: release of deferred tax asset valuation allowance	(805)	—	—	—	—
Less: impact of Tax Cuts and Jobs Act on deferred tax liability	(705)	—	—	—	—
Add: impact of Tax Cuts and Jobs Act on deferred tax assets	—	897	—	—	—
Net income adjusted for non-core items	$51,072	$37,849	$32,161	$19,281	$20,898
Total average assets	3,871,832	3,510,274	3,320,447	3,111,853	2,240,534
Return on average assets adjusted for non-core items	1.32 %	1.08 %	0.97 %	0.62 %	0.93 %

(a) Based on a 21% statutory federal corporate income tax rate for 2018 and a 35% statutory federal corporate income tax rate for 2017 and prior periods.

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Return on Average Tangible Equity (non-US GAAP)

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

(Dollars in thousands)	2018	2017	2016	2015	2014
Net income excluding amortization of other intangible assets:					
Net income	$46,255	$38,471	$31,157	$10,941	$16,684
Add: amortization of other intangible assets	3,338	3,516	4,030	4,077	1,428
Less: tax effect of amortization of other intangible assets (a)	701	1,231	1,411	1,427	500
Net income excluding amortization of other intangible assets	48,892	40,756	33,776	13,591	17,612
Average tangible equity:					
Total average stockholders' equity	$488,139	$450,379	$432,666	$407,296	$270,689
Less: average goodwill and other intangible assets	158,115	144,696	147,981	144,013	87,821
Average tangible equity	$330,024	$305,683	$284,685	$263,283	$182,868
Return on average stockholders' equity ratio:					
Net income	$46,255	$38,471	$31,157	$10,941	$16,684
Average stockholders' equity	$488,139	$450,379	$432,666	$407,296	$270,689
Return on average stockholders' equity	9.48 %	8.54 %	7.20 %	2.69 %	6.16 %
Return on average tangible equity ratio:					
Net income excluding amortization of other intangible assets	$48,892	$40,756	$33,776	$13,591	$17,612
Average tangible equity	$330,024	$305,683	$284,685	$263,283	$182,868
Return on average tangible equity	14.81 %	13.33 %	11.86 %	5.16 %	9.63 %

(a) Based on a 21% statutory federal corporate income tax rate for 2018 and a 35% statutory federal corporate income tax rate for 2017 and prior periods.

The return on average stockholders' equity and average tangible equity ratios increased in 2018 compared to 2017, reflecting the increase in net income which outpaced the increases in average stockholders' equity and average tangible equity. Average stockholders' equity and average tangible equity increased due mainly to net income and the ASB acquisition, partially offset by dividends declared.

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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, 2018, excess cash reserves at the FRB were $11.2 million, compared to $9.3 million at December 31, 2017. The amount of excess cash reserves maintained is dependent upon Peoples' daily liquidity position, which is driven primarily by changes in deposit and loan balances.

In 2018, Peoples' total cash and cash equivalents increased $5.4 million, as cash provided by operating and financing activities of $75.2 million and $60.3 million, respectively, were partially offset by cash used of $130.2 million in investing activities. Cash used in investing activities was primarily due to funded loan growth of $134.1 million. Loan growth was partially funded by the increase of Peoples' financing activities of short-term borrowings of $61.9 million and deposit growth, excluding deposits acquired from the ASB acquisition, of $25.8 million. The increase in operating activities was due primarily to $46.3 million of net income.

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In 2017, Peoples' total cash and cash equivalents increased $6.0 million, as cash provided by financing and operating activities of $107.7 million and $61.0 million, respectively, were partially offset by cash used of $162.7 million in investing activities. Cash used in investing activities was primarily due to funded loan growth of $130.4 million. The loan growth was partially funded by deposit growth of $220.6 million, which was offset by decreases of $97.5 million in short and long-term borrowings. The increase in operating activities was due primarily to $38.5 million of net income.

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

Investment Securities

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

(Dollars in thousands)	2018	2017	2016	2015	2014
Available-for-sale securities, at fair value:					
Obligations of:					
U.S. Treasury and government agencies	$—	$—	$—	$—	$1
U.S. government sponsored agencies	—	—	1,000	2,966	5,950
States and political subdivisions	88,587	101,569	117,230	114,726	64,743
Residential mortgage-backed securities	692,608	673,664	626,567	632,293	527,291
Commercial mortgage-backed securities	6,707	6,976	19,291	23,845	27,847
Bank-issued trust preferred securities	3,989	5,129	4,899	4,635	5,645
Equity investment securities (a)	—	7,849	8,953	6,236	5,403
Total fair value	$791,891	$795,187	$777,940	$784,701	$636,880
Total amortized cost	$804,655	$797,732	$777,017	$780,304	$632,967
Net unrealized (loss) gain	$(12,764)	$(2,545)	$923	$4,397	$3,913
Held-to-maturity securities, at amortized cost:					
Obligations of:					
States and political subdivisions	$4,403	$3,810	$3,820	$3,831	$3,841
Residential mortgage-backed securities	29,044	32,487	33,858	35,367	36,945
Commercial mortgage-backed securities	3,514	4,631	5,466	6,530	7,682
Total amortized cost	$36,961	$40,928	$43,144	$45,728	$48,468
Other investment securities (a)	$42,985	$38,371	$38,371	$38,401	$28,311
Total investment securities:					
Amortized cost	$884,601	$877,031	$858,532	$864,433	$709,746
Carrying value	$871,837	$874,486	$859,455	$868,830	$713,659

(a) As of January 1, 2018, Peoples adopted ASU 2016-01, resulting in the reclassification of equity investment securities from available-for-sale investment securities to other investment securities. At December 31, 2018, $277,000 of equity investment securities were included in other investment securities compared to $7.8 million of equity investment securities included in available-for-sale investment securities at December 31, 2017.

At December 31, 2018, Peoples' investment securities were approximately 21.8% of total assets, compared to 24.4% at December 31, 2017. During 2018, Peoples acquired, in the ASB acquisition, investment securities totaling approximately $18.8 million and subsequently sold approximately $14.6 million of acquired available-for-sale investment securities. Proceeds from security sales were used to reduce overnight borrowing at FHLB.

Investment securities increased at December 31, 2017 from December 31, 2016 due to purchases of residential mortgage-backed securities that were partially offset by principal paydowns during that year.

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

Peoples designates certain securities as "held-to-maturity" at the time of their purchase if management determines Peoples would have the intent and ability to hold certain purchased securities until maturity. The unrealized gain or loss related to held-to-maturity investment securities does not directly impact total stockholders' equity, in contrast to the impact from the available-for-sale investment securities portfolio.

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

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

(Dollars in thousands)	2018	2017	2016	2015	2014
Fair Value	$711	$1,924	$2,991	$4,201	$14,058
Amortized cost	781	2,109	3,206	4,331	13,604
Net unrealized (loss) gain	$(70)	$(185)	$(215)	$(130)	$454

Management continues to reinvest the principal runoff from the non-agency securities in U.S. agency investments, which accounted for the continued decline in these securities. At December 31, 2018, Peoples' non-agency portfolio consisted entirely of first lien residential mortgages, with nearly all of the underlying loans in these securities originated prior to 2004 and possessing fixed interest rates. Management continues to monitor the non-agency portfolio closely for leading indicators of increasing stress and will continue to be proactive in taking actions to mitigate such risk when necessary.

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

Loans

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

(Dollars in thousands)	2018	2017	2016	2015	2014
Originated loans:					
Commercial real estate, construction	$124,013	$107,118	$84,626	$63,785	$37,901
Commercial real estate, other	632,200	595,447	531,557	471,184	434,660
Commercial real estate	756,213	702,565	616,183	534,969	472,561
Commercial and industrial	530,207	438,051	378,131	288,130	249,975
Residential real estate	296,860	304,523	307,490	288,783	254,169
Home equity lines of credit	93,326	88,902	85,617	74,176	62,463
Consumer, indirect	407,167	340,390	252,024	165,320	112,563
Consumer, direct	71,674	67,010	67,579	61,813	57,350
Consumer	478,841	407,400	319,603	227,133	169,913
Deposit account overdrafts	583	849	1,080	1,448	2,933
Total originated loans	$2,156,030	$1,942,290	$1,708,104	$1,414,639	$1,212,014
Acquired loans:					
Commercial real estate, construction	$12,404	$8,319	$10,100	$12,114	$1,051
Commercial real estate, other	184,711	165,120	204,466	265,092	121,475
Commercial real estate	197,115	173,439	214,566	277,206	122,526
Commercial and industrial	35,537	34,493	44,208	63,589	30,056
Residential real estate	296,937	184,864	228,435	276,772	225,274
Home equity lines of credit	40,653	20,575	25,875	32,253	18,232
Consumer, indirect	136	329	808	1,776	2,445
Consumer, direct	2,370	1,147	2,940	6,205	10,351
Consumer	2,506	1,476	3,748	7,981	12,796
Total acquired loans (a)	$572,748	$414,847	$516,832	$657,801	$408,884
Total loans	$2,728,778	$2,357,137	$2,224,936	$2,072,440	$1,620,898

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(Dollars in thousands)	2018	2017	2016	2015	2014
Average total loans	$2,610,970	$2,293,980	$2,133,175	$1,952,241	$1,364,808
Average allowance for loan losses	(19,359)	(18,713)	(17,564)	(19,174)	(17,362)
Average loans, net of average allowance for loan losses	$2,591,611	$2,275,267	$2,115,611	$1,933,067	$1,347,446
Percent of loans to total loans:					
Commercial real estate, construction	5.1%	4.9%	4.3%	3.7%	2.4%
Commercial real estate, other	29.9%	32.3%	33.0%	35.5%	34.2%
Commercial real estate	35.0%	37.2%	37.3%	39.2%	36.6%
Commercial and industrial	20.7%	20.0%	19.0%	17.0%	17.3%
Residential real estate	21.8%	20.8%	24.1%	27.3%	29.6%
Home equity lines of credit	4.9%	4.6%	5.0%	5.1%	5.0%
Consumer, indirect	14.9%	14.5%	11.4%	8.0%	7.1%
Consumer, direct	2.7%	2.9%	3.2%	3.3%	4.2%
Consumer	17.6%	17.4%	14.6%	11.3%	11.3%
Deposit account overdrafts (b)	NM	NM	NM	0.1%	0.2%
Total percentage	100.0%	100.0%	100.0%	100.0%	100.0%
Residential real estate loans being serviced for others	$461,256	$412,965	$398,134	$390,398	$352,779

(a) Includes all loans acquired, and related loan discount recorded as part of acquisition accounting, in 2014 and thereafter. Loans that were acquired and subsequently re-underwritten are reported as originated upon execution of such credit actions (for example, renewals and increases in lines of credit).

(b) NM = not meaningful.

As of December 31, 2018, total loans grew 16%, or $371.6 million, compared to December 31, 2017. Total originated loans (excluding acquired loans) grew 11%, or $213.7 million, during 2018. Originated loan growth was led by an increase in commercial and industrial loans of $92.2 million, or 21%, and indirect consumer lending growth of $66.8 million, or 20%. Total acquired loans grew $157.9 million during 2018, which included $208.9 million related to the ASB acquisition as of December 31, 2018, partially offset by the continued decline of the loan balances acquired in previous acquisitions. Balances in loan accounts acquired from ASB as of December 31, 2018 included $116.5 million in residential real estate loans, $49.6 million in commercial real estate loans, $24.5 million in home equity lines of credit, $9.5 million in commercial and industrial loans, $7.0 million in construction loans, and $1.8 million in consumer loans.

During 2017, total loans grew 6%, or $132.2 million. The increase was primarily the result of commercial loan growth of $95.5 million, or 8%, which includes commercial real estate and commercial and industrial loan balances. Additionally, continued emphasis on growing indirect consumer lending led to growth of $87.9 million, or 35%, compared to December 31, 2016, and was partially offset by reductions in residential real estate loans.

During 2016, total loans grew 7%, or $152.5 million, with growth of 8% in commercial loan balances and 7% in consumer loan balances. Continuing the trend of 2015, indirect consumer lending experienced the largest growth across all loan categories for the year, increasing by $85.7 million, or 51%. Commercial and industrial loan growth was $70.6 million, or 20%, for the year.

During 2015, total loans grew 28%, or $451.5 million. Total originated loans (excluding acquired loans) grew 17%, or $202.6 million, due to increases in all categories except deposit account overdrafts. The increase in total acquired loans in 2015 was due to the NB&T acquisition.

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The following table details the maturities of Peoples' commercial real estate and commercial and industrial loans at December 31, 2018:

(Dollars in thousands)	Due in One Year or Less	Due in One to Five Years	Due After Five Years	Total	% of Total
Commercial real estate, construction:					
Fixed	$3,440	$7,399	$9,185	$20,024	14.7 %
Variable	78,665	34,970	2,758	116,393	85.3 %
Total	82,105	42,369	11,943	136,417	100.0%
Commercial real estate, other:					
Fixed	24,074	109,793	107,138	241,005	29.5 %
Variable	378,370	159,599	37,937	575,906	70.5 %
Total	402,444	269,392	145,075	816,911	100.0%
Commercial and industrial:					
Fixed	7,557	60,375	32,422	100,354	17.7 %
Variable	401,665	40,472	23,253	465,390	82.3 %
Total	409,222	100,847	55,675	565,744	100.0%
Total commercial loans:					
Fixed	35,071	177,567	148,745	361,383	23.8 %
Variable	858,700	235,041	63,948	1,157,689	76.2 %
Total	$893,771	$412,608	$212,693	$1,519,072	100.0%

Loan Concentration

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

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

The following table provides information regarding the largest concentrations of commercial real estate loans within the loan portfolio at December 31, 2018:

(Dollars in thousands)	Outstanding Balance	Available Loan Commitments	Total Exposure	% of Total
Commercial real estate, construction:				
Apartment complexes	$ 40,818	$ 29,987	$70,805	32.9 %
Education services	8,655	19,895	$28,550	13.3 %
Office buildings	12,726	10,347	23,073	10.7 %
Assisted living facilities and nursing homes	11,756	10,481	22,237	10.3 %
Mixed commercial use facilities	17,059	3,753	20,812	9.7 %
Light industrial	8,509	—	8,509	4.0 %
Child care	4,348	1,722	6,070	2.8 %
Residential property	2,619	2,140	4,759	2.2 %
Other (a)	29,927	516	30,443	14.1 %
Commercial real estate, construction	$ 136,417	$ 78,841	$215,258	100.0