PEOPLES BANCORP INC
Form 10-K
February 26, 2015

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, 2014

OR

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

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

Ohio	31-0987416
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
138 Putnam Street, PO 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 LLC

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes oNo 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 oNo x

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

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

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

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

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

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

As of June 30, 2014, the aggregate market value of the registrant's Common Shares (the only common equity of the registrant) held by non-affiliates was $282,061,000 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: 14,893,459 common shares, without par value, at February 25, 2015.

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Document Incorporated by Reference:
Portions of Registrant's definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held April 23, 2015, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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

PART I

ITEM 1. BUSINESS

Corporate Overview

Peoples Bancorp Inc. is a financial holding company and was organized in 1980. Peoples operates principally through its wholly-owned subsidiary, Peoples Bank, National Association ("Peoples Bank"). As of the date of this Form 10-K, Peoples' other wholly-owned subsidiary was Peoples Investment Company. Peoples Bank's operating subsidiaries included Peoples Insurance Agency, LLC ("Peoples Insurance") and two asset management companies, PBNA, L.L.C. and Peoples Tax Credit Equity, L.L.C. Peoples Investment Company has one subsidiary, Peoples Capital Corporation.

Peoples Bank was first chartered in 1902 as an Ohio banking corporation under the name "The Peoples Banking and Trust Company" in Marietta, Ohio, and was later reorganized as a national banking association under its current name in 2000. Peoples Insurance was first chartered in 1994 as an Ohio corporation under the name "Northwest Territory Property and Casualty Insurance Agency, Inc." In late 1995, Peoples Insurance was awarded insurance agency powers in the State of Ohio, becoming the first insurance agency in Ohio to be affiliated with a financial institution. In 2009, Peoples Insurance was converted from an Ohio corporation to an Ohio limited liability company under its current name.

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

Business Overview

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

- various demand deposit accounts, savings accounts, money market accounts and certificates of deposit
- commercial, consumer and real estate mortgage loans (both commercial and residential) and lines of credit
- debit and automated teller machine ("ATM") cards
- 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
- custom-tailored fiduciary, employee benefit plans and asset management services

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

Peoples' business activities are currently limited to one reporting unit and reportable segment, which is community banking. For a discussion of Peoples' financial performance for the fiscal year ended December 31, 2014, 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 has included the opening of de novo banking and loan production offices located in or near Peoples' existing market area. Acquisitions have consisted of traditional banking offices, both individually and as part of entire institutions, insurance agencies and financial advisory books of business. The primary objectives of Peoples' expansion efforts include: (1) providing opportunities to integrate non-traditional products and services, such as insurance and investments, with the traditional banking products offered to its clients; (2) increasing market share in existing markets; (3) expanding Peoples' core financial service businesses of banking, insurance and wealth management; and (4) improving operating efficiency by redirecting resources to offices and markets with greater growth potential.

Recent Corporate Developments

On August 4, 2014, Peoples entered into an Agreement and Plan of Merger (the "NB&T Agreement") with NB&T Financial Group, Inc. (“NB&T”). The NB&T Agreement calls for NB&T to merge into Peoples and for NB&T's wholly-owned subsidiary, The National Bank and Trust Company, which operates 22 full-service branches in southwest Ohio, to merge into Peoples Bank. Under the terms of the NB&T Agreement, shareholders of NB&T will receive 0.9319 of Peoples' common shares and $7.75 in cash for each share of NB&T. The NB&T transaction is expected to close during the first quarter of 2015, pending adoption of the NB&T Agreement by the shareholders of both NB&T and Peoples, the satisfaction of various closing conditions, the accuracy of the representations and warranties of each party (subject to certain exceptions), the performance in all material respects by each party of its obligations under the NB&T Agreement and other conditions customary for transactions of this type. Additional information can be found in Note 17 of the Notes to the Consolidated Financial Statements.

Primary Market Area and Customers

Peoples considers its primary market area to consist of the counties where it has a physical presence and neighboring counties. Peoples currently has a physical presence in the counties of Athens, Coshocton, Cuyahoga, Fairfield, Franklin, Gallia, Guernsey, Jackson, Knox, Licking, Meigs, Morgan, Muskingum, Noble, Summit, Tuscarawas and Washington in Ohio; Cabell, Kanawha, Mason, Tyler, Wetzel and Wood in West Virginia; and Boyd, Greenup and Pike in Kentucky. This market area encompasses the Metropolitan Statistical Areas ("MSA") of Parkersburg-Vienna, WV, Charleston-Huntington-Ashland, WV-KY-OH, and portions of the Cleveland-Akron-Canton, OH and Columbus-Marion-Zanesville, OH MSAs. This primary market area largely consists of rural or small urban areas with a diverse group of industries and employers. Principal industries in this area include health care, education and other social services; plastics, petrochemical and other manufacturing; oil, gas and coal production; and tourism and other service-related industries. In addition, this market area overlaps both the Marcellus and Utica shale formations, which are being explored for oil and natural gas. As a result, economic activity within Peoples' primary market area has been increasing steadily which is causing lower unemployment in Ohio and West Virginia, as well as creating growth opportunities for Peoples. Because of this diversity of industries and employers, Peoples is not dependent upon any single industry segment for its business opportunities.

Lending Activities

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

Peoples Bank's loans consist of credits to borrowers spread over a broad range of industrial classifications. At December 31, 2014, Peoples Bank had no concentration of loans to borrowers engaged in the same or similar industries that exceeded 10% of total loans nor did it have any loans outstanding to non-U.S. entities.

Commercial Lending

Commercial real estate and commercial and industrial loans ("commercial loans"), including loans secured by commercial real estate, represent the largest portion of Peoples Bank's total loan portfolio, comprising approximately 51.6% of total loans at December 31, 2014. Commercial lending inherently involves a significant degree of risk of loss since commercial loan relationships generally involve larger loan balances than other loan classes. Additionally, repayment of commercial loans normally depends on adequate cash flows of a business, which can be negatively impacted by adverse changes in the general economy or in a specific industry.

Commercial Lending Practices. Loan terms include amortization schedules and interest rates commensurate with the purpose of each loan, the identified source of repayment and the risk involved. The majority of Peoples Bank's commercial loans carry variable interest rates equal to an underlying index rate plus a margin. Peoples Bank occasionally originates commercial loans with fixed interest rates for periods generally ranging from 3 to 10 years. The primary analytical technique used in determining whether to grant a commercial loan is the review of a schedule of cash flows to evaluate whether the borrower's anticipated future cash flows will be adequate to service both interest and principal due.

On an annual basis, and at other times as warranted, Peoples Bank evaluates all loan relationships whose aggregate debt to Peoples Bank is greater than $1,000,000 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 debt outstanding. Upon detection of the reduced ability of a borrower to meet cash flow obligations, the loan is reviewed for possible downgrade or placement on nonaccrual status. Loan relationships whose aggregate debt to Peoples Bank is equal to or less than $1,000,000 are reviewed on an event driven basis. Triggers for review include knowledge of adverse events affecting the business, receipt of financial statements indicating deteriorating credit quality and other events.

Construction Loans

Peoples Bank originates various construction loans to provide temporary financing during the construction phase for commercial and residential properties. At December 31, 2014, outstanding construction loans comprised 2.4% of Peoples' loan portfolio. Construction financing is generally considered to involve the highest risk since Peoples Bank is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction and the estimated cost (including interest) of construction. If the estimated construction cost proves to be inaccurate, Peoples Bank may be required to advance funds beyond the amount originally committed to enable completion of the project. If the estimate of value proves inaccurate, Peoples Bank may be confronted, at or prior to the maturity of the loan, with a project having a value insufficient to ensure full repayment, should the borrower default. In the event a default on a construction loan occurs and foreclosure follows, Peoples Bank must take control of the project and attempt to either arrange for completion of construction or dispose of the unfinished project. In certain cases, such as real estate development projects, repayment of construction loans occurs as a result of subsequent sales of the developed real estate. Additional risk exists as the developer may lack funds to pay the loan if the property is not sold upon completion.

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

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

Real Estate Loans

While commercial loans comprise the largest portion of Peoples Bank's loan portfolio, generating residential real estate loans remains a major focus of Peoples Bank's lending efforts, whether the loans are ultimately sold into the secondary market or retained in Peoples Bank's loan portfolio. At December 31, 2014, portfolio residential real estate loans comprised 29.6% of total loans. Peoples also had $4.4 million of residential real estate loans held for sale and was servicing $352.8 million of loans, consisting primarily of one-to-four family residential mortgages, previously sold in the secondary market.

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

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

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 also obtains insurance, with

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Peoples Bank named as the mortgagee and loss payee. Licensed appraisals are required for all real estate loans, and are completed by an independent third party.

Home Equity Lines of Credit

Peoples Bank originates home equity lines of credit that provide consumers with greater flexibility in financing personal expenditures. At December 31, 2014, outstanding home equity lines of credit comprised 5.0% of Peoples Bank's total loans. Peoples Bank currently offers home equity lines of credit with a prime-based variable rate for the entire 10-year term of the loan. 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, 2014, total outstanding principal balances and available credit amounts of these convertible rate home equity lines of credit were $19.2 million and $21.9 million, respectively, and the weighted-average remaining maturity was 6.8 years. The average original loan amount for these convertible rate home equity lines of credit was approximately $33,000 at December 31, 2014.

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

Consumer Lending

Peoples Bank's consumer lending activities primarily involve loans secured by automobiles, boats, recreational vehicles and other personal property. At December 31, 2014, consumer loans comprised 11.3% of Peoples Bank's loan portfolio.

Consumer Lending Practices. Consumer loans generally involve more risk as to collectability than real estate mortgage loans because of the type and nature of the collateral and, 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 standards, and to adhere strictly to all laws and regulations governing consumer lending. A qualified compliance officer is responsible for monitoring regulatory compliance performance and for advising and updating loan personnel. Peoples Bank makes available optional credit life insurance, and accident and health insurance to all qualified borrowers, thus reducing risk of loss when a borrower's income is terminated or interrupted due to an accident, disability or death.

Overdraft Privilege

Peoples Bank grants Overdraft Privilege to qualified customers. Overdraft Privilege is a service that provides overdraft protection to retail deposit customers by establishing an Overdraft Privilege amount. After a 30-day waiting period to verify account activity, each new checking account usually receives an Overdraft Privilege amount of either $400 or $700, based on the type of account and other parameters. Once established, customers are permitted to overdraw their checking account at Peoples Bank's discretion, up to their Overdraft Privilege limit, with each item over $5 being charged Peoples Bank's regular overdraft fee, with a maximum of seven charges per day. 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, Peoples Bank maintains an allowance for losses from checking accounts with overdrafts deemed uncollectable. This allowance, along with the

related provision and net charge-offs, is included in Peoples Bank's allowance for loan losses.
Investment Activities
At December 31, 2014, investment securities comprised 27.8% of Peoples' total assets. The majority of Peoples' investment activities are conducted through Peoples Bank, although Peoples and its non-banking subsidiaries 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

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include obligations of the U.S. Treasury, agencies and corporations of the U.S. government, including mortgage-backed securities, bank eligible obligations of any state or political subdivision in the U.S. and bank eligible corporate obligations, including private-label mortgage-backed securities. The investments owned by Peoples are comprised of common stocks issued by various unrelated banking holding companies. The investments owned by Peoples' non-banking subsidiaries currently consist of tax credit funds, corporate obligations, municipal obligations and privately issued mortgage-backed securities.

Peoples' investment activities are governed internally by a written, Board of Directors approved policy, which is administered by Peoples' Asset-Liability Management Committee ("ALCO"). The primary purpose of Peoples' investment portfolio is to: (1) employ excess funds not needed for 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 the investment's risk and corporate 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' overall interest rate sensitivity. The ALCO also has much broader responsibilities, which are discussed in the "Interest Rate Sensitivity and Liquidity" section of "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION" of this Form 10-K.

Funding Sources

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

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

Deposits

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

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

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

Additional information regarding the amounts and composition of Peoples Bank's deposits can be found in the 'Deposits" section of "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION" of this Form 10-K and in Note 7 of the Notes to the Consolidated Financial Statements.

Borrowed Funds

Peoples obtains funds through a variety of short-term and long-term borrowings, which typically include advances from the Federal Home Loan Bank of Cincinnati ("FHLB"), Federal Funds purchased, advances from the Federal

Reserve Discount Window, and repurchase agreements. Occasionally, Peoples obtains funds from unrelated financial institutions in the form of term loans or revolving lines of credit. Short-term borrowings are used generally to manage Peoples' daily liquidity needs since they typically may be repaid, in whole or part, at any time without a penalty. Long-term borrowings provide cost-effective options for funding asset growth and satisfying capital needs, due to the variety of pricing and maturity options available.

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

Competition

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

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

Peoples historically 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 and northeastern Ohio. These larger areas typically contain entrenched service providers with an existing customer base much larger than Peoples' initial entry 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 from such markets.

Employees

At December 31, 2014, Peoples had 699 full-time equivalent employees.

Intellectual Property and Proprietary Rights

Peoples has registered the service marks "Peoples Bank (with logo)", "Peoples Bancorp", "Peoples Bank", Peoples in motion logo consisting of three arched ribbons, "Working Together. Building Success." and "peoplesbancorp.com" with the U.S. Patent and Trademark Office. These service marks currently have expiration dates ranging from 2016 to 2021. Peoples may renew the registrations of service marks with the U.S. Patent and Trademark Office generally for additional 10-year periods indefinitely, provided it continues to use the service marks and files appropriate maintenance and renewal documentation with the U.S. Patent and Trademark Office at the times required by the federal trademark laws and regulations.

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

Supervision and Regulation

Peoples and its subsidiaries are subject to extensive supervision and regulation by federal and state agencies. The regulation of financial holding companies and their subsidiaries is intended primarily for the protection of consumers, depositors, borrowers, the federal Deposit Insurance Fund and the banking system as a whole, and not for the protection of shareholders. Applicable laws and regulations restrict permissible activities and investments, and require actions to protect loan, deposit, brokerage, fiduciary and other customers, as well as the federal Deposit Insurance Fund. They also may restrict Peoples' ability to repurchase its common shares or to receive dividends from Peoples Bank, and impose capital adequacy an

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d 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 also 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 Office of the Comptroller of the Currency (the "OCC") and secondarily by the Federal Reserve Board and the Federal Deposit Insurance Corporation (the “FDIC”). OCC regulations govern permissible activities, capital requirements, dividend limitations, investments, loans and other matters. The OCC has the authority to impose sanctions on Peoples Bank and, under certain circumstances, may place Peoples Bank into receivership.

Peoples Bank is subject to certain restrictions imposed by the Federal Reserve Act and Federal Reserve Board regulations regarding such matters as the maintenance of reserves against deposits, extensions of credit to the financial holding company or any of its subsidiaries, investments in the stock or other securities of the financial holding company or its subsidiaries, and the taking of such stock or securities as collateral for loans to any borrower.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), signed into law in 2010, created the Consumer Financial Protection Bureau (the "CFPB"), which regulates consumer financial products and services, and certain financial services providers. The CFPB is authorized to prevent unfair, deceptive or abusive acts or practices, and ensures consistent enforcement of laws so that consumers have access to fair, transparent and competitive markets for consumer financial products and services. The CFPB has rulemaking and interpretive authority.

Non-Banking Subsidiaries

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

Other Regulatory Agencies

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

Federal Home Loan Bank. Peoples Bank is a member of the FHLB, which provides credit to its members in the form of advances. As a member of the FHLB, Peoples Bank must maintain an investment in the capital stock of the FHLB in a specified amount. Upon the origination or renewal of an advance, the FHLB is required by law to obtain and maintain a security interest in certain types of collateral. The FHLB is required to establish standards of community investment or service that its members must maintain for continued access to long-term advances from the FHLB. The standards take into account a member's performance under the Community Reinvestment Act of 1977 (the "CRA")

and its record of lending to first-time homebuyers.
Federal Deposit Insurance Corporation. 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

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the Deposit Insurance Fund of the FDIC and subject to deposit insurance assessments to maintain the Deposit Insurance Fund.

Insurance premiums for each insured depository institution are determined based upon the institution's capital level and supervisory rating provided to the FDIC by the institution's primary federal regulator and other information the FDIC determines to be relevant to the risk posed to the Deposit Insurance Fund by the institution. The assessment rate determined by considering such information is then applied to the amount of the institution's average assets minus average tangible equity to determine the institution's insurance premium. An increase in the assessment rate could have a material adverse effect on the earnings of the affected institution, depending on the amount of the increase.

The FDIC may terminate insurance coverage upon a finding that an insured depository institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition enacted or imposed by the institution's regulatory agency.

Dodd-Frank Act

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

- the CFPB has been established and empowered to exercise broad regulatory, supervisory and enforcement authority with respect to both new and existing consumer financial protection laws;
- the Dodd-Frank Act restricts the preemption of state law by federal law and disallows subsidiaries and affiliates of national banks from availing themselves of such preemption;
- the deposit insurance assessment base for federal deposit insurance has been expanded from domestic deposits to average assets minus average tangible equity;
- the prohibition on the payment of interest on commercial demand deposits has been repealed, effective July 21, 2011, thereby permitting depository institutions to pay interest on business transaction and other accounts;
- the standard maximum amount of deposit insurance per customer has been permanently increased to $250,000;
- financial holding companies, such as Peoples, are required to be well capitalized and well managed and must continue to be both well capitalized and well managed in order to acquire banks located outside their home states;
- new corporate governance requirements, which are generally applicable to most larger public companies, now require new compensation practices, including, but not limited to, providing shareholders the opportunity to cast a non-binding vote on executive compensation, requiring compensation committees to consider the independence of compensation advisors and meeting new executive compensation disclosure requirements;
- the Dodd-Frank Act amended the Electronic Fund Transfer Act to, among other things, give the Federal Reserve Board the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion, and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer (although the cap is not applicable to Peoples Bank, it may have an adverse effect on Peoples Bank as the debit cards issued by Peoples Bank and other smaller banks, which have higher interchange fees, may become less competitive);
- new capital regulations have been adopted as discussed below in the section captioned "Capital Adequacy and Prompt Corrective Action";
- "ability to repay" regulations took effect in 2014 and generally require creditors to make a reasonable, good faith determination (considering at least 8 specified underwriting factors) of a consumer's ability to repay any consumer credit transaction secured by a dwelling (excluding an open-end credit plan, timeshare plan, reverse mortgage or temporary loan) and provides a presumption that the creditor making a "qualified mortgage" satisfied the ability-to-repay requirements; and
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the authority of the Federal Reserve Board to examine financial holding companies and their non-bank subsidiaries was expanded.

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

Bank Holding Company Act

In general, the BHC Act limits the business of bank holding companies to banking, managing or controlling banks, and other activities that the Federal Reserve Board has determined to be so closely related to banking as to be a proper incident thereto. As a result of the Gramm-Leach-Bliley Act of 1999 - also known as the Financial Services Modernization Act of 1999 - which amended the BHC Act, bank holding companies that are financial holding companies may engage in any activity, or acquire and retain the shares of a company engaged in any activity, that is either (1) financial in nature or incidental to such financial activity (as determined by the Federal Reserve Board in consultation with the OCC) 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 (as solely determined by the Federal Reserve Board). Activities that are financial in nature include securities underwriting and dealing, insurance underwriting and making merchant banking investments. In 2002, Peoples elected, and received approval from the Federal Reserve Board, to become a financial holding company.

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

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

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

Transactions with Affiliates, Directors, Executive Officers and Shareholders

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

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

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

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

Capital Adequacy and Prompt Corrective Action

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

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

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

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

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

capital will phase in from January 1, 2015 through January 1, 2019.
The new rules include (a) a new common equity tier 1 capital ratio of at least 4.5%, (b) a tier 1 capital ratio of at least 6.0%, rather than the former 4.0%, (c) a minimum total capital ratio that remains at 8.0%, and (d) a minimum leverage ratio of 4.0%.

Common equity for the common equity tier 1 capital ratio includes common stock (plus related surplus) and retained earnings, plus limited amounts of minority interests in the form of common stock, less the majority of certain regulatory deductions.
Tier 1 capital includes common equity as defined for the common equity tier 1 capital ratio, plus certain non-cumulative preferred stock and related surplus, cumulative preferred stock and related surplus and trust preferred securities that have been grandfathered (but which are not permitted going forward), and limited amounts of minority interests in the form of additional tier 1 capital instruments, less certain deductions.
Tier 2 capital, which can be included in the total capital ratio, includes certain capital instruments (such as subordinated debt) and limited amounts of the allowance for loan and lease losses, subject to new eligibility criteria, less applicable deductions.
The deductions from common equity tier 1 capital include goodwill and other intangibles, certain deferred tax assets, mortgage-servicing assets above certain levels, gains on sale in connection with a securitization, investments in a banking organization’s own capital instruments and investments in the capital of unconsolidated financial institutions (above certain levels). The deductions phase in from 2015 through 2019.
Under the guidelines, capital is compared to the relative risk related to the balance sheet. To derive the risk included in the balance sheet, one of several risk weights is applied to different balance sheet and off-balance sheet assets, primarily based on the relative credit risk of the counterparty. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Some of the risk weightings have been changed effective January 1, 2015.
The new rules also place restrictions on the payment of capital distributions, including dividends, and certain discretionary bonus payments to executive officers if the company does not hold a capital conservation buffer of greater than 2.5 percent composed of common equity tier 1 capital above its minimum risk-based capital requirements, or if its eligible retained income is negative in that quarter and its capital conservation buffer ratio was less than 2.5 percent at the beginning of the quarter. The capital conservation buffer phases in starting on January 1, 2016, at .625%.
The implementation of the portion of Basel III that has been phased in as of the date of this Form 10-K did not have a material impact on Peoples’ or Peoples Bank’s capital ratios. Further, the implementation of Basel III, once fully phased in, is not expected to have a material impact on Peoples’ or Peoples Bank’s capital ratios.
In order to be "well capitalized", a bank must have a common equity tier 1 capital ratio of at least 6.5%, a total risk-based capital of at least 10.0%, a tier 1 risk-based capital ratio of at least 8.0% and a leverage ratio of at least 5.0%, and the bank must not be subject to any written agreement, order, capital directive or prompt corrective action directive to meet and maintain a specific capital level for any capital measures. Peoples' management believes that Peoples and Peoples Bank meet the ratio requirements to be deemed "well capitalized" according to the guidelines described above. See Note 15 of the Notes to the Consolidated Financial Statements.

Community Reinvestment Act

The CRA requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit or other financial assistance to low and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. As of December 31, 2014, the OCC's most recent performance evaluation of Peoples Bank resulted in an overall rating of "Satisfactory".

Dividend Restrictions

Current federal banking regulations impose restrictions on Peoples Bank's ability to pay dividends to Peoples. These restrictions include a limit on the amount of dividends that may be paid in a given year without prior approval of the OCC 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 OCC. Peoples Bank's regulators may prohibit the payment of dividends at any time if the regulators determine the dividends represent unsafe and/or unsound banking

practices, or reduce Peoples Bank's total capital below adequate levels. For further discussion regarding regulatory restrictions on dividends, refer to Note 15 of the Notes to the Consolidated Financial Statements.
Peoples' ability to pay dividends to its shareholders may also be restricted. Current Federal Reserve Board policy requires a financial holding company to act as a source of financial strength to each of its banking subsidiaries. Under this policy, the Federal Reserve Board may require Peoples to commit resources or contribute additional capital to Peoples Bank, which could restrict the amount of cash available for dividends.

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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 OCC or other regulatory approval. Even when the legal ability exists, Peoples or Peoples Bank may decide to limit the payment of dividends in order to retain earnings for corporate use.

Customer Privacy and Other Consumer Protections

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

USA Patriot Act

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

Monetary Policy

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

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

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 instrument in order to benefit from short-term price movements or to realize short-term profits. The Volcker Rule exempts specified U.S. government, agency and/or municipal obligations, and it excepts trading conducted in certain capacities, including as a broker or other agent, through a deferred compensation or pension plan, as a fiduciary on behalf of customers, to satisfy a debt previously contracted, repurchase and securities lending agreements, and risk-mitigating hedging activities.

The Volcker Rule also prohibits a banking entity from having an ownership interest in, or certain relationships with, a hedge fund or private equity fund, with a number of exceptions. Peoples Bank does not engage in any of the trading activities or does not have an amount recorded on its financial statements for any ownership interest in or relationship with any of the types of funds regulated by the Volcker Rule.

Executive and Incentive Compensation

In June 2010, the Federal Reserve Board, the OCC and the FDIC issued joint interagency guidance on incentive compensation policies (the "Joint Guidance") intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking.

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This principles-based guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should: (1) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks; (2) be compatible with effective internal controls and risk management; and (3) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.
Pursuant to the Joint Guidance, the Federal Reserve Board will review, as part of a regular, risk-focused examination process, the incentive compensation arrangements of financial institutions such as Peoples and Peoples Bank. Such reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination and deficiencies will be incorporated into the institution's supervisory ratings, which can affect the institution's ability to complete acquisitions and take other actions. Enforcement actions may be taken against an institution if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness, and prompt and effective measures are not being taken to correct the deficiencies.
On February 7, 2011, federal banking regulatory agencies jointly issued proposed rules on incentive-based compensation arrangements under applicable provisions of the Dodd-Frank Act (the "Proposed Joint Rules"). The Proposed Joint Rules generally apply to financial institutions with $1.0 billion or more in assets that maintain incentive-based compensation arrangements for certain covered employees. The Proposed Joint Rules: (1) prohibit covered financial institutions from maintaining incentive-based compensation arrangements that encourage covered persons to expose the institution to inappropriate risk by providing the covered person with "excessive" compensation; (2) prohibit covered financial institutions from establishing or maintaining incentive-based compensation arrangements for covered persons that encourage inappropriate risks that could lead to a material financial loss; (3) require covered financial institutions to maintain policies and procedures appropriate to their size, complexity and use of incentive-based compensation to help ensure compliance with the Proposed Joint Rules; and (4) require covered financial institutions to provide enhanced disclosure to regulators regarding their incentive-based compensation arrangements for covered persons within 90 days following the end of the fiscal year.
Pursuant to rules adopted by the stock exchanges and approved by the SEC in January 2013 under the Dodd-Frank Act, public company compensation committee members must meet heightened independence requirements and consider the independence of compensation consultants, legal counsel and other advisors to the compensation committee. A compensation committee must have the authority to hire advisors and to have the public company fund reasonable compensation of such advisors.
Public companies will be required, once stock exchanges impose additional listing requirements under the Dodd-Frank Act, to implement "clawback" procedures for incentive compensation payments and to disclose the details of the procedures which allow recovery of incentive compensation that was paid on the basis of erroneous financial information necessitating a restatement due to material noncompliance with financial reporting requirements. This clawback policy is intended to apply to compensation paid within a three-year look-back window of the restatement and would cover all executives who received incentive awards.
Effect of Environmental Regulation
Compliance with federal, state and local provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had a material effect upon the capital expenditures, earnings or competitive position of Peoples and its subsidiaries. Peoples believes the nature of the operations of its subsidiaries has little, if any, environmental impact. Peoples, therefore, anticipates no material capital expenditures for environmental control facilities for its current fiscal year or for the foreseeable future.
Peoples believes its primary exposure to environmental risk is through the lending activities of Peoples Bank. In cases where management believes environmental risk potentially exists, Peoples Bank mitigates its environmental risk exposures by requiring environmental site assessments at the time of loan origination to confirm collateral quality as

to commercial real estate parcels posing higher than normal potential for environmental impact, as determined by reference to present and past uses of the subject property and adjacent sites. In addition, environmental assessments are typically required prior to any foreclosure activity involving non-residential real estate collateral.

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Future Legislation

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

Website Access to Peoples' SEC Filings

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

ITEM 1A. RISK FACTORS

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

- Conditions in the financial markets, the real estate markets and economic conditions generally may adversely affect Peoples' business.

Peoples' financial performance generally is highly dependent upon the business environment and economic conditions in the markets where it operates and, to a lesser extent, the U.S as a whole. The local economies of the majority of Peoples' market area historically have been less robust than the economy of the nation as a whole and typically are not subject to the same fluctuations as the national economy. More recently, oil and gas exploration has created more activity in some of Peoples' market areas. A significant decline in this activity could result in more adverse conditions than what may be experienced at the national level. In general, a favorable business environment and economic conditions are generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity, or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment; natural disasters; or a combination of these or other factors. Overall, some economic indicators show signs of improvement, however, many businesses, states and municipalities are still in serious difficulty, due to reduced cash flow and weakened financial condition. Further, there can be no assurance this improvement will continue or be spread evenly throughout the markets served by Peoples. A lack of a return to favorable economic conditions in a reasonable time frame could have an adverse affect on Peoples' asset quality, deposit levels and loan demand and, therefore, Peoples' financial condition and results of operations. Because a significant amount of Peoples' loans are secured by either commercial or residential real estate, decreases in real estate values could adversely affect the value of property used as collateral and Peoples' ability to sell the collateral upon foreclosure.

- Completion of the merger contemplated by the NB&T Agreement is subject to many conditions and if these conditions are not satisfied or waived, the merger between Peoples and NB&T will not be completed.

The respective obligations of Peoples and NB&T to complete the merger contemplated by the NB&T Agreement are subject to the fulfillment or written waiver of many conditions, including approval by the requisite vote of the Peoples and the NB&T shareholders, respectively, 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 Peoples - NB&T merger may not be fulfilled and, accordingly, the merger may not be completed. In addition, if the merger is not completed by March 31, 2015, either Peoples or NB&T may have the opportunity to choose not to proceed with the merger, and Peoples and NB&T can mutually decide to terminate the NB&T Agreement at any time, before or after the approvals by the requisite vote of the Peoples and the NB&T shareholders, respectively.

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

Peoples actively evaluates opportunities to acquire other businesses. However, Peoples may not have the opportunity to make suitable acquisitions on favorable terms in the future, which could negatively impact the growth of its business. Peoples expects that other banking and financial companies, many of which have significantly greater resources, will compete to acquire compatible businesses. This competition could increase prices for acquisitions that Peoples would likely pursue, and its competitors may have greater resources to pay such acquisition prices than Peoples does. Also, acquisitions of regulated businesses such as banks are subject to various regulatory approvals. Peoples has entered into an amended loan agreement that requires Peoples to obtain the lender's consent to acquire another financial institution in certain circumstances. If Peoples fails to receive the appropriate approvals, it will not be able to consummate an acquisition that it believes is in its best interest.

During 2014, Peoples completed three bank acquisitions which required integration of the acquired business into Peoples' business platform. Peoples may not be able to integrate new acquisitions without encountering difficulties, including the loss of key employees and customers, the disruption of ongoing businesses or possible inconsistencies in standards, controls, procedures and policies. Peoples may not be able to fully achieve the strategic objectives and operating efficiencies anticipated in the acquisitions it completes. Future acquisitions may also result in other unforeseen difficulties, including integration of the combined companies. Further, benefits such as enhanced earnings anticipated from the acquisitions may not develop and future results of the combined companies may be materially lower from those estimated.

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

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

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

In July 2013, Peoples' primary federal regulator, the Federal Reserve, published final rules (the "Basel III Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards, as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to financial holding companies and other bank holding companies as well as depository institutions, including Peoples and Peoples Bank, compared to the previous U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. The Basel III Capital Rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach, which was derived from Basel I capital accords of the Basel Committee, with a more risk-sensitive approach based, in part, on the

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standardized approach in the Basel Committee's 2004 "Basel II" capital accords. The Basel III Capital Rules also implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies' rules. The Basel III Capital Rules became effective for Peoples and Peoples Bank on January 1, 2015 (subject to a phase-in period). Although the implementation of Basel III, once fully phased in, is not expected to have a material impact on Peoples' or Peoples Bank's capital ratios, any future changes to capital requirements would have such an effect.
Further information about government regulation of Peoples' business can be found under the caption "Supervision and Regulation" in "ITEM 1. BUSINESS" of this Form 10-K.

- The Dodd-Frank Act and its progeny may adversely impact Peoples' results of operations, financial condition or liquidity.

The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the U.S. There are a number of reform provisions that are likely to significantly impact the ways in which banks, as well as financial holding companies and bank holding companies, including Peoples and Peoples Bank, do business. Many provisions of the Dodd-Frank Act still have not been implemented and will require interpretation and rule making by federal regulators, including banking regulators and the SEC. In addition, the CFPB has only recently begun to implement its authority, and there is significant uncertainty as to how its regulations and other authority will affect Peoples' business. Peoples is closely monitoring all relevant sections of the Dodd-Frank Act to ensure continued compliance with laws and regulations. While the full effect of the Dodd-Frank Act on Peoples and Peoples Bank cannot currently be determined, the law and its implemented rules and regulations have already resulted in increased compliance costs and may result in increased fees paid to regulators, along with restrictions on Peoples' and Peoples Bank's operations, all of which may have a material adverse affect on Peoples' operating results and financial condition. A detailed discussion regarding the Dodd-Frank Act can be found under the caption "Supervision and Regulation" in "ITEM 1. BUSINESS" of this Form 10-K.

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

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

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

The amended loan agreement governing Peoples' unsecured term note 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 included in the amended loan agreement 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.

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

Peoples Bank has limited ability to control the amount of premiums it is required to pay for FDIC insurance. The Deposit Insurance Fund maintained by the FDIC to resolve bank failures is funded by fees assessed on insured depository institutions, such as Peoples Bank. The costs of resolving bank failures have increased during the last four years and decreased the Deposit Insurance Fund balance. The FDIC collected a special assessment in 2009 to replenish the Deposit Insurance Fund and also required a prepayment of an estimated amount of future deposit insurance premiums. If the costs of future bank failures 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.

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

Peoples' earnings and cash flows are dependent to a significant degree on net interest income, which is the amount by which interest income exceeds interest expense. Interest rates are highly sensitive to many factors that are beyond Peoples' control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, could influence not only the interest Peoples receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (1) Peoples' ability to originate loans and obtain deposits, (2) the fair value of Peoples' financial assets and liabilities, and (3) the average duration of Peoples' mortgage-backed securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, Peoples' net interest income and, therefore, earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

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

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

There are certain risks inherent in making loans. These risks include interest rate changes over the time period in which loans may be repaid, risks resulting from changes in the economy, risks inherent in dealing with borrowers and, in the case of loans secured by collateral, risks resulting from uncertainties about the future value of the collateral. Commercial and commercial real estate loans comprise a significant portion of Peoples' loan portfolio. Commercial loans generally are viewed as having a higher credit risk than residential real estate or consumer loans because they usually involve larger loan balances to a single borrower and are more susceptible to a risk of default during an economic downturn. Since Peoples' loan portfolio contains a significant number of commercial loans, the deterioration of one or a few of these loans could cause a significant increase in nonperforming loans, and ultimately could have a material adverse effect on Peoples' earnings and financial condition.

- Peoples' 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 loan portfolio. The determination of the allowance for loan losses requires management to make various assumptions and judgments about the collectability of Peoples' loan portfolio, including the creditworthiness of its borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. Additional information regarding Peoples' allowance for loan losses methodology and the sensitivity of the estimates can be found in the discussion of Peoples' "Critical Accounting Policies" included in "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS" of this Form 10-K.
Peoples' estimation of future loan losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond Peoples' control, and these losses may exceed current estimates. Peoples cannot be assured of the amount or timing of losses, nor whether the loan loss allowance will be adequate in the future.

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

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

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

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

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

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

- The financial services industry is very competitive.

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

Peoples is unable to compete effectively, Peoples would lose market share, which could reduce income generated from deposits, loans and other products. For a more complete discussion of Peoples' competitive environment, see "Competition" in "ITEM 1. BUSINESS" of this Form 10-K.

• Peoples' ability to pay dividends is limited.

Peoples is a separate and distinct legal entity from Peoples' subsidiaries. Peoples receives nearly all of its revenue from dividends from Peoples Bank, which are limited by federal 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'

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

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

Peoples collects, processes and stores sensitive consumer data by utilizing computer systems and telecommunications networks operated by both Peoples and third-party service providers. Peoples has security and backup and recovery systems in place, as well as a business continuity plan, to ensure the computer systems will not be inoperable, to the extent possible. Peoples also has implemented security controls to prevent unauthorized access to the computer systems and requires Peoples' third-party service providers to maintain similar controls. However, management cannot be certain these measures will be successful. A security breach of the computer systems and release of confidential information, such as customer account numbers and related information, or an attack on Peoples' computer systems or telecommunications networks could negatively affect customers' confidence in Peoples, which may cause a loss of business, and could result in Peoples' incurring financial losses for any fraudulent transactions completed by third parties due to the security breach and being exposed to risks of litigation and increased regulatory scrutiny.

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

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

- Peoples is exposed to operational risk.

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

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

Given the volume of transactions Peoples processes, certain errors may be repeated or compounded before they are discovered and successfully rectified. Peoples’ necessary dependence upon automated systems to record and process its transaction volume may further increase the risk that technical system flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. Peoples may also be subject to disruptions of its operating systems arising from events that are wholly or partially beyond its control (for example, computer viruses or electrical or telecommunications outages), which may give rise to disruption of service to customers and to financial loss or liability. Peoples is further exposed to the risk that its external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as Peoples is) and to the risk that Peoples' (or its vendors’) business continuity and data security systems prove to be inadequate.

- Peoples 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.

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

Peoples is subject to extensive federal, state and local taxes, including income, excise, sales/use, payroll, franchise, withholding and ad valorem taxes. Changes to tax laws could have a material adverse effect on Peoples' results of operations. In addition, Peoples' customers are subject to a wide variety of federal, state and local taxes. Changes in

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taxes paid by Peoples' customers may adversely affect their ability to purchase homes or consumer products, which could adversely affect their demand for loans and deposit products. In addition, such negative effects on Peoples' customers could result in defaults on the loans made by Peoples Bank and decrease the value of mortgage-backed securities in which Peoples has invested.

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Peoples' sole banking subsidiary, Peoples Bank, generally owns its offices, related facilities and unimproved real property. In Ohio, Peoples Bank operates offices in Akron, Athens (2 offices), Baltimore, Beachwood, Belpre (2 offices), Byesville, Caldwell, Cambridge (2 offices), Coshocton (2 Offices), Cuyahoga Falls, Gallipolis, Heath, Jackson, Lancaster (2 offices), Lowell, Marietta (5 offices), McConnelsville, Mount Vernon, Munroe Falls, Nelsonville, New Philadelphia, Newark, Norton, Pomeroy (2 offices), The Plains, Wellston, Worthington and Zanesville. In West Virginia, Peoples Bank operates offices in Charleston, Huntington (2 offices), New Martinsville (2 offices), Parkersburg (4 offices), Point Pleasant (2 offices), Sistersville and Vienna (2 offices). In Kentucky, Peoples Bank's office locations include Ashland (2 offices), Greenup and Russell. Of these 56 offices, 14 are leased and the rest are owned by Peoples Bank.

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

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Rent expense on the leased properties totaled $934,000 in 2014, which excludes intercompany rent expense. The following are the only properties that have a lease term expiring on or before June 2016:

Location	Address	Lease Expiration Date [a]
Marietta Kroger	40 Acme Street Marietta, Ohio	March 2015
Athens Mall	801 East State Street Athens, Ohio	June 2015
Marietta Frontier	124 Gross Street Marietta, Ohio	November 2015
Munroe Falls	34 South Main Street Munroe Falls, Ohio	December 2015
The Plains	70 N. Plains Road The Plains, Ohio	December 2015
Jackson	78 Broadway Street Jackson, Ohio	May 2016

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

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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

Peoples' common shares are traded on The NASDAQ Global Select Market® under the symbol PEBO. At December 31, 2014, Peoples had approximately 2,248 shareholders of record. The table presented below provides the high and low sales prices for Peoples' common shares as reported on The NASDAQ Global Select Market® and the cash dividends per common share declared during the indicated periods.

	High Sales	Low Sales	Dividends Declared
2014			
Fourth Quarter	$26.65	$23.39	$0.15
Third Quarter	28.00	23.00	0.15
Second Quarter	27.36	23.58	0.15
First Quarter	26.10	20.29	0.15
2013			
Fourth Quarter	$24.00	$20.11	$0.14
Third Quarter	23.81	20.02	0.14
Second Quarter	22.34	19.30	0.14
First Quarter	22.65	20.00	0.12

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

Issuer Purchases of Equity Securities

The following table details repurchases by Peoples and purchases by "affiliated purchasers" as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended, of Peoples' common shares during the three months ended December 31, 2014:

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 of Common Shares that May Yet Be Purchased Under the Plans or Programs (1)
October 1 - 31, 2014	1,935	(2)(3)	$24.87	(2)(3)	—	—
November 1 - 30, 2014	700	(2)	$24.90	(2)	—	—
December 1 - 31, 2014	260	(2)	$26.32	(2)	—	—
Total	2,895		$25.00		—	—

(1) Peoples' Board of Directors did not authorize any stock repurchase plans or programs for 2014.

(2) Information includes 280 common shares, 700 common shares, and 260 common shares purchased in open market transactions during October, November, and December, respectively, by Peoples Bank under the Rabbi Trust Agreement. The Rabbi Trust Agreement establishes a rabbi trust that holds assets to provide funds for the payment of the benefits under the Peoples Bancorp Inc. Third Amended and Restated Deferred Compensation Plan for Directors of Peoples Bancorp Inc. and Subsidiaries.

(3) Also includes 1,655 common shares withheld in October to pay income tax or other tax liabilities associated with vested restricted common shares.

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Performance Graph

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

The following line graph compares the five-year cumulative total shareholder return of Peoples' common shares, based on an initial investment of $100 on December 31, 2009, and assuming reinvestment of dividends, against that of an index comprised of all domestic common shares traded on The NASDAQ Stock Market (“NASDAQ Stocks (U.S. Companies)”), and an index comprised of all depository institutions (SIC Code #602) and depository institution holding companies (SIC Code #671) that are traded on The NASDAQ Stock Market (“NASDAQ Bank Stocks”).

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

	At December 31,					
	2009	2010	2011	2012	2013	2014
Peoples Bancorp Inc.	$100.00	$166.16	$161.06	$227.00	$256.37	$302.75
NASDAQ Stocks (U.S. Companies)	$100.00	$118.13	$117.20	$137.86	$193.24	$221.89
NASDAQ Bank Stocks	$100.00	$114.15	$102.13	$121.11	$171.63	$180.08

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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,				
	2014	2013	2012	2011	2010
Operating Data (a)					
Total interest income	$80,200	$67,071	$69,470	$75,133	$89,335
Total interest expense	10,694	11,686	14,995	21,154	29,433
Net interest income	69,506	55,385	54,475	53,979	59,902
Provision for (recovery of) loan losses	339	(4,410)	(4,716)	7,998	26,916
Net impairment losses on investment securities	—	—	—	—	(1,786)
Net (loss) gain on investment securities and other transactions	(33)	334	(778)	(443)	(39)
Total non-interest income	40,053	37,220	34,971	32,944	31,634
FDIC insurance expense	1,260	1,036	1,002	1,867	2,470
Other expense	83,749	67,229	62,472	59,464	54,572
Preferred dividends (b)	—	—	—	1,343	2,052
Net income available to common shareholders	$16,684	$17,574	$20,385	$11,212	$3,529
Balance Sheet Data (a)					
Total investment securities	$713,659	$680,526	$709,085	$669,228	$641,307
Loans, net of deferred fees and costs	1,620,898	1,196,234	985,172	938,506	960,718
Allowance for loan losses	17,881	17,065	17,811	23,717	26,766
Total intangible assets	109,158	77,603	68,525	64,475	64,870
Total assets	2,567,769	2,059,108	1,918,050	1,794,161	1,837,985
Non-interest-bearing deposits	493,162	409,891	317,071	239,837	215,069
Total retail interest-bearing deposits	1,400,221	1,121,826	1,119,633	1,047,189	1,059,066
Brokered certificates of deposits	39,691	49,041	55,599	64,054	87,465
Short-term borrowings	88,277	113,590	47,769	51,643	51,509
Long-term borrowings	179,083	121,826	128,823	142,312	157,703
Junior subordinated debentures held by subsidiary trust	—	—	—	22,600	22,565
Preferred stockholders' equity (b)	—	—	—	—	38,645
Common stockholders' equity	340,118	221,553	221,728	206,657	192,036
Tangible assets (c)	2,458,611	1,981,505	1,849,525	1,729,686	1,773,115
Tangible equity (c)	230,960	143,950	153,203	142,182	165,811
Tangible common equity (c)	$230,960	$143,950	$153,203	$142,182	$127,166
Per Common Share Data (a)					
Earnings per common share – basic	$1.36	$1.65	$1.92	$1.07	$0.34
Earnings per common share – diluted	1.35	1.63	1.92	1.07	0.34
Cash dividends declared per common share	0.60	0.54	0.45	0.30	0.40
Book value per common share (d)	22.92	20.89	21.02	19.67	18.36
Tangible book value per common share (c)(d)	$15.57	$13.57	$14.52	$13.53	$12.16
Weighted-average number of common shares outstanding – basic	12,183,352	10,581,222	10,527,885	10,482,318	10,424,474
Weighted-average number of common shares outstanding – diluted	12,306,224	10,679,417	10,528,286	10,482,318	10,431,990
Common shares outstanding at end of period	14,836,727	10,605,782	10,547,960	10,507,124	10,457,327

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	At or For the Year Ended December 31,				
	2014	2013	2012	2011	2010
SIGNIFICANT RATIOS (a)					
Return on average stockholders' equity	6.16 %	7.92 %	9.52 %	5.72 %	2.33 %
Return on average common stockholders' equity	6.16	7.92	9.52	5.61	1.76
Return on average assets	0.74	0.91	1.11	0.69	0.28
Net interest margin	3.45	3.23	3.36	3.43	3.51
Efficiency ratio (c)(e)	75.37	71.90	69.55	68.98	60.30
Pre-provision net revenue to total average assets (f)	1.10	1.26	1.41	1.41	1.76
Average stockholders' equity to average assets	12.08	11.48	11.63	12.12	12.20
Average loans to average deposits	79.58	70.79	68.23	69.86	73.01
Dividend payout ratio	43.10 %	33.20 %	23.58 %	28.35 %	119.33 %
ASSET QUALITY RATIOS (a)					
Nonperforming loans as a percent of total loans (d)(g)	0.69 %	0.60 %	1.43 %	3.26 %	4.26 %
Nonperforming assets as a percent of total assets (d)(g)	0.47	0.39	0.78	1.83	2.48
Nonperforming assets as a percent of total loans and other real estate owned (d)(g)	0.75	0.67	1.52	3.48	4.70
Allowance for loan losses as a percent of originated loans, net of deferred fees and costs (d)	1.48	1.58	1.86	2.53	2.79
Allowance for loan losses as a percent of nonperforming loans (d)(g)	159.58	237.87	125.34	77.26	65.09
Provision for (recovery of) loan losses as a percent of average total loans	0.02	(0.42)	(0.49)	0.84	2.61
Net (recoveries) charge-offs as a percent of average total loans	(0.03)%	(0.35)%	0.12 %	1.16 %	2.66 %
CAPITAL RATIOS (a)(c)					
Tier 1 common	14.32 %	12.42 %	14.06 %	12.82 %	11.59 %
Tier 1	14.32	12.42	14.06	14.86	16.91
Total (Tier 1 and Tier 2)	15.48	13.78	15.43	16.20	18.24
Tier 1 leverage	9.92	8.52	8.83	9.45	10.63
Tangible equity to tangible assets (c)	9.39	7.26	8.28	8.22	9.35
Tangible common equity to tangible assets (c)	9.39 %	7.26 %	8.28 %	8.22 %	7.17 %

(a) Includes impact of acquisitions as of the acquisition dates.

(b) Amounts relate to Series A Preferred Shares issued and sold by Peoples in connection with its participation in the TARP Capital Purchase Program. Additional information regarding the Series A Preferred Shares can be found in Note 10 of the Notes to the Consolidated Financial Statements included immediately following "ITEM 9B - OTHER INFORMATION" of this Form 10-K.

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

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

(e) Non-interest expense (less intangible asset amortization) as a percentage of fully tax-equivalent net interest income plus non-interest income (excluding gains or losses on investment securities, asset disposals and other transactions).

(f) These amounts represent non-GAAP financial measures since they exclude the provision for loan losses and all gains and losses included in earnings. Additional information regarding the calculation of these measures can be found in "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Form 10-K under the caption “Pre-Provision Net Revenue”.

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

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

Forward-Looking Statements

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

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

(2) Peoples' ability to integrate the Midwest Bancshares, Inc. ("Midwest"), Ohio Heritage Bancorp, Inc. ("Ohio Heritage") and North Akron Savings Bank ("North Akron") acquisitions and any future acquisitions, including the pending merger of NB&T into Peoples, may be unsuccessful, or may be more difficult, time-consuming or costly than expected;

(3) the ability of Peoples and NB&T to obtain their respective shareholders' approval of the merger may be unsuccessful;

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

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

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

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

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

(9) adverse changes in the economic conditions and/or activities, including, but not limited to, impacts from the implementation of the Budget Control Act of 2011 and the American Taxpayer Relief Act of 2012, as well as continued economic uncertainty in the U.S., the European Union, and other areas, which could decrease sales volumes and increase loan delinquencies and defaults;

(10) legislative or regulatory changes or actions, including in particular the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the regulations promulgated and to be promulgated thereunder by the Office of the Comptroller of the Currency, the Federal Reserve Board and the Consumer Financial Protection Bureau, which may subject Peoples, its subsidiaries, or one or more acquired companies to a variety of new and more stringent legal and regulatory requirements which adversely affect their respective businesses;

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

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

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

(14) adverse changes in the conditions and trends in the financial markets, including political developments, which may adversely affect the fair value of securities within Peoples' investment portfolio, the interest rate

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

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

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

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

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

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

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

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

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

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

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

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

Summary of Significant Transactions and Events

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

At the close of business on October 24, 2014, Peoples completed the acquisition of North Akron and its full service offices in Akron, Cuyahoga Falls, Munroe and Norton, Ohio. Under the terms of the merger agreement, Peoples paid $7,655 of consideration per share of North Akron common stock, or $20.1 million, of which 80% was paid in Peoples' common shares and the remaining 20% in cash. The acquisition added $111.5 million of loans and $108.1 million of deposits at the acquisition date, after purchase accounting adjustments.

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

On August 4, 2014, Peoples entered into the NB&T Agreement. The NB&T Agreement calls for NB&T to merge into Peoples and for NB&T's wholly-owned subsidiary, The National Bank and Trust Company, which operates 22 full-service branches in southwest Ohio, to merge into Peoples Bank. Under the terms of the NB&T Agreement, shareholders of NB&T will receive 0.9319 of Peoples' common shares and $7.75 in cash for each share of NB&T. The NB&T transaction is expected to be completed during the first quarter of 2015, pending adoption of the NB&T

Agreement by the shareholders of both NB&T and Peoples, the satisfaction of various closing conditions, including

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the accuracy of the representations and warranties of each party (subject to certain exceptions), the performance in all material respects by each party of its obligations under the NB&T Agreement, and other conditions customary for transactions of this type.

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

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

In 2014, Peoples incurred $5.1 million of acquisition-related expenses, compared to $1.5 million in 2013 and $641,000 in 2012, which were primarily fees for legal costs, other professional services, deconversion costs and write-offs associated with assets acquired.

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

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

As described in Note 11 of the Notes to the Consolidated Financial Statements, Peoples incurred settlement charges of $1.4 million during 2014 due to the aggregate amount of lump-sum distributions to participants in Peoples' defined benefit pension plan exceeding the threshold for recognizing such charges during the period. Settlement charges of $270,000 and $835,000 were recognized during 2013 and 2012, respectively.

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

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

The Federal Reserve Board has maintained its target Federal Funds Rate at a historically low level of 0% to 0.25% since December 2008 and has maintained the Discount Rate at 0.75% since December 2010. The Federal Reserve Board has indicated the possibility that these short-term rates could start to be raised as early as 2015.

From late 2008 until year-end 2014, the Federal Reserve Board took various actions to lower longer-term market interest rates as a means of stimulating the economy – a policy commonly referred to as “quantitative easing”. These actions included the buying and selling of mortgage-backed and other debt securities through its open market operations. In December 2013, the Federal Reserve Board announced plans to taper its quantitative easing efforts.

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As a result, the slope of the U.S. Treasury yield curve has fluctuated significantly. Substantial flattening occurred in late 2008, in mid-2010 and early third quarter of 2011 through 2012, while moderate steepening occurred in the second half of 2009, late 2010 and mid-2013. The curve has remained relatively steep since mid-2013, primarily as a reaction to the Federal Reserve Board's announcement of a reduction in monthly asset purchases and generally improving economic conditions. The curve flattened gradually throughout 2014, primarily in response to the slowing global economy, geopolitical uncertainty and lower yields on sovereign debt throughout the world.
The impact of these transactions, where material, is discussed in the applicable sections of this Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Critical Accounting Policies

The accounting and reporting policies of Peoples conform to US GAAP and to general practices within the financial services industry. A summary of significant accounting policies is contained in Note 1 of the Notes to the Consolidated Financial Statements. While all of these policies are important to understanding the Consolidated Financial Statements, certain accounting policies require management to exercise judgment and make estimates or assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying Notes. These estimates and assumptions are based on information available as of the date of the Consolidated Financial Statements; accordingly, as this information changes, the Consolidated Financial Statements could reflect different estimates or assumptions.
Management has identified the accounting policies described below as those that, due to the judgments, estimates and assumptions inherent in the policies, are critical to an understanding of Peoples' Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

Income Recognition

Interest income on loans and investment securities is recognized by methods that result in level rates of return on principal amounts outstanding, including yield adjustments resulting from the amortization of loan costs and premiums on investment securities and accretion of loan fees and discounts on investment securities. Since mortgage-backed securities comprise a sizable portion of Peoples' investment portfolio, a significant increase in principal payments on those securities could impact interest income due to the corresponding acceleration of premium amortization or discount accretion.
Peoples discontinues the accrual of interest on a loan when conditions cause management to believe collection of all or any portion of the loan's contractual interest is doubtful. Such conditions may include the borrower being 90 days or more past due on any contractual payments or current information regarding the borrower's financial condition and repayment ability. All unpaid accrued interest deemed uncollectable is reversed, which would reduce Peoples' net interest income. Interest received on nonaccrual loans is included in income only if principal recovery is reasonably assured.

Allowance for Loan Losses

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

using the loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. For all other loans, management evaluates pools of homogeneous loans (such as residential mortgage loans, and direct and indirect consumer loans) and makes general allocations for each loan pool based upon historical loss experience. While allocations are made to specific loans and pools of loans, the allowance is available for all loan losses.

The evaluation of individual impaired loans requires management to make estimates of the amounts and timing of future cash flows on impaired loans, which consist primarily of loans placed on nonaccrual status, restructured or

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

There can be no assurance the allowance for loan losses will be adequate to cover all losses, but management believes the allowance for loan losses at December 31, 2014 was adequate to provide for probable losses from existing loans based on information currently available. While management uses available information to estimate losses, the ultimate collectability of a substantial portion of the loan portfolio, and the need for future additions to the allowance, will be based on changes in economic conditions and other relevant factors. As such, adverse changes in economic activity could reduce currently estimated cash flows for both commercial and individual borrowers, which would likely cause Peoples to experience increases in problem assets, delinquencies and losses on loans in the future.

Investment Securities

Peoples' investment portfolio accounted for 27.8% of total assets at December 31, 2014, of which approximately 89% of the securities were classified as available-for-sale. Correspondingly, Peoples carries these securities at fair value on its Consolidated Balance Sheets, with any unrealized gain or loss recorded in stockholders' equity as a component of accumulated other comprehensive income or loss. As a result, both the investment and equity sections of Peoples' Consolidated Balance Sheet are sensitive to changes in the overall market value of the investment portfolio, due to changes in market interest rates, investor confidence and other factors affecting market values.

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

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

Peoples has not recognized an impairment loss in 2014, 2013 or 2012. Management performed its quarterly analysis of the investment securities with an unrealized loss at December 31, 2014, and concluded no individual securities were other-than-temporarily impaired.

Goodwill and Other Intangible Assets

During 2014 and in prior years, Peoples recorded goodwill and other intangible assets as a result of acquisitions accounted for under the purchase method of accounting. Under the purchase method, Peoples is required to allocate the cost of an acquired company to the assets acquired, including identified intangible assets, and liabilities assumed based on their estimated fair values at the date of acquisition. Goodwill represents the excess cost over the fair value of net assets acquired and is not amortized but is tested for impairment when indicators of impairment exist, or at least annually. Peoples' other intangible assets consist of customer relationship intangible assets, including core deposit intangibles, representing the present value of future net income to be earned from acquired customer relationships with definite useful lives, which are required to be amortized over their estimated useful lives.

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

Peoples performs its required annual impairment test as of June 30 each year. The goodwill impairment test consists of a two step process that includes (1) determining if potential goodwill impairment exists and (2) measuring the impairment loss, if any. At June 30, 2014, management's analysis concluded that the estimated fair value of Peoples' single reporting unit exceeded its carrying value. The analysis also included an assessment of events and circumstances considering several key factors such as economic and local market conditions, overall financial performance, changes in management or key personnel, and share price.

Peoples is required to perform interim tests for goodwill impairment in subsequent quarters if events occur or circumstances change that indicate potential goodwill impairment exists, such as adverse changes to Peoples' business or a significant decline in Peoples' market capitalization. At December 31, 2014, Peoples' market capitalization was more than its book value, which management considered to be evidence that goodwill was not impaired.

Peoples records servicing rights ("SRs") in connection with its mortgage banking and small business lending activities, which are intangible assets representing the right to service loans sold to third-party investors. These intangible assets are recorded initially at fair value and subsequently amortized over the estimated life of the loans sold. SRs are stratified based on their predominant risk characteristics and assessed for impairment at the strata level at each reporting date based on their fair value. At December 31, 2014, management concluded no portion of the recorded SRs was impaired since the fair value equaled or exceeded the carrying value. However, future events, such as a significant increase in prepayment speeds, could result in a fair value that is less than the carrying amount, which would require the recognition of an impairment loss in earnings.

Income Taxes

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

A valuation allowance is recognized to reduce any deferred tax asset that, based upon available information, it is more-likely-than-not all, or any portion, of the deferred tax asset will not be realized. Assessing the need for, and amount of, a valuation allowance for deferred tax assets requires significant judgment and analysis of evidence regarding realization of the deferred tax assets. In most cases, the realization of deferred tax assets is dependent upon Peoples generating a sufficient level of taxable income in future periods, which can be difficult to predict. Peoples' largest deferred tax assets involve differences related to Peoples' allowance for loan losses and accrued employee benefits. Given the nature of Peoples' deferred tax assets, management determined no valuation allowances were needed at either December 31, 2014 or 2013.

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. These 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, 2014 and 2013. 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-

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down or whether a valuation reserve should be established. Given the inherent volatility, the use of fair value measurements may have a significant impact on the carrying value of assets or liabilities, or result in material changes to the consolidated financial statements, from period to period.

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

Available-for-Sale Investment Securities

Investment securities classified as available-for-sale are measured and reported at fair value on a recurring basis. For most securities, the fair value is based upon quoted market prices (Level 1) or determined by pricing models that consider observable market data (Level 2). For structured investment securities, the fair value often must be based upon unobservable market data, such as non-binding broker quotes and discounted cash flow analysis or similar models, due to the absence of an active market for these securities (Level 3). As a result, management's determination of fair value for these securities is highly dependent on subjective or complex judgments, estimates and assumptions, which could change materially between periods. Management occasionally uses information from independent third-party consultants in its determination of the fair value of more complex structured investment securities. At December 31, 2014, all of Peoples' available-for-sale investment securities were measured using observable market data.

At December 31, 2014, the majority of the investment securities with Level 2 fair values were determined using information provided by third-party pricing services. Management reviews the valuation methodology and quality controls utilized by the pricing services in management's overall assessment of the reasonableness of the fair values provided. To the extent available, management utilizes an independent third-party pricing source to assist in its assessment of the values provided by its primary pricing services. Management reviews the fair values provided by these third parties on a monthly basis and challenges prices when it believes a discrepancy in pricing exists. Based on Peoples' past experience, these challenges more-often-than-not result in the third party adjusting its valuation of the security.

Impaired loans

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

Goodwill

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

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

The measurement of any actual impairment loss requires management to calculate the implied fair value of goodwill by deducting the fair value of all tangible and separately identifiable intangible net assets (including unrecognized intangible assets) from the fair value of the reporting unit. The fair value of net tangible assets is calculated using the methodologies described in Note 2 of the Notes to the Consolidated Financial Statements. Customer relationship intangibles are the only separately identifiable intangible assets included in the calculation of the implied fair value of goodwill. The amount of these intangibles represents the present value of the future earnings stream attributable to the deposit relationships.

Servicing Rights

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

EXECUTIVE SUMMARY

Net income for the year ended December 31, 2014 was $16.7 million, compared to $17.6 million in 2013 and $20.4 million in 2012, representing earnings per diluted common share of $1.35, $1.63 and $1.92, respectively. The decrease in earnings during 2014 was primarily driven by acquisition-related costs of $5.1 million and pension settlement charges of $1.4 million. Earnings in 2013 were impacted by additional operating costs associated with various strategic investments to grow revenue and a lower recovery of loan losses.

In 2014, Peoples had a provision for loan losses of $0.3 million due to its checking account overdrafts program, while asset quality trends remained favorable and recoveries exceeded charge-offs. Peoples recorded recoveries of loan losses of $4.4 million for 2013 and $4.7 million for 2012. Peoples recorded net recoveries of $0.5 million for 2014, compared to net recoveries of $3.7 million for 2013 and net charge-offs of $1.2 million for 2012. These recoveries or provisions represented amounts needed, in management's opinion, to maintain the appropriateness of the allowance for loan losses.

Net interest income grew 25% to $69.5 million in 2014 compared to $55.4 million in 2013, mostly due to higher loan balances in connection with recent acquisitions and organic loan growth. Net interest margin was 3.45% in 2014, higher than the 3.23% in 2013 and 3.36% in 2012. The increase in 2014 was due to accretion income from acquisitions completed, loan growth, change in asset mix and a reduction in funding costs. Accretion income from acquisitions added approximately 12 basis points to net interest margin in 2014 compared to 4 basis points in 2013. The decrease in net interest margin during 2013 was largely a result of the low interest rate environment, which put downward pressure on asset yields.

Total non-interest income, which excludes gains and losses on investment securities, asset disposals and other transactions, increased 8% in 2014 compared to 2013. During 2014, insurance income grew 11%, or $1.4 million, trust and investment income increased 8%, or $0.6 million, and electronic banking income was up 8%, or $0.5 million. The key driver of the increase in insurance income was additional performance-based commissions received due to the improved quality of the book of business and increased production with the insurance carriers. Mortgage banking income has slowed as refinancing activity has declined, leading to a reduction of $0.5 million in 2014 and $1.1 million in 2013. Total non-interest income was up 6% in 2013 compared to 2012, as insurance income and trust and investment income grew 24% and 16%, respectively.

Total other expense increased 25%, or $16.7 million, for the year ended December 31, 2014, as a result of acquisition-related costs, higher salaries and employee benefits due to additional employees and increased electronic banking expense. Acquisition-related expenses included in other expenses during 2014 were $4.8 million compared to $1.4 million in 2013 and $569,000 in 2012. Also during 2014, the Board of Directors granted a one-time stock award of unrestricted common shares to all full-time and part-time employees who did not already participate in the equity plans, which resulted in expense of $298,000. In 2013, salaries and employee benefits increased due to a higher number of employees primarily because of acquisitions.

At December 31, 2014, total assets were up 25% to $2.57 billion versus $2.06 billion at year-end 2013, with the acquisitions completed during 2014 adding approximately $464 million, and the remaining increase primarily due to loan growth. Portfolio loan balances grew $424.7 million during 2014, due to acquired loans and 12% organic growth. The allowance for loan losses increased $0.8 million to $17.9 million, or 1.48% of originated loans, net of deferred fees and costs, compared to $17.1 million and 1.58% at December 31, 2013. Total investment securities grew to $713.7 million, or 27.8% of total assets at December 31, 2014, compared to $680.5 million, or 33.0% of total assets at the prior year-end.

Total liabilities were $2.23 billion at December 31, 2014, up $390.1 million since December 31, 2013. Contributing to this increase were acquired interest-bearing deposits of approximately $326.3 million and organic non-interest-bearing deposit growth of $77.8 million. Non-interest-bearing deposits comprised 23.0% of total retail deposits at December 31, 2014, versus 26.8% at year-end 2013. At December 31, 2014, total borrowed funds were $267.4 million, up $31.9 million compared to the prior year-end, as Peoples acquired and restructured long-term advances from the Ohio Heritage transaction.

At December 31, 2014, total stockholders' equity was $340.1 million, up $118.6 million from December 31, 2013. Stockholders' equity represented common shares issued in connection with 2014 acquisitions was $54.4 million, and the Private Equity Issuance of common shares added $40.2 million. Peoples' regulatory capital ratios remained significantly higher than "well capitalized" minimums. Peoples' Tier 1 Common Capital ratio increased to 14.32% at December 31, 2014,

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versus 12.42% at December 31, 2013, while the Total Capital ratio was 15.48% versus 13.78% at December 31, 2013. In addition, Peoples' tangible common equity to tangible assets ratio was 9.39% and tangible book value per share was $15.57 at December 31, 2014, versus 7.26% and $13.57 at December 31, 2013, respectively.

RESULTS OF OPERATIONS

Interest Income and Expense

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

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

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

	2014			2013			2012		
(Dollars in thousands)	Average Balance	Income/ Expense	Yield/Cost	Average Balance	Income/ Expense	Yield/Cost	Average Balance	Income/ Expense	Yield/Cost
Short-term investments	$15,394	$1	0.01 %	$16,154	$94	0.59 %	$9,705	$20	0.21 %
Other long-term investments	1,913	8	0.42 %	743	2	0.27 %	—	—	— %
Investment Securities (1):									
Taxable	630,057	17,024	2.70 %	646,884	17,026	2.63 %	645,249	19,961	3.09 %
Nontaxable (2)	59,759	2,785	4.66 %	50,487	2,461	4.87 %	40,190	2,206	5.49 %
Total investment securities	689,816	19,809	2.87 %	697,371	19,487	2.79 %	685,439	22,167	3.23 %
Loans (3):									
Commercial real estate, construction	44,205	1,808	4.09 %	35,494	1,569	4.36 %	42,879	2,005	4.60 %
Commercial real estate, other	494,440	22,724	4.60 %	391,965	18,882	4.75 %	392,436	19,586	4.91 %
Commercial and industrial	250,248	11,079	4.43 %	190,414	7,960	4.12 %	160,085	6,913	4.25 %
Residential real estate (4)	345,398	16,051	4.65 %	253,955	12,089	4.76 %	227,002	12,136	5.35 %
Home equity lines of credit	66,826	2,398	3.59 %	53,350	2,045	3.83 %	48,721	2,015	4.14 %
Consumer	163,691	7,658	4.68 %	121,193	6,143	5.07 %	96,043	5,715	5.95 %
Total loans	1,364,808	61,718	4.52 %	1,046,371	48,688	4.62 %	967,166	48,370	4.95 %
Less: Allowance for loan losses	(17,362)			(17,935)			(21,473)		
Net loans	1,347,446	61,718	4.58 %	1,028,436	48,688	4.70 %	945,693	48,370	5.07 %
Total earning assets	2,054,569	81,536	3.97 %	1,742,704	68,271	3.90 %	1,640,837	70,557	4.27 %
Intangible assets	87,821			72,420			65,881		
Other assets	98,144			117,243			134,571		
Total assets	$2,240,534			$1,932,367			$1,841,289		
Deposits:									
Savings accounts	$247,419	$135	0.05 %	$200,190	$107	0.05 %	$162,055	$90	0.06 %
Government deposit accounts	165,622	470	0.28 %	146,955	642	0.44 %	151,877	937	0.62 %
Interest-bearing demand accounts	148,687	124	0.08 %	125,984	101	0.08 %	113,022	117	0.10 %
Money market accounts	293,214	472	0.16 %	259,226	379	0.15 %	255,345	423	0.17 %
Brokered deposits	42,598	1,568	3.68 %	51,287	1,871	3.65 %	56,451	1,996	3.54 %
Retail certificates of deposit	383,574	3,338	0.87 %	358,918	3,952	1.10 %	404,872	5,496	1.36 %
Total interest-bearing deposits	1,281,114	6,107	0.48 %	1,142,560	7,052	0.62 %	1,143,622	9,059	0.79 %
Borrowed Funds:									
Short-term FHLB advances	36,678	47	0.13 %	44,127	55	0.12 %	13,240	17	0.12 %
	59,362	99	0.17 %	37,167	59	0.16 %	37,401	57	0.15 %

Retail repurchase agreements									
Total short-term borrowings	96,040	146	0.15 %	81,294	114	0.14 %	50,641	74	0.14 %
Long-term FHLB advances	80,837	2,299	2.84 %	64,004	2,167	3.39 %	68,041	2,305	3.39 %
Wholesale repurchase agreements	40,000	1,471	3.68 %	40,000	1,471	3.68 %	44,208	1,610	3.58 %
Other borrowings	17,334	672	3.88 %	22,096	882	3.94 %	22,729	1,947	8.62 %
Total long-term borrowings	138,171	4,442	3.21 %	126,100	4,520	3.57 %	134,978	5,862	4.27 %
Total borrowed funds	234,211	4,588	1.96 %	207,394	4,634	2.23 %	185,619	5,936	3.17 %
Total interest-bearing liabilities	1,515,325	10,695	0.71 %	1,349,954	11,686	0.86 %	1,329,241	14,995	1.13 %
Non-interest-bearing deposits	433,798			335,637			273,893		
Other liabilities	20,722			24,865			24,037		
Total liabilities	1,969,845			1,710,456			1,627,171		
Total stockholders' equity	270,689			221,911			214,118		
Total liabilities and stockholders' equity	$2,240,534			$1,932,367			$1,841,289		
Interest rate spread		$70,841	3.26 %		$56,585	3.04 %		$55,562	3.14 %
Net interest margin			3.45 %			3.23 %			3.36 %

(1) Average balances are based on carrying value.

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(2) Interest income and yields are presented on a fully tax-equivalent basis using a 35% federal statutory tax rate.
(3) Average balances include nonaccrual and impaired loans. Interest income includes interest earned on nonaccrual loans prior to the loans being placed on nonaccrual status. Loan fees included in interest income were immaterial for all periods presented.
(4) Loans held for sale are included in the average loan balance listed. Related interest income on loans originated for sale prior to the loan being sold is included in loan interest income.

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

(Dollars in thousands)	Changes from 2013 to 2014			Changes from 2012 to 2013		
Increase (decrease) in:	Rate	Volume	Total [1]	Rate	Volume	Total [1]
INTEREST INCOME:						
Short-term investments	$(88)	$(5)	$(93)	$54	$20	$74
Other long-term investments	2	4	6	—	2	2
Investment Securities: [2]						
Taxable	447	(449)	(2)	(2,985)	50	(2,935)
Nontaxable	(112)	436	324	(266)	521	255
Total investment income	335	(13)	322	(3,251)	571	(2,680)
Loans:						
Commercial real estate, construction	(105)	344	239	(101)	(335)	(436)
Commercial real estate, other	(640)	4,482	3,842	(679)	(25)	(704)
Commercial and industrial	596	2,523	3,119	(208)	1,255	1,047
Residential real estate	(293)	4,255	3,962	(1,411)	1,364	(47)
Home equity lines of credit	(138)	491	353	(155)	185	30
Consumer	(508)	2,023	1,515	(926)	1,354	428
Total loan income	(1,088)	14,118	13,030	(3,480)	3,798	318
Total interest income	(839)	14,104	13,265	(6,677)	4,391	(2,286)
INTEREST EXPENSE:						
Deposits:						
Savings accounts	2	26	28	(4)	21	17
Government deposit accounts	(246)	74	(172)	(266)	(29)	(295)
Interest-bearing demand accounts	4	19	23	(28)	12	(16)
Money market accounts	40	53	93	(50)	6	(44)
Brokered certificates of deposit	17	(320)	(303)	62	(187)	(125)
Retail certificates of deposit	(871)	257	(614)	(964)	(580)	(1,544)
Total deposit cost	(1,054)	109	(945)	(1,250)	(757)	(2,007)
Borrowed funds:						
Short-term borrowings	—	32	32	3	37	40
Long-term borrowings	(405)	327	(78)	(978)	(364)	(1,342)
Total borrowed funds cost	(405)	359	(46)	(975)	(327)	(1,302)
Total interest expense	(1,459)	468	(991)	(2,225)	(1,084)	(3,309)
Net interest income	$620	$13,636	$14,256	$(4,452)	$5,475	$1,023

(1) The change in interest due to both rate and volume has been allocated to rate and volume changes in proportion to the relationship of the dollar amounts of the changes in each.
(2) Presented on a fully tax-equivalent basis.

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

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

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

(Dollars in thousands)	2014	2013	2012
Net interest income, as reported	$69,506	$55,385	$54,475
Taxable equivalent adjustments	1,335	1,200	1,087
Fully tax-equivalent net interest income	$70,841	$56,585	$55,562

During 2014, Peoples recognized normal accretion income, net of amortization expense, from acquisitions of $2.6 million during 2014, which added approximately 12 basis points to net interest margin, compared to $0.7 million and 4 basis points, respectively, in 2013. Also during 2014, additional interest income from prepayment fees and interest recovered on nonaccrual loans was $240,000 compared to $976,000 in 2013 and $467,000 in 2012. The primary driver of the increase in net interest income during 2014 was a result of higher loan balances in connection with organic growth and acquired loans.

The yield on investment securities stabilized in 2014 as long-term interest rates remained relatively steady for the majority of the year. As a result, principal prepayments from mortgage-backed securities stabilized compared to prior years, resulting in less yield compression and volatility. However, in 2013, investments yields had declined as the impact of lower reinvestment rates was magnified by a higher level of principal prepayments within mortgage-backed securities. During 2014, the average monthly principal cash flow received by Peoples from its investment portfolio was approximately $6.0 million, compared to a monthly average of approximately $8.0 million in 2013 and $11.9 million in 2012.

Funding costs declined during 2014 and 2013 as Peoples executed its strategy of replacing higher-cost funding with low-cost deposits. Compared to 2013, funding costs during 2014 have decreased 14 basis points and increases in balances of low-cost deposits have provided funding for loan growth. Funding costs decreased during 2012 due to the extinguishment of $35.0 million of higher-cost wholesale borrowings in the first quarter of 2012 and the maturity of special higher-cost retail CDs. Peoples also redeemed trust preferred securities during 2012 and realized an annual interest expense savings of $1.1 million in 2013.

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

Provision for (Recovery of) Loan Losses

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

(Dollars in thousands)	2014	2013	2012
Provision for checking account overdrafts	$339	$356	$294
Recovery of other loan losses	—	(4,766)	(5,010)
Net provision for (recovery of) loan losses	$339	$(4,410)	$(4,716)
As a percent of average total loans	0.02%	(0.42)%	(0.49)%

The provision for, or recovery of, loan losses represents the amount needed to maintain the appropriateness of the allowance for loan losses based on management’s formal quarterly analysis of the loan portfolio and procedural methodology that estimates the amount of probable credit losses. This process considers various factors that affect losses, such as changes in Peoples’ loan quality, historical loss experience and current economic conditions. The provision for loan losses recorded in 2014 was driven by checking account overdrafts, while the impact of increases in criticized assets was mitigated by $1.8 million of recoveries on three loans that were previously charged-off. The recoveries of loan losses recorded during 2013 and 2012 were driven mostly by recoveries on commercial real estate loans that had previously incurred charge-offs.

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

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Net Other Losses

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

(Dollars in thousands)	2014	2013	2012
Net (loss) gain on OREO	$(68)	$86	$66
Net gain (loss) on debt extinguishment	67	—	(4,144)
Net loss on bank premises and equipment	(430)	(241)	(261)
Bargain purchase gain	—	—	13
Net other losses	$(431)	$(155)	$(4,326)

Net losses on bank premises and equipment during 2014 included $380,000 of asset write-offs associated with acquisition-related activity. Also during 2014, Peoples recognized a gain on debt extinguishment from a restructuring of acquired FHLB advances, and a loss on OREO from the sale of a residential property that was held. Net losses on bank premises and equipment incurred in 2013 included $248,000 of asset write-offs associated with the Ohio Commerce Bank ("Ohio Commerce") acquisition. The loss on debt extinguishment in 2012 included $3.1 million for the prepayment of $35 million of wholesale borrowings and $1.0 million for the redemption of trust preferred securities. Net losses on bank premises and equipment during 2012 were due to asset write-offs associated with the Sistersville Bancorp, Inc. acquisition.

Non-Interest Income

Peoples generates non-interest income, which excludes gains and losses on investments and other assets, from five primary sources: insurance sales revenues, deposit account service charges, trust and investment activities, electronic banking (“e-banking”), and mortgage banking. Peoples continues to focus on revenue growth from non-interest income sources in order to maintain a diversified revenue stream through greater reliance on fee-based revenues. As a result, total non-interest income accounted for 36.6% of Peoples' total revenues in 2014, compared to 40.2% in 2013 and 39.1% in 2012. The decline in Peoples' total non-interest income as a percent of total revenue during 2014 was primarily due to increased net interest income from recent acquisitions.

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

(Dollars in thousands)	2014	2013	2012
Property and casualty insurance commissions	$9,981	$9,873	$7,974
Performance-based commissions	1,722	804	1,026
Life and health insurance commissions	1,630	1,227	526
Credit life and A&H insurance commissions	38	90	122
Other fees and charges	233	207	196
Total insurance income	$13,604	$12,201	$9,844

During 2014 and 2013, increases in life and health insurance commissions were the result of acquisitions completed during the second quarter of 2013. Performance-based commissions were a key driver in the overall increase in insurance income and are typically recorded annually in the first quarter and are based on a combination of factors, such as loss experience of insurance policies sold, production volumes, and overall financial performance of the individual insurance carriers. Compared to 2012, the growth in property and casualty insurance commissions was a result of successful integration of acquisitions during 2013, a higher rate of referrals between lines of business and higher premiums throughout the industry.

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

(Dollars in thousands)	2014	2013	2012
Overdraft and non-sufficient funds fees	$7,177	$7,233	$7,481
Account maintenance fees	1,690	1,283	1,246
Other fees and charges	306	248	238

Total deposit account service charges	$9,173	$8,764	$8,965

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The amount of deposit account service charges, particularly fees for overdrafts and non-sufficient funds, is largely dependent on the timing and volume of customer activity. Peoples typically experiences a lower volume of overdraft and non-sufficient funds fees annually in the first quarter attributable to customers receiving income tax refunds, while volumes generally increase in the fourth quarter in connection with the holiday shopping season. Management periodically evaluates its cost recovery fees to ensure they are reasonable based on operational costs and similar to fees charged in Peoples' markets by competitors. Increases in account maintenance fees in 2014, compared to 2013, were the result of higher fees received on commercial accounts and rewards checking accounts.

Peoples' fiduciary and brokerage revenues continue to be based primarily upon the value of assets under management.

The following table details Peoples’ trust and investment income for the years ended December 31:

(Dollars in thousands)	2014	2013	2012
Fiduciary	$5,567	$5,103	$4,557
Brokerage	2,118	2,019	1,572
Total trust and investment income	$7,685	$7,122	$6,129

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

(Dollars in thousands)	2014	2013	2012
Trust assets under management	$1,022,189	$1,000,171	$888,134
Brokerage assets under management	525,089	474,384	404,320
Total managed assets	$1,547,278	$1,474,555	$1,292,454
Annual average	$1,511,656	$1,395,137	$1,182,494

During 2014 and 2013, fiduciary income increased primarily due to higher managed asset account balances and retirement benefits plan income due to the addition of new plans. 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. The U.S. financial markets continued to experience a general increase during 2014, which also contributed to the increase in managed assets.

Peoples' e-banking services include ATM and debit cards, direct deposit services, internet and mobile banking, and serve as alternative delivery channels to traditional sales offices for providing services to clients. During 2014, electronic banking income grew $451,000, or 7% compared to 2013, due to a continued increase in the volume of debit card transactions. In 2014, Peoples' customers used their debit cards to complete $467 million of transactions, versus $416 million in 2013 and $391 million in 2012.

Mortgage banking income is comprised mostly of net gains from the origination and sale of long-term, fixed-rate real estate loans in the secondary market. As a result, the amount of income recognized by Peoples is largely dependent on customer demand and long-term interest rates for residential real estate loans offered in the secondary market. Mortgage banking income decreased 30% in 2014 and 39% in 2013 due to slowed refinancing activity. In 2014, Peoples sold approximately $48.8 million of loans to the secondary market compared to $73.2 million in 2013 and $129.4 million in 2012.

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Non-Interest Expense

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

(Dollars in thousands)	2014	2013	2012
Base salaries and wages	$29,265	$24,028	$21,076
Sales-based and incentive compensation	7,265	7,110	6,484
Employee benefits	5,880	3,622	4,277
Stock-based compensation	2,111	1,362	942
Deferred personnel costs	(1,396)	(2,292)	(1,884)
Payroll taxes and other employment costs	3,468	2,642	2,531
Total salaries and employee benefit costs	$46,593	$36,472	$33,426
Full-time equivalent employees:			
Actual at end of period	699	546	494
Average during the period	602	531	499

Base salaries and wages increased in both 2014 and 2013 due to completed acquisitions, additional operational staff and the addition of new sales talent in several markets, which significantly impacted the number of full-time equivalent employees. Peoples' sales-based and incentive compensation is tied to corporate incentive plans and commission from sales production. This area has grown over recent years in conjunction with the increased commission-based revenue and improved financial performance.

Peoples' employee benefit costs increased 62% compared to 2013 primarily due to pension settlement charges of $1.4 million incurred in 2014, compared to $270,000 in 2013 and $835,000 in 2012. Effective March 1, 2011, Peoples froze the accrual of pension benefits, and since then, settlement charges have been largely based on the timing of retirements of individuals and their election of lump-sum distributions. Under US GAAP, Peoples is required to recognize a settlement gain or loss when the aggregate amount of lump-sum distributions to participants equals or exceeds the sum of the service and interest cost components of the net periodic pension cost. The amount of settlement gain or loss recognized is the pro rata amount of the unrealized gain or loss existing immediately prior to the settlement. Management anticipates continued pension settlement charges in future years as individuals retire and elect lump-sum distributions from the plan. During 2014, employee benefit costs also increased $994,000 from higher employee medical benefit plan expenses, which are tied to claims activity, compared to a reduction in 2013 from 2012.

Stock-based compensation is generally recognized over the vesting period, typically ranging from 6 months to 3 years. For all awards, expense is initially only recognized for the portion of awards that is expected to vest, and at the vesting date, an adjustment is made to recognize the entire expense for vested awards and reverse expense for non-vested awards. The majority of Peoples' stock-based compensation expense is attributable to annual equity-based incentive awards to employees, which are awarded in the first quarter and based upon Peoples achieving certain performance goals during the prior year. During 2014, Peoples granted restricted shares to non-employee directors, officers and key employees with performance-based vesting periods and time-based vesting periods. Stock-based compensation expense in 2014 included $1,048,000 of expense related to these awards, $298,000 related to a one-time stock award of unrestricted common shares to all full-time and part-time employees who did not already participate in the equity plan, while the remaining expense recognized was for grants awarded in previous years. As it is probable that all outstanding performance-based vesting conditions will be satisfied, Peoples recorded the pro-rata expense for all outstanding performance-based awards in 2014, as required by US GAAP. Additional information regarding Peoples' stock-based compensation plans and awards can be found in Note 16 of the Notes to the Consolidated Financial Statements.

Deferred personnel costs represent the portion of current period salaries and employee benefit costs considered to be direct loan origination costs. These costs are capitalized and recognized over the life of the loan as a yield adjustment to interest income. As a result, the amount of deferred personnel costs for each year corresponds directly with the level of new loan originations. Additional information regarding Peoples' loan activity can be found later in this discussion under the caption “Loans”.

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

(Dollars in thousands)	2014	2013	2012
Depreciation	$2,986	$2,581	$2,212
Repairs and maintenance costs	2,057	1,739	1,467
Net rent expense	931	925	866
Property taxes, utilities and other costs	1,865	1,595	1,549
Total net occupancy and equipment expense	$7,839	$6,840	$6,094

During 2014, Peoples acquired several new offices which resulted in higher depreciation, repairs and maintenance costs and property taxes, utilities and other costs. In addition, Peoples opened several new branch locations, completed the renovation of its branch network that began in 2013 and finished a rebranding project in late 2012. Management continues to monitor capital expenditures and explore opportunities to enhance Peoples' operating efficiency.

Professional fees expense represents the cost of accounting, legal and other third-party professional services utilized by Peoples, and increased 34% during 2014. Professional fees incurred as a result of acquisition-related activities were $2.0 million in 2014, compared to $448,000 and $300,000 in 2013 and 2012, respectively.

Peoples' e-banking expense, which is comprised of bankcard, internet and mobile banking costs, increased in 2014 and 2013 due to customers completing a higher volume of transactions using their debit cards, Peoples' internet banking service and increased debit card compromises at certain large retail companies. These factors also produced a greater increase in the corresponding e-banking revenues over the same periods.

In 2014, marketing expense, which includes advertising, donation and other public relations costs, was relatively flat compared to 2013. Marketing expense decreased in 2013 due to the higher expenses in 2012 recognized in connection with the rebranding efforts. Peoples contributed $300,000 in 2014, $200,000 in 2013 and $400,000 in 2012 to Peoples Bancorp Foundation Inc. Peoples formed this private foundation in 2004 to make charitable contributions to organizations within Peoples' primary market area. Future contributions to Peoples Bancorp Foundation Inc. will be evaluated on a quarterly basis, with the determination of the amount of any contribution based largely on the perceived level of need within the communities Peoples serves.

Peoples is subject to state franchise taxes, which are based largely on Peoples Bank's equity at year-end, in the states where Peoples Bank has a physical presence. Franchise taxes increased during 2013 due to an increase in equity from the overall improvement in earnings. Peoples regularly evaluates the capital position of its direct and indirect subsidiaries from both a cost and leverage perspective. Ultimately, management seeks to optimize Peoples' consolidated capital position through allocation of capital, which is intended to enhance profitability and shareholder value.

Peoples' intangible asset amortization expense is driven by acquisition-related activity, and increased 77% in 2014 and 59% in 2013. Management expects this amount to increase significantly in 2015 as it continues to complete acquisitions and recognizes a full year of amortization for acquisitions completed during 2014.

Data processing and software costs include software support, maintenance and depreciation expense. These costs increased during 2014 due to the recent acquisitions and new software projects completed, and were relatively flat in 2013 compared to 2012.

Peoples' FDIC insurance costs increased during 2014 as a result of recent acquisitions. These costs stabilized during 2013 and 2012, after new regulations required by the Dodd-Frank Act became effective during 2011. Additional information regarding Peoples' FDIC insurance assessments may be found in "ITEM 1 - BUSINESS" of this Form 10-K in the section captioned "Supervision and Regulation".

Peoples' efficiency ratio, calculated as non-interest expense less amortization of other intangible assets divided by FTE net interest income plus non-interest income, was 75.37% for 2014, compared to 71.90% for 2013 and 69.55% for 2012. The increases in 2014 and 2013 were largely a result of one-time costs for acquisitions plus higher salaries and employee benefit costs.

Income Tax Expense

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

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Pre-Provision Net Revenue
Pre-provision net revenue ("PPNR") has become a key financial measure used by federal bank regulatory agencies when assessing the capital adequacy of financial institutions. PPNR is defined as net interest income plus non-interest income minus non-interest expense and therefore, excludes the provision for (recovery of) loan losses and all gains and losses included in earnings. As a result, PPNR represents the earnings capacity that can be either retained in order to build capital or used to absorb unexpected losses and preserve existing capital.
The following table provides a reconciliation of this non-GAAP financial measure to the amounts reported in Peoples' consolidated financial statements for the periods presented:

(Dollars in thousands)	2014	2013	2012	2011	2010
Pre-Provision Net Revenue:					
Income before income taxes	$24,178	$29,084	$29,910	$17,151	$5,753
Add: provision for loan losses	339	—	—	7,998	26,916
Add: net loss on debt extinguishment	—	—	4,144	—	3,630
Add: net loss on loans held-for-sale and OREO	95	—	—	926	3,173
Add: net loss on securities transactions	30	—	—	—	1,786
Add: net loss on other assets	430	241	248	—	88
Less: recovery of loan losses	—	4,410	4,716	—	—
Less: net gain on debt extinguishment	67	—	—	—	—
Less: net gain on loans held-for-sale and OREO	27	86	66	—	—
Less: net gain on securities transactions	428	489	3,548	473	6,852
Less: net gain on other assets	—	—	—	10	—
Pre-provision net revenue	$24,550	$24,340	$25,972	$25,592	$34,494
Pre-provision net revenue	$24,550	$24,340	$25,972	$25,592	$34,494
Total average assets	2,240,534	1,932,367	1,841,289	1,811,079	1,961,727
Pre-provision net revenue to total average assets	1.10 %	1.26 %	1.41 %	1.41 %	1.76 %

During 2014, PPNR declined due to higher average assets resulting from recent acquisitions and organic growth, coupled with additional costs from acquisition-related activities.
FINANCIAL CONDITION
Cash and Cash Equivalents
Peoples considers cash and cash equivalents to consist of Federal Funds sold, cash and balances due from banks, interest-bearing balances in other institutions and other short-term investments that are readily liquid. The amount of cash and cash equivalents fluctuates on a daily basis due to customer activity and Peoples' liquidity needs. At December 31, 2014, excess cash reserves at the Federal Reserve Bank were $12.4 million, compared to $14.2 million at December 31, 2013. 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 2014, Peoples' total cash and cash equivalents decreased $7.6 million, as cash provided by Peoples' operating activities of $31.5 million was mostly offset by cash used by investing activities of $9.7 million and financing activities of $14.2 million. Cash provided by activities in available-for-sale securities and business combinations of $44.7 million, and $17.1 million, respectively, partially funded loan growth of $76.1 million. Within Peoples' financing activities, the decreases in interest-bearing deposits and short-term borrowings of $56.1 million were tempered by an increase in non-interest bearing deposits of $18.4 million and $40.2 million in proceeds from issuance

of common shares.
In 2013, Peoples' total cash and cash equivalents decreased $8.7 million, as cash provided by Peoples' operating and financing activities of $40.5 million and $30.8 million, respectively, were more than offset by the $80.0 million of cash used by investing activities. Investing activities used $109.6 million to fund loan growth, while the BOLI Surrender provided cash of $43.1 million. Within Peoples' financing activities, the increase in short-term borrowings of $65.8 million was the result of loan growth, and decreases in deposit balances of $22.4 million, excluding the impact of acquired deposits.

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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)	2014	2013	2012	2011	2010
Available-for-sale securities, at fair value:					
Obligations of:					
U.S. Treasury and government agencies	$1	$20	$26	$32	$39
U.S. government sponsored agencies	5,950	319	516	13,037	12,262
States and political subdivisions	64,743	50,962	45,668	35,745	47,379
Residential mortgage-backed securities	527,291	510,097	514,096	527,003	507,534
Commercial mortgage-backed securities	27,847	32,304	64,416	37,289	30,700
Bank-issued trust preferred securities	5,645	7,829	10,357	12,211	12,984
Equity securities	5,403	4,577	4,106	3,254	3,088
U.S. government-backed student loan pools	—	—	—	—	—
Collateralized debt obligations	—	—	—	—	—
Total fair value	$636,880	$606,108	$639,185	$628,571	$613,986
Total amortized cost	$632,967	$621,126	$628,584	$617,128	$617,122
Net unrealized gain (loss)	$3,913	$(15,018)	$10,601	$11,443	$(3,136)
Held-to-maturity securities, at amortized cost:					
Obligations of:					
States and political subdivisions	$3,841	$3,850	$3,860	$3,525	$—
Residential mortgage-backed securities	36,945	37,536	33,494	12,776	—
Commercial mortgage-backed securities	7,682	7,836	7,921	—	—
Total amortized cost	$48,468	$49,222	$45,275	$16,301	$—
Total investment portfolio:					
Amortized cost	$681,435	$670,348	$673,859	$633,429	$617,122
Carrying value	$685,348	$655,330	$684,460	$644,872	$613,986

At December 31, 2014, Peoples' investment securities were approximately 27.8% of total assets compared to 33.0% at December 31, 2013, as Peoples continued to focus on reducing the relative size of the investment portfolio. During 2014, Peoples acquired and retained approximately $11.9 million of available-for-sale investment securities, while the remaining acquired securities were sold. The additional increases in the available-for-sale investment securities in 2014 were due to purchases outpacing sales, calls and maturities. In 2013, and throughout 2012, Peoples designated certain securities as "held-to-maturity" at the time of their purchase, as management made the determination Peoples would hold these securities until maturity and concluded Peoples had the ability to do so. Recently, Peoples has maintained the size of the held-to-maturity securities portfolio, for which the unrealized gain or loss does not directly impact stockholders' equity, in contrast to the impact from the available-for-sale securities portfolio.

Peoples has taken actions within the investment portfolio in an effort to reduce interest rate exposure, resulting in sales during 2013 of several residential mortgage-backed securities and commercial mortgage-backed securities. Peoples' investment in residential and commercial mortgage-backed securities largely consists of securities either guaranteed by the U.S. government or issued by U.S. government sponsored agencies, such as Fannie Mae and Freddie Mac. The remaining portions of Peoples' mortgage-backed securities consist of securities issued by other entities, including other financial institutions, which are not guaranteed by the U.S. government.

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

(Dollars in thousands)	2014	2013	2012	2011	2010
Residential	$14,058	$23,446	$37,267	$58,660	$113,559
Commercial	—	—	—	1,288	26,090
Total fair value	$14,058	$23,446	$37,267	$59,948	$139,649
Total amortized cost	$13,604	$22,926	$36,395	$59,148	$136,997
Net unrealized gain	$454	$520	$872	$800	$2,652

Management continues to reinvest the principal runoff from the non-agency securities in U.S agency investments, which has accounted for the continued decline in the fair value of these securities. At December 31, 2014, Peoples' non-agency portfolio consisted entirely of first lien residential mortgages, with nearly all of the underlying loans in these securities originated prior to 2004 and possessing fixed interest rates. Management continues to monitor the non-agency portfolio closely for leading indicators of increasing stress and will continue to be proactive in taking actions to mitigate such risk when necessary.

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

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Loans

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

(Dollars in thousands)	2014	2013	2012	2011	2010
Gross originated loans:					
Commercial real estate, construction	$37,901	$44,703	$32,000	$30,577	$27,595
Commercial real estate, other	434,660	394,532	378,073	410,352	425,528
Commercial real estate	472,561	439,235	410,073	440,929	453,123
Commercial and industrial	249,975	206,276	180,131	140,857	153,713
Residential real estate	254,169	248,883	211,404	219,619	219,833
Home equity lines of credit	62,463	55,178	49,691	47,790	48,525
Consumer	169,913	133,864	99,011	87,531	83,323
Deposit account overdrafts	2,933	2,060	6,563	1,780	2,201
Total originated loans	$1,212,014	$1,085,496	$956,873	$938,506	$960,718
Gross acquired loans:					
Commercial real estate, construction	1,051	2,836	2,265	—	—
Commercial real estate, other	121,475	55,638	—	—	—
Commercial real estate	122,526	58,474	2,265	—	—
Commercial and industrial	30,056	26,478	—	—	—
Residential real estate	225,274	19,734	22,437	—	—
Home equity lines of credit	18,232	4,898	1,362	—	—
Consumer	12,796	1,154	2,235	—	—
Total acquired loans (a)	$408,884	$110,738	$28,299	$—	$—
Total loans	$1,620,898	$1,196,234	$985,172	$938,506	$960,718
Average total loans	1,364,808	1,046,371	967,166	950,951	1,029,903
Average allowance for loan losses	(17,362)	(17,935)	(21,473)	(27,259)	(29,597)
Average loans, net of average allowance for loan losses	$1,347,446	$1,028,436	$945,693	$923,692	$1,000,306
Percent of loans to total loans:					
Commercial real estate, construction	2.4%	4.0%	3.5%	3.3%	2.9%
Commercial real estate, other	34.2%	37.6%	38.4%	43.7%	44.2%
Commercial real estate	36.6%	41.6%	41.9%	47.0%	47.1%
Commercial and industrial	17.3%	19.5%	18.3%	15.0%	16.0%
Residential real estate	29.6%	22.5%	23.7%	23.4%	22.9%
Home equity lines of credit	5.0%	5.0%	5.2%	5.1%	5.1%
Consumer	11.3%	11.3%	10.3%	9.3%	8.7%
Deposit account overdrafts	0.2%	0.1%	0.6%	0.2%	0.2%
Total percentage	100.0%	100.0%	100.0%	100.0%	100.0%
Residential real estate loans being serviced for others	$352,779	$341,183	$330,721	$275,715	$250,691

(a) Includes all loans acquired in 2012 and thereafter.

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

prior years which caused the increase in residential real estate loans.
Beginning in 2013, Peoples placed greater emphasis on its consumer lending business, which primarily consists of automobile loans obtained directly or indirectly through automobile dealerships. Peoples added additional sales talent within this business line and established better relationships with dealers, resulting in substantially higher loan balances compared to prior years.

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The following table details the maturities of Peoples' commercial and construction loans at December 31, 2014:

(Dollars in thousands)	Due in One Year or Less	Due in One to Five Years	Due After Five Years	Total
Loan Type				
Commercial real estate, construction:				
Fixed	$943	$—	$5,711	$6,654
Variable	25,264	4,142	2,892	32,298
Total	$26,207	$4,142	$8,603	$38,952
Commercial real estate, other:				
Fixed	$6,546	$108,062	$60,448	$175,056
Variable	255,193	116,091	9,795	381,079
Total	$261,739	$224,153	$70,243	$556,135
Commercial and industrial:				
Fixed	$4,101	$69,038	$20,073	$93,212
Variable	179,033	7,458	328	186,819
Total	$183,134	$76,496	$20,401	$280,031

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.

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, 2014:

(Dollars in thousands)	Outstanding Balance	Loan Commitments	Total Exposure	% of Total	
Commercial real estate, construction:					
Assisted living facilities and nursing homes	$9,385	$4,464	$13,849	16.2	%
Residential property	3,311	5,101	8,412	9.8	%
Apartment complexes	12,955	24,624	37,579	43.8	%
Office buildings and complexes:					
Owner occupied	213	37	250	0.3	%
Non-owner occupied	1,995	2,757	4,752	5.5	%
Total office buildings and complexes	2,208	2,794	5,002	5.8	%
Mixed commercial use facilities:					
Owner occupied	895	—	895	1.0	%
Non-owner occupied	112	2,266	2,378	2.8	%
Total mixed commercial use facilities	1,007	2,266	3,273	3.8	%
Day care facilities - owner occupied	853	2,092	2,945	3.4	%
Restaurant facilities	2,975	—	2,975	3.5	%
Other	6,258	5,440	11,698	13.7	%
Total commercial real estate, construction	$38,952	$46,781	$85,733	100.0	%

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(Dollars in thousands)	Outstanding Balance	Loan Commitments	Total Exposure	% of Total	
Commercial real estate, other:					
Lodging and lodging related	$51,826	$—	$51,826	9.1	%
Apartment complexes	65,073	50	65,123	11.4	%
Office buildings and complexes:					
Owner occupied	18,371	169	18,540	3.2	%
Non-owner occupied	46,055	732	46,787	8.2	%
Total office buildings and complexes	64,426	901	65,327	11.4	%
Light industrial facilities:					
Owner occupied	31,975	317	32,292	5.7	%
Non-owner occupied	2,217	—	2,217	0.4	%
Total light industrial facilities	34,192	317	34,509	6.1	%
Retail facilities:					
Owner occupied	17,840	115	17,955	3.2	%
Non-owner occupied	32,463	—	32,463	5.7	%
Total retail facilities	50,303	115	50,418	8.9	%
Assisted living facilities and nursing homes	45,043	251	45,294	8.0	%
Mixed commercial use facilities:					
Owner occupied	21,953	1,041	22,994	4.0	%
Non-owner occupied	18,748	307	19,055	3.3	%
Total mixed commercial use facilities	40,701	1,348	42,049	7.3	%
Day care facilities - owner occupied	18,032	—	18,032	3.2	%
Health care facilities:					
Owner occupied	5,496	38	5,534	1.0	%
Non-owner occupied	3,423	145	3,568	0.6	%
Total health care facilities	8,919	183	9,102	1.6	%
Restaurant facilities:					
Owner occupied	15,089	68	15,157	2.7	%
Non-owner occupied	1,082	—	1,082	0.2	%
Total restaurant facilities	16,171	68	16,239	2.9	%
Warehouse facilities	16,733	281	17,014	3.0	%
Gas station facilities:					
Owner occupied	5,525	75	5,600	1.0	%
Non-owner occupied	6,674	—	6,674	1.2	%
Total gas station facilities	12,199	75	12,274	2.2	%
Fitness center facilities:					
Owner occupied	10,428	31	10,459	1.8	%
Non-owner occupied	233	—	233	—	%
Total fitness center facilities	10,661	31	10,692	1.8	%
Other	121,856	9,435	131,291	23.1	%
Total commercial real estate, other	$556,135	$13,055	$569,190	100.0	%

Peoples' commercial lending activities continue to focus on lending opportunities inside its primary and secondary market areas within Ohio, West Virginia and Kentucky. In all other states, the aggregate outstanding balances of commercial loans in each state were less than $4.0 million at both December 31, 2014 and December 31, 2013.

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Allowance for Loan Losses

The amount of the allowance for loan losses at the end of each period represents management's estimate of probable losses from existing loans based upon its formal quarterly analysis of the loan portfolio described in the "Critical Accounting Policies" section of this discussion. While this process involves allocations being made to specific loans and pools of loans, the entire allowance is available for all losses incurred within the loan portfolio. The following details management's allocation of the allowance for loan losses at December 31:

(Dollars in thousands)	2014	2013	2012	2011	2010
Commercial real estate	$9,825	$13,215	$14,215	$18,947	$21,806
Commercial and industrial	4,036	2,174	1,733	2,434	2,160
Total commercial	13,861	15,389	15,948	21,381	23,966
Residential real estate	1,627	881	801	1,119	1,400
Home equity lines of credit	694	343	479	541	431
Consumer	1,587	316	438	449	721
Deposit account overdrafts	112	136	145	227	248
Total allowance for loan losses	$17,881	$17,065	$17,811	$23,717	$26,766
As a percent of originated loans, net of deferred fees and costs	1.48%	1.58%	1.86%	2.53%	2.79%

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

The significant allocations to commercial loans reflect the higher credit risk associated with these types of lending and the size of these loan categories in relationship to the entire loan portfolio. During 2014, Peoples experienced an increase of $15.7 million in criticized loans, which are those classified as watch, substandard or doubtful. Peoples received principal paydowns of $20.6 million in 2014, and upgraded $33.7 million in loans based upon the financial condition of the borrowers. Net charge-offs continued to remain at or below Peoples' long-term historical rate.

The allowance allocated to the residential real estate and consumer loan categories was based upon Peoples' allowance methodology for homogeneous pools of loans. The fluctuations in these allocations have been directionally consistent with the changes in loan quality, loss experience and loan balances in these categories.

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

(Dollars in thousands)	2014	2013	2011	2011	2010
Allowance for loan losses, January 1	$17,065	$17,811	$23,717	$26,766	$27,257
Gross charge-offs:					
Commercial real estate, construction	—	—	—	—	68
Commercial real estate, other	203	1,053	5,146	11,249	25,568
Commercial real estate	203	1,053	5,146	11,249	25,636
Commercial and industrial	199	44	34	1,033	1,281
Residential real estate	478	621	1,091	1,593	1,129
Home equity lines of credit	128	162	94	366	131
Consumer	1,191	1,084	572	939	1,074
Deposit account overdrafts	516	527	574	664	929
Total gross charge-offs	2,715	3,491	7,511	15,844	30,180
Recoveries:					
Commercial real estate, construction	—	—	—	—	—
Commercial real estate, other	2,060	5,839	4,399	2,469	1,322
Commercial real estate	2,060	5,839	4,399	2,469	1,322
Commercial and industrial	77	40	358	729	220
Residential real estate	169	536	773	636	225
Home equity lines of credit	36	26	32	51	34
Consumer	697	552	561	687	671
Deposit account overdrafts	153	162	198	225	301
Total recoveries	3,192	7,155	6,321	4,797	2,773
Net (recoveries) charge-offs:					
Commercial real estate, construction	—	—	—	—	68
Commercial real estate, other	(1,857)	(4,786)	747	8,780	24,246
Commercial real estate	(1,857)	(4,786)	747	8,780	24,314
Commercial and industrial	122	4	(324)	304	1,061
Residential real estate	309	85	318	957	904
Home equity lines of credit	92	136	62	315	97
Consumer	494	532	11	252	403
Deposit account overdrafts	363	365	376	439	628
Total net (recoveries) charge-offs	$(477)	$(3,664)	$1,190	$11,047	$27,407
Provision for (recoveries of) loan losses, December 31	339	(4,410)	(4,716)	7,998	26,916
Allowance for loan losses, December 31	$17,881	$17,065	$17,811	$23,717	$26,766
Net (recoveries) charge-offs as a percent of average total loans:					
Commercial real estate, construction	—%	—%	—%	—%	0.01%
Commercial real estate, other	(0.14)%	(0.46)%	0.08%	0.92%	2.35%
Commercial real estate	(0.14)%	(0.46)%	0.08%	0.92%	2.36%
Commercial and industrial	0.01%	—%	(0.03)%	0.03%	0.10%
Residential real estate	0.02%	0.01%	0.03%	0.10%	0.09%
Home equity lines of credit	0.01%	0.01%	—%	0.03%	0.01%
Consumer	0.04%	0.05%	—%	0.03%	0.04%
Deposit account overdrafts	0.03%	0.04%	0.04%	0.05%	0.06%

Total	(0.03)%	(0.35)%	0.12 %	1.16 %	2.66 %

During 2014, Peoples recorded recoveries of $1.5 million on two previously charged-off commercial real estate loans. Peoples' net charge-offs continue to remain well below the long-term historical average of 0.30% to 0.50%. Peoples focuses on sound underwriting and prudent risk management to maintain this lower level of charge-offs.

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

(Dollars in thousands)	2014	2013	2012	2011	2010
Loans 90+ days past due and accruing:					
Commercial real estate, other	$567	$—	$—	$—	$—
Commercial and industrial	301	78	181	—	—
Residential real estate	1,901	289	293	613	27
Home equity lines of credit	20	873	1,050	708	645
Consumer	10	—	4	—	—
Total	2,799	1,240	1,528	1,321	672
Nonaccrual loans:					
Commercial real estate, construction	—	96	—	—	—
Commercial real estate, other	2,278	1,882	7,233	20,556	34,392
Commercial and industrial	1,800	630	627	2,262	1,714
Residential real estate	2,695	1,615	1,864	2,827	3,197
Home equity lines of credit	315	81	24	349	554
Consumer	3	58	12	—	—
Total	7,091	4,362	9,760	25,994	39,857
Nonaccrual troubled debt restructurings:					
Commercial real estate, construction	96	—	—	—	—
Commercial real estate, other	306	916	2,572	2,959	—
Commercial and industrial	194	—	—	—	—
Residential real estate	658	650	350	425	593
Home equity lines of credit	45	6	—	—	—
Consumer	16	—	—	—	—
Total	1,315	1,572	2,922	3,384	593
Total nonperforming loans (NPLs)	11,205	7,174	14,210	30,699	41,122
Other real estate owned (OREO)					
Commercial	582	465	815	2,194	4,280
Residential	364	428	21	—	215
Total	946	893	836	2,194	4,495
Total nonperforming assets (NPAs)	$12,151	$8,067	$15,046	$32,893	$45,617
NPLs as a percent of total loans	0.69%	0.60%	1.43%	3.26%	4.26%
NPAs as a percent of total assets	0.47%	0.39%	0.78%	1.83%	2.48%
NPAs as a percent of total loans and OREO	0.75%	0.67%	1.52%	3.48%	4.70%
Allowance for loan losses as a percent of NPLs	159.58%	237.87%	125.34%	77.26%	65.09%

At December 31, 2014, loans 90+ days past due and accruing included $2.3 million of loans that were acquired that had evidence of credit quality deterioration since origination and for which interest income was being recognized on a level-yield method over the life of the loan.

The majority of Peoples' nonaccrual commercial real estate loans continued to consist of non-owner occupied commercial properties and real estate development projects. In general, management believes repayment of these loans is dependent on the sale of the underlying collateral. As such, the carrying values of these loans are ultimately supported by management's estimate of the net proceeds Peoples would receive upon the sale of the collateral. These estimates are based in part on market values provided by independent, licensed or certified appraisers periodically, but no less frequently than annually. Given the volatility in commercial real estate values, management continues to monitor changes in real estate values from quarter-to-quarter and updates its estimates as needed based on observable

changes in market prices and/or updated appraisals for similar properties. The significant decreases in nonaccrual commercial real estate loans during recent years was a result of the addition of a special assets group and their efforts in collecting and recovering payments on delinquent commercial loans. The increase in nonaccrual commercial and industrial loans during 2014 was driven by a single $1.2 million relationship placed on nonaccrual during the fourth quarter of 2014.
Interest income on loans classified as nonaccrual and renegotiated at each year-end that would have been recorded under the original terms of the loans was $0.5 million for 2014, $0.2 million for 2013 and $0.5 million for 2012. No portion of the

amounts was recorded during 2014, 2013 or 2012, consistent with the income recognition policy described in the "Critical Accounting Policies" section of this discussion.

Overall, management believes the allowance for loan losses was adequate at December 31, 2014, based on all significant information currently available. Still, there can be no assurance that the allowance for loan losses will be adequate to cover future losses or that the amount of nonperforming loans will remain at current levels, especially considering the current economic uncertainty that exists and the concentration of commercial loans in Peoples' loan portfolio.

Deposits

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

(Dollars in thousands)	2014	2013	2012	2011	2010
Interest-bearing deposits:					
Retail certificates of deposit	$432,563	$363,226	$392,313	$411,247	$430,886
Money market deposit accounts	337,387	275,801	288,404	264,873	284,382
Governmental deposit accounts	161,305	132,379	130,630	126,453	127,719
Savings accounts	295,307	215,802	183,499	138,383	119,572
Interest-bearing demand accounts	173,659	134,618	124,787	106,233	96,507
Total retail interest-bearing deposits	1,400,221	1,121,826	1,119,633	1,047,189	1,059,066
Brokered certificates of deposits	39,691	49,041	55,599	64,054	87,465
Total interest-bearing deposits	1,439,912	1,170,867	1,175,232	1,111,243	1,146,531
Non-interest-bearing deposits	493,162	409,891	317,071	239,837	215,069
Total deposits	$1,933,074	$1,580,758	$1,492,303	$1,351,080	$1,361,600

At December 31, 2014, the Midwest, Ohio Heritage and North Akron acquisitions added approximately $105.0 million of certificates of deposits ("CDs"), $165.1 million of money market deposit accounts, $2.1 million of governmental deposit accounts, $53.1 million of savings accounts, $1.0 million of interest-bearing demand accounts and $5.5 million of non-interest-bearing deposits.

In 2014, Peoples continued to maintain its deposit strategy of growing low-cost core deposits, such as checking and savings accounts, and reducing its reliance on higher-cost, non-core deposits, such as CDs and brokered deposits. This strategy has included more selective pricing of long-term CDs, governmental/public fund deposits and similar non-core deposits, as well as not renewing maturing brokered deposits. As a result, organic balances in CDs and money market deposit accounts declined 10% and 38%, respectively, in 2014. Governmental deposit accounts experienced 20% organic growth as higher balances were maintained in several city and county deposit accounts. Also during 2014, interest-bearing demand accounts increased due to higher balances held by individual accounts. Non-interest-bearing deposits continued to grow in 2014, due largely to a mix of higher balances in both commercial and consumer deposit balances. During 2014, organic non-interest-bearing deposit balances increased $77.8 million, or 19%.

Peoples' governmental deposit accounts represent savings and interest-bearing transaction accounts from state and local governmental entities. These funds are subject to periodic fluctuations based on the timing of tax collections and subsequent expenditures or disbursements. Peoples normally experiences an increase in balances annually during the first quarter corresponding with tax collections, with declines normally in the second half of each year corresponding with expenditures by the governmental entities. While these balances have increased since 2008, Peoples continues to emphasize growth of low-cost deposits that do not require Peoples to pledge assets as collateral, which is required in the case of governmental deposit accounts.

The maturities of retail CDs with total balances of $250,000 or more at December 31 were as follows:

(Dollars in thousands)	2014	2013	2012	2011	2010
3 months or less	$14,058	$19,969	$10,745	$20,457	$51,159
Over 3 to 6 months	7,072	5,952	6,422	2,726	—
Over 6 to 12 months	12,600	11,551	12,020	7,416	—

Over 12 months	25,301	26,419	23,643	19,681	1,058
Total	$59,031	$63,891	$52,830	$50,280	$52,217

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Borrowed Funds

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

(Dollars in thousands)	2014	2013	2012	2011	2010
Short-term borrowings:					
FHLB advances	$15,000	$71,000	$15,000	$8,500	$—
Retail repurchase agreements	73,277	42,590	32,769	43,143	51,509
Total short-term borrowings	88,277	113,590	47,769	51,643	51,509
Long-term borrowings:					
FHLB advances	124,714	62,679	64,904	77,312	92,703
Callable national market repurchase agreements	40,000	40,000	40,000	65,000	65,000
Term note payable (parent company)	14,369	19,147	23,919	—	—
Total long-term borrowings	179,083	121,826	128,823	142,312	157,703
Subordinated debentures held by subsidiary trust	—	—	—	22,600	22,565
Total borrowed funds	$267,360	$235,416	$176,592	$216,555	$231,777

Peoples' short-term FHLB advances generally consist of overnight borrowings being maintained in connection with the management of Peoples' daily liquidity position. During 2014, Peoples reduced its usage of short-term FHLB advances due to the increase in deposit balances. Peoples' retail repurchase agreements consist of overnight agreements with commercial customers and serve as a cash management tool.

The increase in the long-term borrowings during 2014 was primarily due to Peoples acquiring and restructuring long-term FHLB advances from Ohio Heritage. During 2012, Peoples entered into a loan agreement that was subsequently amended in 2014 (as amended, "Amended Loan Agreement"), and Peoples is subject to certain covenants imposed by this Amended Loan Agreement. At December 31, 2014, Peoples was in compliance with the applicable material covenants.

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

Capital/Stockholders' Equity

During 2014, Peoples' total stockholders' equity increased primarily due to $54.4 million of common equity issued in connection with acquisitions completed during the year and the Private Equity Issuance of common shares which added $40.2 million in common equity. Also contributing to the increase were an excess of earnings over dividends declared, and a recovery in the market value of available-for-sale investment securities. Regulatory capital ratios continued to fluctuate due to recent acquisitions.

At December 31, 2014, capital levels for both Peoples and Peoples Bank remained substantially higher than the minimum amounts needed to be considered "well capitalized" under banking regulations. These higher capital levels reflect Peoples' desire to maintain strong capital positions to provide greater flexibility to grow the company.

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

(Dollars in thousands)	2014	2013	2012	2011	2010
Capital Amounts:					
Tier 1 common	$241,707	$166,217	$160,604	$142,521	$133,197
Tier 1	241,707	166,217	160,604	165,121	194,407
Total (Tier 1 and Tier 2)	261,371	184,457	176,224	180,053	209,738
Net risk-weighted assets	$1,687,968	$1,338,811	$1,141,938	$1,111,443	$1,149,587
Capital Ratios:					
Tier 1 common	14.32%	12.42%	14.06%	12.82%	11.59%
Tier 1	14.32%	12.42%	14.06%	14.86%	16.91%
Total (Tier 1 and Tier 2)	15.48%	13.78%	15.43%	16.20%	18.24%

Tier 1 leverage	9.92 %	8.52 %	8.83 %	9.45 %	10.63 %

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

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

(Dollars in thousands)	2014	2013	2012	2011	2010
Tangible Equity:					
Total stockholders' equity	$340,118	$221,553	$221,728	$206,657	$230,681
Less: goodwill and other intangible assets	109,158	77,603	68,525	64,475	64,870
Tangible equity	$230,960	$143,950	$153,203	$142,182	$165,811
Tangible Common Equity:					
Tangible equity	$230,960	$143,950	$153,203	$142,182	$165,811
Less: preferred stockholders' equity	—	—	—	—	38,645
Tangible common equity	$230,960	$143,950	$153,203	$142,182	$127,166
Tangible Assets:					
Total assets	$2,567,769	$2,059,108	$1,918,050	$1,794,161	$1,837,985
Less: goodwill and other intangible assets	109,158	77,603	68,525	64,475	64,870
Tangible assets	$2,458,611	$1,981,505	$1,849,525	$1,729,686	$1,773,115
Tangible Book Value per Share:					
Tangible common equity	$230,960	$143,950	$153,203	$142,182	$127,166
Common shares outstanding	14,836,727	10,605,782	10,547,960	10,507,124	10,457,327
Tangible book value per share	$15.57	$13.57	$14.52	$13.53	$12.16
Tangible Equity to Tangible Assets Ratio:					
Tangible equity	$230,960	$143,950	$153,203	$142,182	$165,811
Tangible assets	$2,458,611	$1,981,505	$1,849,525	$1,729,686	$1,773,115
Tangible equity to tangible assets	9.39%	7.26%	8.28%	8.22%	9.35%
Tangible Common Equity to Tangible Assets Ratio:					
Tangible common equity	$230,960	$143,950	$153,203	$142,182	$127,166
Tangible assets	$2,458,611	$1,981,505	$1,849,525	$1,729,686	$1,773,115
Tangible common equity to tangible assets	9.39%	7.26%	8.28%	8.22%	7.17%

During 2014, Peoples' tangible common equity to tangible assets ratio increased significantly due to recent acquisitions, in which common shares represented a portion of the consideration, and the Private Equity Issuance. The reduction in 2013 was due to the impact of assets acquired in the Ohio Commerce acquisition, which was funded solely by cash consideration, as well as reductions in the fair value of the available-for-sale investment securities.

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Future Outlook
Peoples was successful with many of the goals set for 2014, including organic loan growth and four acquisition announcements. Organic loan growth exceeded expectations throughout 2014 and was the driving force behind improvements in Peoples' asset mix, expanding net interest margin, and robust revenue growth. Three of the four acquisitions announced during 2014 were completed during the year, with the fourth, NB&T, to be closed in March 2015. Upon completion of NB&T, Peoples will exceed $3.2 billion in assets with 81 branch locations throughout the states of Ohio, West Virginia and Kentucky. The growth in organic loans and through acquisitions has made Peoples a stronger, more profitable company. Other key accomplishments included improved revenue generation from Peoples' wealth management and insurance operations, restored asset quality, and net demand deposit account growth.
For 2015, Peoples will build off the momentum that was gained in 2014. Key strategic priorities will include generating positive operating leverage, maintaining superior asset quality, and remaining prudent with the use of capital. Overall, Peoples' key strategic objectives are to be a steady, dependable performer for its shareholders and take advantage of market expansion opportunities. Peoples' long-term strategic goals include generating results in the top quartile of performance relative to Peoples' defined peer group and providing returns for its shareholders superior to those of its peers, regardless of operating conditions.
Revenue growth for 2014 was slightly better than expense growth, excluding one-time costs. Management believes Peoples is positioned to grow revenue faster than expenses in 2015 and is confident this goal will be achieved. The primary focus continues to be on growing revenue, rather than decreasing expenses.
For 2015, net interest margin is expected to remain stable in the low 3.50's. Loan growth will again be the key driver in stabilizing asset yields, along with a continuation of the change in the asset mix. Peoples' efficiency ratio is expected to be below 65%, excluding one-time costs, in the second half of 2015. With the closing of NB&T in March, Peoples expects to have all related cost savings fully phased-in during the second quarter of 2015.
Peoples has the capacity to be a much bigger company. Its experienced management team, along with its scalable systems, has the ability to drive meaningful revenue growth. Thus, Peoples’ long-term goal is to widen the revenue and expense growth gap in future years, which should cause Peoples’ efficiency ratio to improve by 1% to 2% each year.
A major asset for Peoples is its strong fee-based businesses, such as insurance and wealth management. In 2014, Peoples' fee revenue comprised 37% of its total revenue, down from 40% in 2013. Peoples has capabilities that many banks in its market area lack, including some of the largest national banks, which include robust retirement plan services and comprehensive insurance products. Thus, management considers Peoples to have a competitive advantage that directly enhances revenue growth potential. For 2015, management will continue to strive for a diversified revenue stream that consists of 35% to 40% fee-based revenue to total revenue. The achievement of this goal will be driven by continued solid growth in insurance and investment income, and Peoples continually seeking acquisitions opportunities of insurance and wealth management companies.
Even with a more diversified revenue stream than most community banks, net interest income remains a major source of revenue for Peoples. Thus, Peoples' ability to grow revenue in 2015 will be impacted by the amount of net interest income generated. The current outlook is mixed as to whether the Federal Reserve Board will hold short-term interest rates at their historically low levels throughout all of 2015, or if there will be increases in the later half of 2015. Long-term rates could increase but remain more volatile than prior years. Changes in long-term rates would affect reinvestment rates within the loan and investment portfolios. Should the yield curve flatten, Peoples would have limited opportunities to offset the impact on asset yields with a similar reduction in funding costs. Thus, Peoples' ability to produce meaningful loan growth remains the key driver for improving net interest income and margin in 2015.
Management would expect both net interest income and margin to benefit from any meaningful increase in market interest rates based upon the current interest rate risk profile. However, it remains inherently difficult to predict and manage the future trend of Peoples' net interest income and margin due to the uncertainty surrounding the timing and magnitude of future interest rate changes, as well as the impact of competition for loans and deposits.

While the primary focus is on revenue growth, management intends to remain disciplined with operating expenses. For 2015, total non-interest expense will increase due to a full year's impact of the 2014 acquisitions. Outside these items, management will be working to limit increases in other expense areas. However, Peoples continues to have limited control over some expenses, such as employee medical and pension costs.

Peoples continues to be more exposed to pension settlement charges given the frozen status of its defined benefit plan. The recognition of settlement charges is largely dependent upon the timing of distributions, the amount of pension benefit earned by the retirees, and whether the individuals elect a lump sum distribution. For 2015, management does not anticipate to incur the volume of settlement charges incurred in 2014. This expectation is based on normal retirement activity within the plan, but assumes all potential distributions are lump sum payouts.

A key to Peoples' 2015 revenue growth goal is achieving meaningful loan growth. Management believes period-end loan balances could increase by 7% to 9% in 2015, which assumes commercial loan growth of 8% to 10% and consumer loan growth of 3% to 5%. Within Peoples' commercial lending activity, the primary emphasis continues to be on non-mortgage commercial lending opportunities and capitalizing on growth opportunities provided by the acquisitions completed and to be completed in early 2015. As a result, commercial and industrial loan balances should increase at a greater rate than commercial real estate loan balances. Consumer lending activity is continuing to build and will remain a larger contributor to overall loan growth.

Peoples' strategy is to reduce the size of the investment portfolio to 25% of its total assets by year end 2015. Consistent with this goal, management plans to use the cash flow generated by Peoples' significant investment in mortgage-backed securities to fund new loan production. This action would temper the overall growth in total earning assets in 2014. Management could adjust the size or composition of the investment portfolio in response to other factors, such as changes in liquidity needs and interest rate conditions.

In 2015, Peoples' funding strategy continues to emphasize growth of core deposits, such as checking and savings accounts, rather than higher-cost deposits. Thus, CD balances could maintain the declining trend experienced in recent years. Given the expected increase in earning assets, borrowed funds would increase in 2015 to the extent earning asset growth is more than deposit growth. Should this occur, management would evaluate using longer-term borrowings to match the duration of the assets being funded to minimize the long-term interest rate risk.

Peoples remains committed to sound underwriting and prudent risk management. Management believes this credit discipline will benefit Peoples during future economic downturns. The long-term goal is to maintain key metrics in the top-quartile of Peoples' peer group regardless of economic conditions. Net charge-off trends are expected to normalize in 2015 as the prospects of large recoveries diminish. Management anticipates Peoples' net charge-off rate for 2015 to be near the low end of its long-term historical range of 0.20% to 0.30% of average loans.

For 2015, management intends to remain prudent with the level of Peoples' allowance for loan losses. Given the expectation of net-charge offs for 2015, and the continued focus on consumer lending, management does not expect the level to drop much below its current level of 1.48% of total originated loans during 2015. However, the level will continue to be based upon management's quarterly assessment of the losses inherent in the loan portfolio, and the amount of any provision for loan losses should be driven mostly by a combination of the net charge-off rate and loan growth.

Peoples will continue to explore market expansion opportunities in or near its current market areas during 2015. Management's primary focus will be on increasing market share within existing markets, while taking advantage of potential growth opportunities within its insurance and wealth management lines of business. Management believes Peoples' capital position remains strong enough to support an active merger and acquisition strategy, and expansion of Peoples' core financial service businesses of banking, insurance and wealth management. Consequently, management continues to explore acquisition opportunities in these activities. In evaluating acquisition opportunities, management will balance the potential for earnings accretion with maintaining adequate capital levels, which could result in Peoples' common stock being the predominate form of consideration and/or the need for Peoples to raise capital. Conversations with potential strategic partners are occurring on a regular basis. The evaluation of any potential opportunity will favor a transaction that complements Peoples' core competencies and strategic intent, with a lesser emphasis being placed on geographic location or size. Additionally, Peoples remains committed to maintaining a diversified revenue stream. Peoples' management team is prepared to act quickly should a potential opportunity arise, but will remain disciplined with its approach. All transactions must be accretive by no later than the second year in order to satisfy Peoples' goal of improving shareholder return. Management is optimistic regarding Peoples' ability to complete additional acquisitions in 2015.

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

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Interest Rate Sensitivity and Liquidity

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

Interest Rate Risk

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

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

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

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

The ALCO has established limits on changes in the twelve-month net interest income forecast and the economic value of equity from the base case. The ALCO may establish risk tolerances for other parallel and non-parallel rate movements, as deemed necessary.

The following table details the current policy limits used to manage the level of Peoples' IRR:

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

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

Increase in Interest Rate (in Basis Points)	Estimated Increase in Net Interest Income				Estimated (Decrease) Increase in Economic Value of Equity			
	December 31, 2014		December 31, 2013		December 31, 2014		December 31, 2013	
300	$5,600	7.3 %	$5,473	8.9 %	$(66,730)	(15.7)%	$(65,867)	(24.8)%
200	4,848	6.3 %	4,494	7.3 %	(41,537)	(9.8)%	(46,077)	(17.4)%
100	3,235	4.2 %	2,885	4.7 %	(18,026)	(4.2)%	(23,910)	(9.0)%

This table uses a standard, parallel shock analysis for assessing the IRR to net interest income and the economic value of equity. A parallel shock means all points on the yield curve (one year, two year, three year, etc.) are directionally changed the same amount of basis points. For example, 100 basis points are equal to 1%. While management regularly assesses the impact of both increasing and decreasing interest rates, the table above only reflects the impact of upward shocks due to the fact a downward parallel shock of 100 basis points or more is not possible given that most short-term rates are currently less than 1%.

Although a parallel shock table can give insight into the current direction and magnitude of IRR inherent in the balance sheet, interest rates do not always move in a complete parallel manner during interest rate cycles. These nonparallel movements in interest rates, commonly called yield curve steepening or flattening movements, tend to occur during the beginning and end of an interest rate cycle, with differences in the timing, direction and magnitude of changes in short-term and long-term interest rates. Thus, any benefit that could occur as a result of the Federal Reserve Board increasing short-term interest rates in future quarters could be offset by an inverse movement in long-term interest rates. As a result, management conducts more advanced interest rate shock scenarios to gain a better understanding of Peoples' exposure to nonparallel rate shifts.

At December 31, 2014, Peoples' Consolidated Balance Sheet remained positioned for a rising interest rate environment, as illustrated by the potential increase in net interest income shown in the above table. During 2014, Peoples became less sensitive to rising interest rates (as measured by the expected percentage change in economic value of equity) due to several factors. The largest factors impacting Peoples' interest rate sensitivity were an overall reduction in the duration of assets, changes in expected prepayment speeds in the investment portfolio and the three bank acquisitions completed during 2014.

Liquidity

In addition to IRR management, another major objective of the ALCO is to maintain a sufficient level of liquidity. The ALCO defines liquidity as the ability to meet anticipated and unanticipated operating cash needs, loan demand and deposit withdrawals, without incurring a sustained negative impact on profitability.

A primary source of liquidity for Peoples is retail deposits. Liquidity is also provided by cash generated from earning assets such as maturities, calls, and principal and interest payments from loans and investment securities. Peoples also uses various wholesale funding sources to supplement funding from customer deposits. These external sources provide Peoples with the ability to obtain large quantities of funds in a relatively short time period in the event of sudden unanticipated cash needs. However, an over-utilization of external funding sources can expose Peoples to greater liquidity risk as these external sources may not be accessible during times of market stress. Additionally, Peoples may be exposed to the risk associated with providing excess collateral to external funding providers, commonly referred to as counterparty risk. As a result, the ALCO's liquidity management policy sets limits on the net liquidity position and the concentration of non-core funding sources, both wholesale funding and brokered deposits.

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

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

An essential element in the management of liquidity risk is a forecast of the sources and uses of anticipated cash flows. On a monthly basis, Peoples forecasts sources and uses of cash for the next twelve months. To assist in the management of liquidity, management has established a liquidity coverage ratio, which is defined as the total sources of cash divided by the total uses of cash. A ratio of greater than 1.0 times indicates that forecasted sources of cash are adequate to fund forecasted uses of cash. The liquidity management policy establishes a minimum limit of 1.0 times. As of December 31, 2014, Peoples had a ratio of 1.80 times, which was within policy limits. Peoples also forecasts secondary or contingent sources of cash, and this includes external sources of funding and liquid assets. These sources of cash would be required if and when the forecasted liquidity coverage ratio dropped below the policy limit of 1.0 times. An additional liquidity measurement used by management includes the total forecasted sources of cash and the contingent sources of cash divided by the forecasted uses of cash. Management has established a minimum ratio of 3.0 times for this liquidity management policy limit. As of December 31, 2014, Peoples had a ratio of 7.38 times, which was within policy limits.

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

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

Liquidity management also requires the monitoring of risk indicators that may alert the ALCO to a developing liquidity situation or crisis. Early detection of stress scenarios allows Peoples to take actions to help mitigate the impact to Peoples Bank's business operations. The LCFP contains various indicators, termed key risk indicators ("KRI's") that are monitored on a monthly basis, at a minimum. The KRI's include both internal and external indicators and include loan delinquency levels, classified and watch list loan levels, non-performing loans to loans and to total assets, the loan to deposit ratio, the level of net non-core funding dependence, the level of contingency funding sources, the liquidity coverage ratio, changes in regulatory capital levels, forecasted operating loss and negative media concerning Peoples, irrational competitor pricing that persists and an increase in rates for external funding sources. The LCFP establishes levels that define each of these KRI's under base, mild, moderate and severe scenarios.

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

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

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Off-Balance Sheet Activities and Contractual Obligations

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

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

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

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

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

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

The following table details the aggregate amount of future payments Peoples is required to make under certain contractual obligations as of December 31, 2014:

		Payments due by period			
(Dollars in thousands)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt (1)	$179,083	$14,377	$22,087	$87,933	$54,686
Operating leases	2,403	786	1,124	489	4
Time deposits	472,254	240,709	163,135	68,012	398
Pension benefits	101	101	—	—	—
Contingent consideration related to acquisitions (2)	1,082	505	577	—	—
Total	$654,923	$256,478	$186,923	$156,434	$55,088

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

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

Effects of Inflation on Financial Statements

Substantially all of Peoples’ assets relate to banking and are monetary in nature. As a result, inflation does not impact Peoples to the same degree as companies in capital-intensive industries in a replacement cost environment. During a period of rising prices, a net monetary asset position results in a loss in purchasing power and conversely a net monetary liability position results in an increase in purchasing power. The opposite would be true during a period of decreasing prices. In the

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banking industry, monetary assets typically exceed monetary liabilities. The current monetary policy targeting low levels of inflation has resulted in relatively stable price levels. Therefore, inflation has had little impact on Peoples' net assets.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

No response required.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Peoples' management, with the participation of Peoples' President and Chief Executive Officer and Peoples' Executive Vice President, Chief Financial Officer and Treasurer, has evaluated the effectiveness of Peoples' disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of December 31, 2014. Based upon that evaluation, Peoples' President and Chief Executive Officer and Peoples' Executive Vice President, Chief Financial Officer and Treasurer have concluded that:

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

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

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

Management's Annual Report on Internal Control Over Financial Reporting

The "Report of Management's Assessment of Internal Control Over Financial Reporting" required by Item 308(a) of SEC Regulation S-K is included on page 63 of this Form 10-K.

Attestation Report of Independent Registered Public Accounting Firm

The "Report of Independent Registered Public Accounting Firm on Effectiveness of Internal Control Over Financial Reporting" required by Item 308(b) of SEC Regulation S-K is included on page 64 of this Form 10-K.

Changes in Internal Control Over Financial Reporting

There were no changes in Peoples' internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during Peoples' fiscal quarter ended December 31, 2014, that have materially affected, or are reasonably likely to materially affect, Peoples' internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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

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

With the supervision and participation of its President and Chief Executive Officer and its Executive Vice President, Chief Financial Officer and Treasurer, management evaluated the effectiveness of Peoples' internal control over financial reporting as of December 31, 2014, using the Internal Control-Integrated Framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework).

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

Management assessed the effectiveness of Peoples' internal control over financial reporting as of December 31, 2014, and, based on this assessment, has concluded Peoples' internal control over financial reporting is effective as of that date.

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

By: /s/	CHARLES W. SULERZYSKI Charles W. Sulerzyski President and Chief Executive Officer	By: /s/	EDWARD G. SLOANE Edward G. Sloane Executive Vice President, Chief Financial Officer and Treasurer

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

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

We have audited Peoples Bancorp Inc. and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Peoples Bancorp Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management's Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Peoples Bancorp Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Peoples Bancorp Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014 of Peoples Bancorp Inc. and subsidiaries and our report dated February 26, 2015 expressed an unqualified opinion thereon.

Charleston, West Virginia
February 26, 2015

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Report of Ernst and Young, Independent Registered Public Accounting Firm on Consolidated Financial Statements
The Audit Committee of the Board of Directors and the Shareholders
Peoples Bancorp Inc.
We have audited the accompanying consolidated balance sheets of Peoples Bancorp Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders’ equity and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Peoples Bancorp Inc. and subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Peoples Bancorp Inc.’s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 26, 2015 expressed an unqualified opinion thereon.

Charleston, West Virginia
February 26, 2015

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PEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
(Dollars in thousands)	2014	2013
Assets		
Cash and cash equivalents:		
Cash and due from banks	$42,230	$36,016
Interest-bearing deposits in other banks	19,224	17,804
Total cash and cash equivalents	61,454	53,820
Available-for-sale investment securities, at fair value (amortized cost of $632,967 at December 31, 2014 and $621,126 at December 31, 2013)	636,880	606,108
Held-to-maturity investment securities, at amortized cost (fair value of $48,442 at December 31, 2014 and $46,094 at December 31, 2013)	48,468	49,222
Other investment securities, at cost	28,311	25,196
Total investment securities	713,659	680,526
Loans, net of deferred fees and costs	1,620,898	1,196,234
Allowance for loan losses	(17,881)	(17,065)
Net loans	1,603,017	1,179,169
Loans held for sale	4,374	1,688
Bank premises and equipment, net	40,335	29,809
Goodwill	98,562	70,520
Other intangible assets	10,596	7,083
Other assets	35,772	36,493
Total assets	$2,567,769	$2,059,108
Liabilities		
Deposits:		
Non-interest-bearing	$493,162	$409,891
Interest-bearing	1,439,912	1,170,867
Total deposits	1,933,074	1,580,758
Short-term borrowings	88,277	113,590
Long-term borrowings	179,083	121,826
Accrued expenses and other liabilities	27,217	21,381
Total liabilities	2,227,651	1,837,555
Stockholders' Equity		
Preferred stock, no par value, 50,000 shares authorized, no shares issued at December 31, 2014 and December 31, 2013	—	—
Common stock, no par value, 24,000,000 shares authorized, 15,426,973 shares issued at December 31, 2014 and 11,206,576 shares issued at December 31, 2013, including shares in treasury	265,742	168,869
Retained earnings	90,391	80,898
Accumulated other comprehensive loss, net of deferred income taxes	(1,301)	(13,244)
Treasury stock, at cost, 590,246 shares at December 31, 2014 and 600,794 shares at December 31, 2013	(14,714)	(14,970)
Total stockholders' equity	340,118	221,553
Total liabilities and stockholders' equity	$2,567,769	$2,059,108

See Notes to the Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)	2014	2013	2012
Interest Income:			
Interest and fees on loans	$61,541	$48,522	$48,238
Interest and dividends on taxable investment securities	16,840	16,853	19,778
Interest on tax-exempt investment securities	1,810	1,600	1,434
Other interest income	9	96	20
Total interest income	80,200	67,071	69,470
Interest Expense:			
Interest on deposits	6,106	7,052	9,059
Interest on short-term borrowings	146	114	74
Interest on long-term borrowings	4,442	4,520	3,949
Interest on junior subordinated debentures held by subsidiary trust	—	—	1,913
Total interest expense	10,694	11,686	14,995
Net interest income	69,506	55,385	54,475
Provision for (recovery of) loan losses	339	(4,410)	(4,716)
Net interest income after provision for (recovery of) loan losses	69,167	59,795	59,191
Other Income:			
Insurance income	13,604	12,201	9,844
Deposit account service charges	9,173	8,764	8,965
Trust and investment income	7,685	7,122	6,129
Electronic banking income	6,642	6,191	5,955
Mortgage banking income	1,237	1,759	2,877
Net gain on investment securities	398	489	3,548
Net loss on asset disposals and other transactions	(431)	(155)	(4,326)
Other non-interest income	1,712	1,183	1,201
Total other income	40,020	37,554	34,193
Other Expenses:			
Salaries and employee benefit costs	46,593	36,472	33,426
Net occupancy and equipment	7,839	6,840	6,094
Professional fees	5,649	4,207	4,370
Electronic banking expense	4,529	3,586	3,342
Data processing and software	2,424	2,012	1,979
Marketing expense	2,299	2,301	2,682
Communication expense	1,642	1,339	1,285
Amortization of other intangible assets	1,428	807	509
Franchise tax	1,392	1,643	1,486
FDIC insurance	1,260	1,036	1,002
Foreclosed real estate and other loan expenses	789	654	884
Other non-interest expense	9,165	7,368	6,415
Total other expenses	85,009	68,265	63,474
Income before income taxes	24,178	29,084	29,910
Income tax expense	7,494	11,510	9,525
Net income	$16,684	$17,574	$20,385
Earnings per common share - basic	$1.36	$1.65	$1.92
Earnings per common share - diluted	$1.35	$1.63	$1.92

Weighted-average number of common shares outstanding - basic	12,183,352	10,581,222	10,527,885
Weighted-average number of common shares outstanding - diluted	12,306,224	10,679,417	10,528,286

See Notes to the Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)	2014	2013	2012
Net income	$16,684	$17,574	$20,385
Other comprehensive income (loss):			
Available-for-sale investment securities:			
Gross unrealized holding gain (loss) arising in the period	19,326	(25,130)	2,706
Related tax (expense) benefit	(6,764)	8,795	(947)
Less: reclassification adjustment for net gain included in net income	398	489	3,548
Related tax expense	(139)	(171)	(1,242)
Net effect on other comprehensive income (loss)	12,303	(16,653)	(547)
Defined benefit plans:			
Net (loss) gain arising during the period	(2,083)	3,788	(1,320)
Related tax benefit (expense)	729	(1,326)	462
Amortization of unrecognized loss and service cost on benefit plans	129	182	161
Related tax expense	(45)	(64)	(57)
Recognition of loss due to settlement and curtailment	1,400	270	835
Related tax expense	(490)	(95)	(292)
Net effect on other comprehensive income (loss)	(360)	2,755	(211)
Total other comprehensive income (loss), net of tax	11,943	(13,898)	(758)
Total comprehensive income	$28,627	$3,676	$19,627

See Notes to the Consolidated Financial Statements

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

(Dollars in thousands)	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2011	$166,969	$53,580	$1,412	$(15,304)	$206,657
Net income		20,385			20,385
Other comprehensive loss, net of tax			(758)		(758)
Repurchase of common stock warrant	(1,201)				(1,201)
Cash dividends declared		(4,807)			(4,807)
Tax benefit from exercise of stock options	16				16
Reissuance of treasury stock for deferred compensation plan for Boards of Directors				163	163
Purchase of treasury stock				(156)	(156)
Common shares issued under dividend reinvestment plan	357				357
Common shares issued under compensation plan for Board of Directors	(44)			174	130
Stock-based compensation expense	942				942
Balance, December 31, 2012	$167,039	$69,158	$654	$(15,123)	$221,728
Net income		17,574			17,574
Other comprehensive loss, net of tax			(13,898)		(13,898)
Cash dividends declared		(5,834)			(5,834)
Tax benefit from exercise of stock options	79				79
Reissuance of treasury stock for deferred compensation plan for Boards of Directors				168	168
Purchase of treasury stock				(228)	(228)
Common shares issued under dividend reinvestment plan	423				423
Common shares issued under compensation plan for Board of Directors	(34)			213	179
Stock-based compensation expense	1,362				1,362
Balance, December 31, 2013	$168,869	$80,898	$(13,244)	$(14,970)	$221,553
Net income		16,684			16,684
Other comprehensive income, net of tax			11,943		11,943
Cash dividends declared		(7,191)			(7,191)
Reissuance of treasury stock for common stock option exercises				72	72
Tax benefit from exercise of stock options	85				85
Reissuance of treasury stock for deferred compensation plan for Boards of Directors				175	175
Reissuance of treasury stock for common stock awards	(10)			10	—
Purchase of treasury stock				(520)	(520)
Common shares issued under dividend reinvestment plan	409				409
	(14)			221	207

Common shares issued under compensation plan for Board of Directors					
Stock-based compensation expense	1,813			298	2,111
Issuance of common shares related to acquisitions:					
Midwest Bancshares, Inc.	6,305				6,305
Ohio Heritage Bancorp, Inc.	32,017				32,017
North Akron Savings Bank	16,106				16,106
Common shares issued to institutional investors in private placement	40,162				40,162
Balance, December 31, 2014	$265,742	$90,391	$(1,301)	$(14,714)	$340,118

See Notes to the Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	2014	2013	2012
Operating activities:			
Net income	$16,684	$17,574	$20,385
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization, and accretion, net	13,174	16,110	18,765
Provision for (recovery of) loan losses	339	(4,410)	(4,716)
Bank owned life insurance income	(106)	(56)	(40)
Net gain on investment securities	(398)	(489)	(3,548)
(Gain) loss on debt extinguishment	(67)	—	4,144
Loans originated for sale	(51,458)	(68,323)	(132,714)
Proceeds from sales of loans	49,218	74,049	131,040
Net gains on sales of loans	(943)	(1,544)	(2,746)
Deferred income tax expense	3,835	4,627	4,521
(Decrease) increase in accrued expenses	(631)	(13)	2,345
Decrease in interest receivable	139	313	462
Excess tax (benefit) expense from share-based payments	(85)	(79)	16
Other, net	1,794	2,705	3,340
Net cash provided by operating activities	31,495	40,464	41,254
Investing activities:			
Available-for-sale investment securities:			
Purchases	(143,184)	(223,979)	(271,520)
Proceeds from sales	108,092	125,658	113,756
Proceeds from principal payments, calls and prepayments	79,830	99,372	140,470
Held-to-maturity investment securities:			
Purchases	(1,017)	(5,216)	(40,352)
Proceeds from principal payments	1,325	885	11,188
Net increase in loans	(76,100)	(109,609)	(16,884)
Net expenditures for premises and equipment	(7,105)	(6,604)	(4,530)
Proceeds from sales of other real estate owned	219	1,036	1,813
Proceeds from bank owned life insurance	6,322	43,100	—
Business acquisitions, net of cash received	17,081	(4,536)	(3,321)
Return of (investment in) limited partnership and tax credit funds	374	(120)	(187)
Net cash used in investing activities	(14,163)	(80,013)	(69,567)
Financing activities:			
Net increase in non-interest-bearing deposits	18,367	61,935	63,437
Net (decrease) increase in interest-bearing deposits	(26,713)	(84,344)	38,319
Net (decrease) increase in short-term borrowings	(29,373)	65,821	(3,874)
Proceeds from long-term borrowings	5,269	—	24,000
Payments on long-term borrowings	(10,288)	(7,025)	(40,517)
Redemption of junior subordinated debentures	—	—	(23,668)
Repurchase of common stock warrant	—	—	(1,201)
Cash dividends paid on common shares	(6,767)	(5,419)	(4,457)
Purchase of treasury stock	(520)	(228)	(156)
Proceeds from issuance of common shares	40,242	8	6
Excess tax benefit from share-based payments	85	79	16

Net cash (used in) provided by financing activities	(9,698)	30,827	51,905
Net increase (decrease) in cash and cash equivalents	7,634	(8,722)	23,592
Cash and cash equivalents at beginning of period	53,820	62,542	38,950
Cash and cash equivalents at end of period	$61,454	$53,820	$62,542
Supplemental cash flow information:			
Interest paid	$10,766	$11,839	$15,570
Income taxes paid	$6,726	$7,473	$5,563

See Notes to the Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Peoples Bancorp Inc. is a financial holding company that offers a full range of financial services and products, including commercial and retail banking, insurance, brokerage and trust services, through its principal operating subsidiary, Peoples Bank, National Association ("Peoples Bank"). Services are provided through 59 financial service locations and 58 automated teller machines in Ohio, West Virginia and Kentucky, as well as internet-based and mobile banking.

Note 1. Summary of Significant Accounting Policies

The accounting and reporting policies of Peoples Bancorp Inc. and Subsidiaries ("Peoples" refers to Peoples Bancorp Inc. and its consolidated subsidiaries collectively, except where the context indicates the reference relates solely to Peoples Bancorp Inc.) conform to generally accepted accounting principles in the United States of America ("US GAAP") and to general practices within the banking industry. The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Certain items in prior financial statements have been reclassified to conform to the current presentation, which had no impact on net income, comprehensive income or loss, net cash provided by operating activities or stockholders' equity.

The following is a summary of significant accounting policies followed in the preparation of the financial statements:

Consolidation: Peoples' Consolidated Financial Statements include subsidiaries in which Peoples has a controlling financial interest, principally defined as owning a voting interest greater than 50%. In addition, entities not controlled by voting interest or in which the equity investors do not bear the residual economic risks, but for which Peoples is the primary beneficiary are also consolidated.

The Consolidated Financial Statements include the accounts of Peoples and its consolidated subsidiaries, Peoples Bank and Peoples Investment Company, along with their wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand, balances due from other banks, interest-bearing deposits in other banks, Federal Funds sold and other short-term investments with original maturities of ninety days or less. Included in interest-bearing deposits in other banks were $3.5 million and $3.0 million in funds at December 31, 2014 and 2013, respectively, which were being used as collateral and not available for withdrawal.

Investment Securities: Investment securities are recorded initially at cost, which includes premiums and discounts if purchased at other than par or face value. Peoples amortizes premiums and accretes discounts as an adjustment to interest income on a level yield basis. The cost of investment securities sold, and any resulting gain or loss, is based on the specific identification method and recognized as of the trade date.

Management determines the appropriate classification of investment securities at the time of purchase.

Held-to-maturity securities are those securities that Peoples has the positive intent and ability to hold to maturity and are recorded at amortized cost. Available-for-sale securities are those securities that would be available to be sold in the future in response to Peoples' liquidity needs, changes in market interest rates, and asset-liability management strategies, among other considerations. Available-for-sale securities are reported at fair value, with unrealized holding gains and losses reported in stockholders' equity as a separate component of other comprehensive income or loss, net of applicable deferred income taxes.

Certain restricted equity securities that do not have readily determinable fair values and for which Peoples does not exercise significant influence, are carried at cost. These cost method securities are reported as other investment securities on the Consolidated Balance Sheets and consist solely of shares of the Federal Home Loan Bank of Cincinnati (the "FHLB"), the Federal Reserve Bank of Cleveland (the "FRB") and a capital investment in West Virginia Bankers Insurance.

Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include (1) the duration and

magnitude of the decline in value, (2) the financial condition of the issuer or issuers, and (3) the structure of the security.
An impairment loss is recognized in earnings only when (1) Peoples intends to sell the debt security, (2) it is more likely than not that Peoples will be required to sell the security before recovery of its amortized cost basis, or (3) Peoples

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

Fair Value Measurements: The measurement of fair value under US GAAP uses a hierarchy intended to maximize the use of observable inputs and minimize the use of unobservable inputs. This hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows:

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

Level 2: Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data; also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data. This category generally includes certain U.S. government and agency securities, corporate debt securities, derivative instruments, and residential mortgage loans held for sale.

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

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

Loans: Loans originated that Peoples has the positive intent and ability to hold for the foreseeable future or to maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs and an allowance for loan losses. The foreseeable future is based upon current market conditions and business strategies, as well as balance sheet management and liquidity. As the conditions change, so may management's view of the foreseeable future. Net deferred loan costs were $2.4 million and $2.3 million at December 31, 2014 and 2013, respectively.

A loan is considered impaired when information and events indicate it is probable that collection of all contractual principal and interest payments is doubtful. Impairment is evaluated in total for smaller-balance loans of a similar nature, primarily consumer and residential real estate loans, and on an individual loan basis for all loans to borrowers with an aggregate unpaid principal balance in excess of $1 million. Peoples typically places any loan deemed to be impaired on nonaccrual status and allocates a specific portion of the allowance for loan losses, if necessary, to reduce the net carrying value of the loan to its estimated net realizable value. Impaired loans, or portions thereof, are charged off when deemed uncollectable. Upon detection of the reduced ability of a borrower to meet cash flow obligations, consumer and residential real estate loans typically are charged down to the net realizable value, with the residual balance placed on nonaccrual status.

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

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

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

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

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

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

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

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

Peoples categorizes loans involving commercial borrowers into risk categories based upon an established grading matrix. This system is used to manage the risk within its commercial lending activities, evaluate changes in the overall credit quality of the loan portfolio and evaluate the appropriateness of the allowance for loan losses. Loan grades are assigned at the time a new loan or lending commitment is extended by Peoples and may be changed at any time when circumstances warrant. Peoples reviews, at least annually, all loan relationships with aggregate outstanding debt to Peoples of $1,000,000 or more, with adversely classified loans generally reviewed on a quarterly basis.

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

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

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

In assessing whether or not a borrower is experiencing financial difficulties, Peoples considers information currently available regarding the financial condition of the borrower. This information includes, but is not limited to, whether (1) the borrower is currently in payment default on any of its debt, (2) a payment default is probable in the foreseeable future without the modification, (3) the borrower has declared or is in the process of declaring bankruptcy, and (4) the borrower's projected cash flow is insufficient to satisfy contractual payments due under the original terms of the loan without a modification.

Peoples considers all aspects of the modification to loan terms to determine whether or not a concession has been granted to the borrower. Key factors considered by Peoples include the borrower's ability to access funds at a market rate for debt with similar risk characteristics, the significance of the modification relative to the unpaid principal balance or collateral value of the debt, and the significance of a delay in the timing of payments relative to the original contractual terms of the loan. The most common concessions granted by Peoples generally include one or more modifications to the terms of the debt, such as (1) a reduction in the interest rate for the remaining life of the debt, (2) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (3) a temporary period of interest-only payments, and (4) a reduction in the contractual payment amount for either a short period or the remaining term of the loan. All TDRs are considered impaired loans and are evaluated individually to determine if a write-down is required and if they should be on accrual or nonaccrual status.

Bank Premises and Equipment: Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets owned. Major improvements to leased facilities are capitalized and included in bank premises at cost less accumulated depreciation, which is calculated on the straight-line method over the lesser of the remaining term of the leased facility or the estimated economic life of the improvement.

Investments in Affordable Housing Limited Partnerships: Investments in affordable housing consist of investments in limited partnerships that operate qualified affordable housing projects or that invest in other limited partnerships formed to operate affordable housing projects. These investments are considered variable interest entities for which Peoples is not the primary beneficiary. Peoples generally utilizes the effective yield method to account for these investments with the tax credits, net of the amortization of the investment, reflected in the Consolidated Statements of Income as a reduction of income tax expense. The unamortized amount of the investments is recorded in other assets and totaled $45,000 and $262,000 at December 31, 2014 and 2013, respectively.

Other Real Estate Owned: Other real estate owned (“OREO”), included in other assets on the Consolidated Balance Sheets, is comprised primarily of commercial and residential real estate properties acquired by Peoples Bank in

satisfaction of a loan. OREO obtained in satisfaction of a loan is recorded at the lower of cost or estimated fair value, less estimated costs to sell the property. Peoples had OREO totaling $0.9 million at December 31, 2014 and 2013.
Business Combinations: Business combinations are accounted for using the acquisition method of accounting. Under this accounting method, the acquired company's net assets are recorded at fair value on the date of acquisition, and the results of operations of the acquired company are combined with Peoples' from the acquisition date forward. Costs related to the acquisition are expensed as incurred. The purchase price paid over the fair value of the net assets acquired (including intangible assets with finite lives) is recorded as goodwill.

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Goodwill and Other Intangible Assets: Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired in the business combination. Goodwill is not amortized but is tested for impairment annually on June 30 and is updated quarterly if necessary. Based upon the most recently completed goodwill impairment test, Peoples concluded the recorded value of goodwill was not impaired as of December 31, 2014, based upon the estimated fair value of Peoples' single reporting unit.

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

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

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

Preferred Stock and Common Stock Warrant: As more fully described in Note 10, Peoples issued preferred stock and a common stock warrant, subsequently redeemed in 2011 and 2012, respectively, that were classified in stockholders' equity on the Consolidated Balance Sheets. The preferred stock had similar characteristics of an “Increasing Rate Security” as described by Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin Topic 5Q, Increasing Rate Preferred Stock. The proceeds received in conjunction with the issuance of the preferred stock and common stock warrant were allocated to the preferred stock and common stock warrant based on their relative fair values. Discounts on the increasing rate preferred stock were amortized over the expected life of the preferred stock (5 years), by charging imputed dividend cost against retained earnings and increasing the carrying amount of the preferred stock by a corresponding amount. The discount at the time of issuance was computed as the present value of the difference between dividends that would be payable in future periods and the dividend amount for a corresponding number of periods, discounted at a market rate for dividend yield on comparable securities. The amortization in each period was the amount which, together with the stated dividend in the period, resulted in a constant rate of effective cost with regard to the carrying amount of the preferred stock.

Common stock warrants are evaluated for liability or equity treatment. The common stock warrant issued by Peoples was carried in stockholders' equity until repurchased based on the view of both the SEC and Financial Accounting Standards Board (the “FASB”) that they would not object to classification of such form of common stock warrant as permanent equity. This view is consistent with the objective of the Capital Purchase Program that the equity represented by these securities should be considered part of equity for regulatory reporting purposes. The fair value of the common stock warrant used in allocating total proceeds received was determined based on a binomial model.

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

Interest Income Recognition: Interest income on loans and investment securities is recognized by methods that result in level rates of return on principal amounts outstanding. Amortization of premiums has been deducted from, and accretion of discounts has been added to, the related interest income. Nonrefundable loan fees and direct loan costs are deferred and recognized over the life of the loan as an adjustment of the yield.

Peoples discontinues the accrual of interest on all loans, whether or not such loans are considered past due, when management believes it is probable the borrower will be unable to meet its payment obligations as they become due, as well as when required by regulatory provisions. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest received on nonaccrual loans is included in income only if principal recovery is reasonably assured. A nonaccrual loan is restored to accrual status when it is brought current, has performed in accordance with contractual terms for a reasonable period of time, and the collectability of the total contractual principal and interest is no longer in doubt.

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Other Income Recognition: Service charges on deposits include cost recovery fees associated with services provided, such as overdraft and non-sufficient funds. Trust and investment income consists of revenue from fiduciary activities, which include fees for services such as asset management, recordkeeping, retirement services and estate management, and investment commissions and fees related to the sale of investments. Income from these activities is recognized at the time the related services are performed.
Insurance income consists of commissions and fees from the sales of insurance policies and related insurance services. Insurance income is recognized when it is earned and can be reasonably estimated. Performance-based commissions from insurance companies are recognized when received and no contingencies remain.
Income Taxes: Peoples and its subsidiaries file a consolidated federal income tax return. Deferred income tax assets and liabilities are provided for temporary differences between the tax basis of an asset or liability and its reported amount in the Consolidated Financial Statements at the statutory federal tax rate. A valuation allowance, if needed, reduces deferred tax assets to the expected amount most likely to be realized. Realization of deferred tax assets is dependent upon the generation of a sufficient level of future taxable income and recoverable taxes paid in prior years. The components of other comprehensive income or loss included in the Consolidated Statements of Stockholders' Equity have been computed based upon a 35% Federal tax rate.
A tax position is initially recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions are initially and subsequently measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and all relevant facts. Penalties and interest incurred under the applicable tax law are classified as income tax expense. The amount of Peoples' uncertain income tax positions and unrecognized benefits are disclosed in Note 12.
Advertising Costs: Advertising costs are generally expensed as incurred.
Earnings per Share: Basic and diluted earnings per common share (“EPS”) are calculated using the two-class method since Peoples has issued some share-based payment awards considered participating securities because they entitle holders the rights to dividends during the vesting term. The two-class method is an earnings allocation formula that determines net income per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. Basic earnings per common share is computed by dividing net earnings allocated to common shareholders by the weighted-average number of common shares outstanding. Diluted earnings per common share is computed by dividing net earnings allocated to common shareholders by the weighted-average number of common shares outstanding adjusted to include the effect of potentially dilutive common shares. Potentially dilutive common shares include incremental common shares issuable upon exercise of outstanding stock options, stock appreciation rights and non-vested restricted common shares using the treasury stock method.
Operating Segments: Peoples' business activities are currently confined to one reporting unit and reportable segment, which is community banking. As a community banking entity, Peoples offers its customers a full range of products including a complete line of banking, insurance, investment and trust solutions.
Stock-Based Compensation: Compensation costs for stock options, restricted stock awards and stock appreciation rights are measured at the fair value of these awards on their grant date. Compensation expense is recognized over the required service period, generally the vesting period for stock options and stock appreciation rights and the restriction period for restricted stock awards. For all awards, only the expense for the portion of the awards expected to vest is recognized. For service-based awards, compensation expense for awards granted to employees who are eligible for retirement is recognized to the date the employee is first eligible to retire.
New Accounting Pronouncements: From time to time, new accounting pronouncements are issued by FASB or other standard setting bodies that are adopted by Peoples as of the required effective dates. Unless otherwise discussed, management believes the impact of any recently issued standards, including those issued but not yet effective, will not have a material impact on Peoples financial statements taken as a whole.

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Note 2. Fair Value of Financial Instruments

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

(Dollars in thousands)	Fair Value	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2014				
Obligations of:				
U.S. Treasury and government agencies	$1	$—	$1	$—
U.S. government sponsored agencies	5,950	—	5,950	—
States and political subdivisions	64,743	—	64,743	—
Residential mortgage-backed securities	527,291	—	527,291	—
Commercial mortgage-backed securities	27,847	—	27,847	—
Bank-issued trust preferred securities	5,645	—	5,645	—
Equity securities	5,403	5,204	199	—
Total available-for-sale securities	$636,880	$5,204	$631,676	$—
2013				
Obligations of:				
U.S. Treasury and government agencies	$20	$—	$20	$—
U.S. government sponsored agencies	319	—	319	—
States and political subdivisions	50,962	—	50,962	—
Residential mortgage-backed securities	510,097	—	510,097	—
Commercial mortgage-backed securities	32,304	—	32,304	—
Bank-issued trust preferred securities	7,829	—	7,829	—
Equity securities	4,577	4,443	134	—
Total available-for-sale securities	$606,108	$4,443	$601,665	$—

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

(Dollars in thousands)	Fair Value	Fair Value at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2014				
Obligations of:				
States and political subdivisions	$4,282	$—	$4,282	$—
Residential mortgage-backed securities	36,740	—	36,740	—
Commercial mortgage-backed securities	7,420	—	7,420	—
Total held-to-maturity securities	$48,442	$—	$48,442	$—
2013				
Obligations of:				
States and political subdivisions	$3,929	$—	$3,929	$—
Residential mortgage-backed securities	34,530	—	34,530	—
Commercial mortgage-backed securities	7,635	—	7,635	—

Total held-to-maturity securities	$46,094	$—	$46,094	$—

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

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

Impaired Loans: Impaired loans are measured and reported at fair value when the amounts to be received are less than the carrying value of the loans. One of the allowable methods for determining the amount of impairment is estimating fair value using the fair value of the collateral for collateral-dependent loans. Management’s determination of the fair value for these loans uses a market approach representing the estimated net proceeds to be received from the sale of the collateral based on observable market prices or market value provided by independent, licensed or certified appraisers (Level 3 inputs). At December 31, 2014, impaired loans with an aggregate outstanding principal balance of \$2.7 million were measured and reported at a fair value of \$1.6 million. For the year ended December 31, 2014, Peoples recognized losses of \$1.0 million on impaired loans through the allowance for loan losses.

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

(Dollars in thousands)	2014 Carrying Amount	Fair Value	2013 Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$61,454	$61,454	$53,820	$53,820
Investment securities	713,659	713,633	680,526	677,398
Loans	1,607,391	1,581,813	1,180,857	1,165,560
Financial liabilities:				
Deposits	$1,933,074	$1,938,021	$1,580,758	$1,587,448
Short-term borrowings	88,277	88,277	113,590	113,590
Long-term borrowings	179,083	183,878	121,826	128,205

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

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

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

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

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

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Note 3. Investment Securities

Available-for-sale

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2014				
Obligations of:				
U.S. Treasury and government agencies	$1	$—	$—	$1
U.S. government sponsored agencies	5,836	114	—	5,950
States and political subdivisions	62,292	2,510	(59)	64,743
Residential mortgage-backed securities	529,245	5,910	(7,864)	527,291
Commercial mortgage-backed securities	28,021	112	(286)	27,847
Bank-issued trust preferred securities	6,132	3	(490)	5,645
Equity securities	1,440	4,044	(81)	5,403
Total available-for-sale securities	$632,967	$12,693	$(8,780)	$636,880
2013				
Obligations of:				
U.S. Treasury and government agencies	$20	$—	$—	$20
U.S. government sponsored agencies	308	11	—	319
States and political subdivisions	50,509	1,480	(1,027)	50,962
Residential mortgage-backed securities	527,283	5,334	(22,520)	510,097
Commercial mortgage-backed securities	33,256	274	(1,226)	32,304
Bank-issued trust preferred securities	8,508	—	(679)	7,829
Equity securities	1,242	3,421	(86)	4,577
Total available-for-sale securities	$621,126	$10,520	$(25,538)	$606,108

Peoples’ investment in equity securities was comprised entirely of common stocks issued by various unrelated bank holding companies at both December 31, 2014 and 2013. At December 31, 2014, there were no securities of a single issuer, other than U.S. Treasury and government agencies and U.S. government sponsored agencies, that exceeded 10% of stockholders' equity.

The gross gains and gross losses realized by Peoples from sales of available-for-sale securities for the years ended December 31 were as follows:

(Dollars in thousands)	2014	2013	2012
Gross gains realized	$1,136	$3,358	$4,306
Gross losses realized	738	2,869	758
Net gain realized	$398	$489	$3,548

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

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

(Dollars in thousands)	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss
2014								
Obligations of:								
U.S. Treasury and government agencies	$—	$—	—	$—	$—	—	$—	$—
U.S. government sponsored agencies	—	—	—	—	—	—	—	—
States and political subdivisions	2,602	12	4	5,788	47	8	8,390	59
Residential mortgage-backed securities	114,018	1,091	21	216,224	6,773	57	330,242	7,864
Commercial mortgage-backed securities	—	—	—	19,404	286	4	19,404	286
Bank-issued trust preferred securities	—	—	—	2,509	490	3	2,509	490
Equity securities	40	2	2	96	79	1	136	81
Total	$116,660	$1,105	27	$244,021	$7,675	73	$360,681	$8,780
2013								
Obligations of:								
U.S. Treasury and government agencies	$—	$—	—	$—	$—	—	$—	$—
U.S. government sponsored agencies	—	—	—	—	—	—	—	—
States and political subdivisions	15,848	659	22	6,180	368	10	22,028	1,027
Residential mortgage-backed securities	310,315	16,709	75	57,440	5,811	20	367,755	22,520
Commercial mortgage-backed securities	19,560	779	4	7,205	447	2	26,765	1,226
Bank-issued trust preferred securities	2,013	90	1	4,803	589	4	6,816	679
Equity securities	—	—	—	97	86	2	97	86
Total	$347,736	$18,237	102	$75,725	$7,301	38	$423,461	$25,538

Management systematically evaluates available-for-sale investment securities for other-than-temporary declines in fair value on a quarterly basis. At December 31, 2014, management concluded no individual securities were other-than-temporarily impaired since Peoples did not have the intent to sell, nor was it more likely than not that Peoples would be required to sell any of the securities with an unrealized loss prior to recovery. Further, the unrealized losses at both December 31, 2014 and 2013 were attributable to changes in market interest rates and spreads since the securities were purchased.

At December 31, 2014, approximately 99% of the fair value of mortgage-backed securities that had been at an unrealized loss position for twelve months or more were issued by U.S. government sponsored agencies. The remaining 1%, or three positions, consisted of privately issued mortgage-backed securities with all of the underlying mortgages originated prior to 2004. Two of the three positions had a fair value of less than 90% of their book value, with an aggregate book and fair value of $0.9 million and $0.6 million, respectively. Management has analyzed the underlying credit quality of these securities and concluded the unrealized losses were primarily attributable to the floating rate nature of these investments and the low number of loans remaining in these securities.

Furthermore, the unrealized losses with respect to the three bank-issued trust preferred securities that had been in an unrealized loss position for twelve months or more at December 31, 2014 were primarily attributable to the floating nature of those investments, the current interest rate environment and spreads within that sector.

The table below presents the amortized cost, fair value and total weighted-average yield of available-for-sale securities by contractual maturity at December 31, 2014. The weighted-average yields are based on the amortized cost. In some cases,

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the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% federal income tax rate.

(Dollars in thousands)	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Amortized cost					
Obligations of:					
U.S. Treasury and government agencies	$1	$—	$—	$—	$1
U.S. government sponsored agencies	—	983	—	4,853	5,836
States and political subdivisions	276	4,732	25,177	32,107	62,292
Residential mortgage-backed securities	—	12,168	29,207	487,870	529,245
Commercial mortgage-backed securities	—	—	23,020	5,001	28,021
Bank-issued trust preferred securities	—	—	—	6,132	6,132
Equity securities					1,440
Total available-for-sale securities	$277	$17,883	$77,404	$535,963	$632,967
Fair value					
Obligations of:					
U.S. Treasury and government agencies	$1	$—	$—	$—	$1
U.S. government sponsored agencies	—	999	—	4,951	5,950
States and political subdivisions	283	4,978	26,021	33,461	64,743
Residential mortgage-backed securities	—	12,181	29,419	485,691	527,291
Commercial mortgage-backed securities	—	—	22,759	5,088	27,847
Bank-issued trust preferred securities	—	—	—	5,645	5,645
Equity securities					5,403
Total available-for-sale securities	$284	$18,158	$78,199	$534,836	$636,880
Total weighted-average yield	4.59%	3.04%	2.80%	2.63%	2.68%

Held-to-Maturity

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2014				
Obligations of:				
States and political subdivisions	$3,841	$448	$(7)	$4,282
Residential mortgage-backed securities	36,945	189	(394)	36,740
Commercial mortgage-backed securities	7,682	9	(271)	7,420
Total held-to-maturity securities	$48,468	$646	$(672)	$48,442
2013				
Obligations of:				
States and political subdivisions	$3,850	$91	$(12)	$3,929
Residential mortgage-backed securities	37,536	35	(3,041)	34,530
Commercial mortgage-backed securities	7,836	2	(203)	7,635
Total held-to-maturity securities	$49,222	$128	$(3,256)	$46,094

There were no gross gains or gross losses realized by Peoples from sales of held-to-maturity securities for the years ended December 31, 2014, 2013 and 2012.

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

(Dollars in thousands)	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss
2014								
Obligations of:								
States and political subdivisions	$—	$—	—	$323	$7	1	$323	$7
Residential mortgage-backed securities	—	—	—	18,242	394	5	18,242	394
Commercial mortgage-backed securities	—	—	—	6,356	271	1	6,356	271
Total	$—	$—	—	$24,921	$672	7	$24,921	$672
2013								
Obligations of:								
States and political subdivisions	$321	$12	1	$—	$—	—	$321	$12
Residential mortgage-backed securities	31,341	2,908	7	1,181	133	1	32,522	3,041
Commercial mortgage-backed securities	6,547	203	1	—	—	—	6,547	203
Total	$38,209	$3,123	9	$1,181	$133	1	$39,390	$3,256

The table below presents the amortized cost, fair value and total weighted-average yield of held-to-maturity securities by contractual maturity at December 31, 2014. The weighted-average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% federal income tax rate.

(Dollars in thousands)	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Amortized cost					
Obligations of:					
States and political subdivisions	$—	$—	$329	$3,512	$3,841
Residential mortgage-backed securities	—	—	507	36,438	36,945
Commercial mortgage-backed securities	—	—	—	7,682	7,682
Total held-to-maturity securities	$—	$—	$836	$47,632	$48,468
Fair value					
Obligations of:					
States and political subdivisions	$—	$—	$323	$3,959	$4,282
Residential mortgage-backed securities	—	—	508	36,232	36,740
Commercial mortgage-backed securities	—	—	—	7,420	7,420
Total held-to-maturity securities	$—	$—	$831	$47,611	$48,442
Total weighted-average yield	—%	—%	2.61%	2.77%	2.76%

Pledged Securities

Peoples had pledged available-for-sale investment securities with a carrying value of $352.8 million and $303.8 million at December 31, 2014 and 2013, respectively, and held-to-maturity investment securities with a carrying value of $22.9 million and $21.4 million at December 31, 2014 and 2013, respectively, to secure public and trust department deposits and repurchase agreements in accordance with federal and state requirements. Peoples also pledged available-for-sale investment securities with carrying values of $13.5 million and $16.2 million at December 31, 2014 and 2013, respectively, and held-to-maturity securities with carrying values of $24.5 million and $25.9 million at December 31, 2014 and 2013, respectively, to secure additional borrowing capacity at the FHLB and the FRB.

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Note 4. Loans

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

(Dollars in thousands)	2014	2013
Originated loans:		
Commercial real estate, construction	$37,901	$44,703
Commercial real estate, other	434,660	394,532
Commercial real estate	472,561	439,235
Commercial and industrial	249,975	206,276
Residential real estate	254,169	248,883
Home equity lines of credit	62,463	55,178
Consumer	169,913	133,864
Deposit account overdrafts	2,933	2,060
Total originated loans	$1,212,014	$1,085,496
Acquired loans:		
Commercial real estate, construction	$1,051	$2,836
Commercial real estate, other	121,475	55,638
Commercial real estate	122,526	58,474
Commercial and industrial	30,056	26,478
Residential real estate	225,274	19,734
Home equity lines of credit	18,232	4,898
Consumer	12,796	1,154
Total acquired loans	$408,884	$110,738
Total loans	$1,620,898	$1,196,234

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

(Dollars in thousands)	2014	2013
Commercial real estate	$7,762	$963
Commercial and industrial	1,041	78
Residential real estate	15,183	1,236
Consumer	306	—
Total outstanding balance	$24,292	$2,277
Net carrying amount	$19,067	$1,875

Changes in the accretable yield for acquired purchased credit impaired loans the year ended December 31, 2014 were as follows:

(Dollars in thousands)	Accretable Yield
Balance, December 31, 2013	$103
Additions:	
Reclassification from nonaccretable to accretable	402
Midwest Bancshares, Inc.	750
Ohio Heritage Bancorp, Inc.	1,485
North Akron Savings Bank	813

Accretion	(381)
Balance, December 31, 2014	$3,172

Peoples has pledged certain loans secured by 1-4 family and multifamily residential mortgages under a blanket collateral agreement to secure borrowings from the FHLB. The amount of such pledged loans totaled $457.1 million and $259.1 million at December 31, 2014 and 2013, respectively. Peoples also had pledged commercial loans to secure borrowings with the FRB. The outstanding balances of these loans totaled $150.7 million and $113.0 million at December 31, 2014 and 2013, respectively.

Related Party Loans

In the normal course of its business, Peoples Bank has granted loans to certain directors and officers, including their affiliates, families and entities in which they are principal owners. Related party loans were made on substantially the same terms, including interest rates charged and collateral required, as those prevailing at the time for comparable loans with unrelated persons and did not involve more than normal risk of collectability. At December 31, 2014, no related party loan was past due 90 or more days, renegotiated or on nonaccrual status. Activity in related party loans is presented in the table below. Other changes primarily consist of changes in related party status during the year.

(Dollars in thousands)	
Balance, December 31, 2013	$11,359
New loans and disbursements	11,139
Repayments	(7,940)
Other changes	(560)
Balance, December 31, 2014	$13,998

Nonaccrual and Past Due Loans

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

	Nonaccrual Loans		Accruing Loans 90+ Days Past Due	
(Dollars in thousands)	2014	2013	2014	2013
Originated loans:				
Commercial real estate, construction	$—	$—	$—	$—
Commercial real estate, other	2,575	2,798	—	—
Commercial real estate	2,575	2,798	—	—
Commercial and industrial	1,286	630	—	—
Residential real estate	3,049	2,161	818	199
Home equity lines of credit	341	87	20	873
Consumer	19	58	2	—
Total originated loans	$7,270	$5,734	$840	$1,072
Acquired loans:				
Commercial real estate, construction	$96	$96	$—	$—
Commercial real estate, other	9	—	567	—
Commercial real estate	105	96	567	—
Commercial and industrial	708	—	301	78
Residential real estate	304	104	1,083	90
Home equity lines of credit	19	—	—	—
Consumer	—	—	8	—
Total acquired loans	$1,136	$200	$1,959	$168
Total loans	$8,406	$5,934	$2,799	$1,240

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

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

2014						
Originated loans:						
Commercial real estate, construction	$—	$—	$—	$—	$37,901	$37,901
Commercial real estate, other	565	285	1,220	2,070	432,590	434,660
Commercial real estate	565	285	1,220	2,070	470,491	472,561
Commercial and industrial	17	18	1,245	1,280	248,695	249,975
Residential real estate	4,502	1,062	1,902	7,466	246,703	254,169
Home equity lines of credit	344	425	129	898	61,565	62,463
Consumer	1,136	157	2	1,295	168,618	169,913
Deposit account overdrafts	65	—	—	65	2,868	2,933
Total originated loans	$6,629	$1,947	$4,498	$13,074	$1,198,940	$1,212,014
Acquired loans:						
Commercial real estate, construction	$—	$—	$96	$96	$955	$1,051
Commercial real estate, other	1,067	143	567	1,777	119,698	121,475
Commercial real estate	1,067	143	663	1,873	120,653	122,526
Commercial and industrial	46	6	815	867	29,189	30,056
Residential real estate	4,026	1,331	1,179	6,536	218,738	225,274
Home equity lines of credit	9	19	—	28	18,204	18,232
Consumer	245	27	8	280	12,516	12,796
Total acquired loans	$5,393	$1,526	$2,665	$9,584	$399,300	$408,884
Total loans	$12,022	$3,473	$7,163	$22,658	$1,598,240	$1,620,898
2013						
Originated loans:						
Commercial real estate, construction	$1,066	$—	$—	$1,066	$43,637	$44,703
Commercial real estate, other	432	—	1,249	1,681	392,851	394,532
Commercial real estate	1,498	—	1,249	2,747	436,488	439,235
Commercial and industrial	171	17	49	237	206,039	206,276
Residential real estate	4,584	1,140	1,258	6,982	241,901	248,883
Home equity lines of credit	254	65	929	1,248	53,930	55,178
Consumer	919	153	58	1,130	132,734	133,864
Deposit account overdrafts	47	—	—	47	2,013	2,060
Total originated loans	$7,473	$1,375	$3,543	$12,391	$1,073,105	$1,085,496
Acquired loans:						
Commercial real estate, construction	$274	$—	$—	$274	$2,562	$2,836
Commercial real estate, other	—	679	—	679	54,959	55,638
Commercial real estate	274	679	—	953	57,521	58,474
Commercial and industrial	—	73	78	151	26,327	26,478
Residential real estate	861	369	194	1,424	18,310	19,734
Home equity lines of credit	—	—	—	—	4,898	4,898
Consumer	57	12	—	69	1,085	1,154
Total acquired loans	$1,192	$1,133	$272	$2,597	$108,141	$110,738
Total loans	$8,665	$2,508	$3,815	$14,988	$1,181,246	$1,196,234

Credit Quality Indicators

As discussed in Note 1, Peoples categorizes the majority of its loans into risk categories based upon an established risk grading matrix using a scale of 1 to 8. A description of the general characteristics of the risk grades used by Peoples is as follows:

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

required, for any weakness that may exist.
“Watch” (grade 5): Loans in this risk grade are the equivalent of the regulatory definition of “Other Assets Especially Mentioned” classification. Loans in this category possess some credit deficiency or potential weakness, which requires a high level of management attention. Potential weaknesses include declining trends in operating earnings and cash flows and/or reliance on the secondary source of repayment. If left uncorrected, these potential weaknesses may result in noticeable deterioration of the repayment prospects for the loan or in Peoples' credit position.
“Substandard” (grade 6): Loans in this risk grade are inadequately protected by the borrower's current financial condition and payment capability or of the collateral pledged, if any. Loans so classified have one or more well-defined weaknesses that jeopardize the orderly repayment of the loan. They are characterized by the distinct possibility that Peoples will sustain some loss if the deficiencies are not corrected.
“Doubtful” (grade 7): Loans in this risk grade have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or orderly repayment in full, on the basis of current existing facts, conditions and values, highly questionable and improbable. Possibility of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the exposure, its classification as an estimate loss is deferred until its more exact status may be determined.
“Loss” (grade 8): Loans in this risk grade are considered to be non-collectible and of such little value that their continuance as bankable assets is not warranted. This does not mean each such loan has absolutely no recovery value, but rather it is neither practical nor desirable to defer writing off the loan, even though partial recovery may be obtained in the future. Charge-offs against the allowance for loan losses are taken in the period in which the loan becomes uncollectible. Consequently, Peoples typically does not maintain a recorded investment in loans within this category.
Consumer loans and other smaller-balance loans are evaluated and categorized as “substandard”, “doubtful” or “loss” based upon the regulatory definition of these classes and consistent with regulatory requirements. All other loans not evaluated individually, nor meeting the regulatory conditions to be categorized as described above, would be considered as being “not rated”.
The following table summarizes the risk category of Peoples' loan portfolio based upon the most recent analysis performed at December 31:

(Dollars in thousands)	Pass Rated (Grades 1 - 4)	Watch (Grade 5)	Substandard (Grade 6)	Doubtful (Grade 7)	Not Rated	Total Loans
2014						
Originated loans:						
Commercial real estate, construction	$37,637	$—	$—	$—	$264	$37,901
Commercial real estate, other	405,224	12,316	17,120	—	—	434,660
Commercial real estate	442,861	12,316	17,120	—	264	472,561
Commercial and industrial	239,168	8,122	2,684	1	—	249,975
Residential real estate	21,296	1,195	11,601	56	220,021	254,169
Home equity lines of credit	767	—	965	—	60,731	62,463
Consumer	60	1	8	—	169,844	169,913
Deposit account overdrafts	—	—	—	—	2,933	2,933
Total originated loans	$704,152	$21,634	$32,378	$57	$453,793	$1,212,014
Acquired loans:						
Commercial real estate, construction	$955	$—	$—	$—	$96	$1,051
Commercial real estate, other	106,115	7,100	8,260	—	—	121,475
Commercial real estate	107,070	7,100	8,260	—	96	122,526
Commercial and industrial	27,313	255	2,294	194	—	30,056
Residential real estate	13,458	833	1,540	—	209,443	225,274
Home equity lines of credit	98	—	—	—	18,134	18,232
Consumer	279	—	—	—	12,517	12,796
Total acquired loans	$148,218	$8,188	$12,094	$194	$240,190	$408,884

Total loans	$852,370	$29,822	$44,472	$251	$693,983	$1,620,898
2013						
Originated loans:						
Commercial real estate, construction	$43,048	$—	$68	$—	$1,587	$44,703
Commercial real estate, other	370,812	11,918	11,299	—	503	394,532
Commercial real estate	413,860	11,918	11,367	—	2,090	439,235
Commercial and industrial	187,025	5,203	13,506	542	—	206,276
Residential real estate	24,198	1,497	8,094	4	215,090	248,883
Home equity lines of credit	844	—	1,014	—	53,320	55,178
Consumer	50	5	24	—	133,785	133,864
Deposit account overdrafts	—	—	—	—	2,060	2,060
Total originated loans	$625,977	$18,623	$34,005	$546	$406,345	$1,085,496
Acquired loans:						
Commercial real estate, construction	$359	$148	$—	$—	$2,329	$2,836
Commercial real estate, other	52,501	1,515	1,622	—	—	55,638
Commercial real estate	52,860	1,663	1,622	—	2,329	58,474
Commercial and industrial	25,168	810	500	—	—	26,478
Residential real estate	2,624	1,290	—	—	15,820	19,734
Home equity lines of credit	—	—	—	—	4,898	4,898
Consumer	—	—	—	—	1,154	1,154
Total acquired loans	$80,652	$3,763	$2,122	$—	$24,201	$110,738
Total loans	$706,629	$22,386	$36,127	$546	$430,546	$1,196,234

Impaired Loans

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

(Dollars in thousands)	Unpaid Principal Balance	Recorded Investment With Allowance	Recorded Investment Without Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
2014							
Commercial real estate, construction	$101	$—	$96	$96	$—	$57	$6
Commercial real estate, other	2,074	653	1,148	1,801	189	1,632	7
Commercial real estate	2,175	$653	$1,244	$1,897	$189	$1,689	$13
Commercial and industrial	2,379	1,945	399	2,344	816	493	5
Residential real estate	6,889	53	6,372	6,425	9	3,543	272
Home equity lines of credit	500	—	498	498	—	298	18
Consumer	155	—	150	150	—	109	11
Total	$12,098	$2,651	$8,663	$11,314	$1,014	$6,132	$319
2013							
Commercial real estate, construction	$—	$—	$—	$—	$—	$—	$—
Commercial real estate, other	4,970	1,150	1,729	2,879	83	4,586	6
Commercial real estate	4,970	$1,150	$1,729	$2,879	$83	$4,586	$6
Commercial and industrial	617	575	5	580	575	278	1
Residential real estate	3,498	—	3,280	3,280	—	2,800	86
Home equity lines of credit	347	—	347	347	—	327	12
Consumer	182	—	182	182	—	127	15
Total	$9,614	$1,725	$5,543	$7,268	$658	$8,118	$120

At December 31, 2014, Peoples' impaired loans shown in the table above included loans that were classified as troubled debt restructurings.

The following table summarizes the loans that were modified as a TDR during the years ended December 31, 2014 and 2013.

		Recorded Investment (1)				Recorded Investment (1)		
	Number of Contracts	Pre-Modification	Post-Modification	At December 31, 2014	Number of Contracts	Pre-Modification	Post-Modification	At December 31, 2013
Originated loans:								
Commercial real estate, other	—	$—	$ —	$—	2	$486	$ 486	$461
Commercial and industrial	—	—	—	—	1	5	5	5
Residential real estate	22	996	997	967	21	1,109	1,112	913
Home equity lines of credit	12	238	238	232	5	89	89	88
Consumer	10	$108	$ 108	$102	37	$279	$ 279	$142
Acquired loans:								
Commercial real estate, construction	1	$96	$ 96	$96	—	$—	$ —	$—
Commercial and industrial	3	605	605	594	—	—	—	—
Residential real estate	4	235	235	234	2	107	107	107
Consumer	5	$9	$ 9	$6	—	$—	$ —	$—

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

The following table presents those loans modified in a TDR during the year that subsequently defaulted (i.e., 90 days or more past due following a modification) during the years ended December 31, 2014 and 2013:

	2014			2013		
	Number of Contracts	Recorded Investment (1)	Impact on the Allowance for Loan Losses	Number of Contracts	Recorded Investment (1)	Impact on the Allowance for Loan Losses
Originated loans:						
Residential real estate	1	$33	$—	2	$63	$—
Home equity lines of credit	2	28	—	1	6	—
Total	3	$61	$—	3	$69	$—
Acquired loans:						
Residential real estate	1	$56	$—	—	$—	$—
Total	1	$56	$—	—	$—	$—

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

Peoples had approximately $40,000 of additional commitments to lend additional funds to the related borrowers whose terms have been modified in a TDR.

Allowance for Loan Losses

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

(Dollars in thousands)	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Home Equity Lines of Credit	Consumer	Deposit Account Overdrafts	Total
Balance, January 1, 2014	$13,215	$2,174	$881	$343	$316	$136	$17,065
Charge-offs	(203)	(199)	(478)	(128)	(1,191)	(516)	(2,715)
Recoveries	2,060	77	169	36	697	153	3,192
Net recoveries (charge-offs)	1,857	(122)	(309)	(92)	(494)	(363)	477
(Recovery of) provision for loan losses	(5,247)	1,984	1,055	443	1,765	339	339
Balance, December 31, 2014	$9,825	$4,036	$1,627	$694	$1,587	$112	$17,881
Period-end amount allocated to:							
Loans individually evaluated for impairment	$189	$816	$9	$—	$—	$—	$1,014
Loans collectively evaluated for impairment	9,636	3,220	1,618	694	1,587	112	16,867
Balance, December 31, 2014	$9,825	$4,036	$1,627	$694	$1,587	$112	$17,881
Balance, January 1, 2013	$14,215	$1,733	$801	$479	$438	$145	$17,811
Charge-offs	(1,053)	(44)	(621)	(162)	(1,084)	(527)	(3,491)
Recoveries	5,839	40	536	26	552	162	7,155
Net recoveries (charge-offs)	4,786	(4)	(85)	(136)	(532)	(365)	3,664
(Recovery of) provision for loan losses	(5,786)	445	165	—	410	356	(4,410)
Balance, December 31, 2013	$13,215	$2,174	$881	$343	$316	$136	$17,065
Period-end amount allocated to:							
Loans individually evaluated for impairment	$83	$575	$—	$—	$—	$—	$658
Loans collectively evaluated for impairment	13,132	1,599	881	343	316	136	16,407
Balance, December 31, 2013	$13,215	$2,174	$881	$343	$316	$136	$17,065

The reduction in the allowance for loan losses allocated to commercial real estate, and related recovery of loan losses recorded during 2014 was driven by net recoveries in recent years reducing the historical loss rates. Increases in commercial and industrial, residential real estate, home equity lines of credit and consumer categories of the allowance for loan losses, and related provision for loan losses recorded during 2014 were driven by net charge-off activity and increases in these respective loan portfolios.

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Note 5. Bank Premises and Equipment

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

(Dollars in thousands)	2014	2013
Land	$7,612	$6,802
Building and premises	48,402	38,281
Furniture, fixtures and equipment	22,323	20,350
Total bank premises and equipment	78,337	65,433
Accumulated depreciation	(38,002)	(35,624)
Net book value	$40,335	$29,809

Peoples depreciates its building and premises and furniture, fixtures and equipment over estimated useful lives generally ranging from 5 to 40 years and 2 to 10 years, respectively. Depreciation expense was $3.0 million, $2.6 million and $2.2 million, in 2014, 2013 and 2012, respectively.

Leases

Peoples leases certain banking facilities and equipment under various agreements with original terms providing for fixed monthly payments over periods generally ranging from two to ten years. Certain leases contain renewal options and rent escalation clauses calling for rent increases over the term of the lease. All leases which contain a rent escalation clause are accounted for on a straight-line basis. Rent expense was $951,000, $950,000, $887,000 in 2014, 2013 and 2012, respectively.

Peoples Insurance Agency, LLC ("Peoples Insurance") previously leased a property from certain of its managers, however, in 2014 this lease expired and was not renewed. Payments related to this lease totaled $64,000, $151,000 and $146,000 in 2014, 2013 and 2012, respectively. The terms of the lease were substantially the same as those offered for comparable transactions with non-related parties at the time the lease transaction was consummated.

The future minimum payments under noncancellable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 2014:

(Dollars in thousands)	Payments
2015	$786
2016	683
2017	441
2018	354
2019	135
Thereafter	4
Total future operating lease payments	$2,403

Note 6. Goodwill and Other Intangible Assets

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

(Dollars in thousands)	2014	2013
Goodwill, beginning of year	$70,520	$64,881
Acquired goodwill	28,042	5,639
Goodwill, end of year	$98,562	$70,520

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Peoples performed the required goodwill impairment tests and concluded there was no impairment in the recorded value of goodwill in 2014, based upon the estimated fair value of the single reporting unit.

Other intangible assets

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

(Dollars in thousands)	Core Deposits	Customer Relationships	Total
2014			
Gross intangibles	$2,226	$8,646	$10,872
Acquired intangibles	4,787	212	4,999
Accumulated amortization	(1,156)	(6,357)	(7,513)
Total acquired intangibles	$5,857	$2,501	$8,358
Servicing rights			2,238
Total other intangibles			$10,596
2013			
Gross intangibles	$7,195	$6,189	$13,384
Acquired intangibles	1,565	2,458	4,023
Accumulated amortization	(6,815)	(5,804)	(12,619)
Total acquired intangibles	$1,945	$2,843	$4,788
Servicing rights			2,295
Total other intangibles			$7,083

The following table details estimated aggregate future amortization expense of core deposit and customer relationship intangible assets at December 31, 2014:

(Dollars in thousands)	Core Deposits	Customer Relationships	Total
2015	$1,445	$527	$1,972
2016	1,238	476	1,714
2017	1,030	419	1,449
2018	820	358	1,178
2019	609	291	900
Thereafter	715	430	1,145
Total	$5,857	$2,501	$8,358

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

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

(Dollars in thousands)	2014	2013	2012
Balance, beginning of year	$2,295	$2,073	$1,544
Amortization	(597)	(652)	(616)
Servicing rights originated	497	675	1,145
Servicing rights acquired	43	199	—
Balance, end of year	$2,238	$2,295	$2,073

No valuation allowances were required at December 31, 2014, 2013 and 2012 for Peoples’ servicing rights since the fair value equaled or exceeded the book value.

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Note 7. Deposits

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

(Dollars in thousands)	2014	2013
Retail certificates of deposit:		
$250,000 or more	$59,031	$63,891
Less than $250,000	373,532	299,335
Total retail certificates of deposit	432,563	363,226
Interest-bearing transaction accounts	173,659	134,618
Money market deposit accounts	337,387	275,801
Governmental deposit accounts	161,305	132,379
Savings accounts	295,307	215,802
Total retail interest-bearing deposits	1,400,221	1,121,826
Brokered certificates of deposits	39,691	49,041
Total interest-bearing deposits	1,439,912	1,170,867
Non-interest-bearing deposits	493,162	409,891
Total deposit balances	$1,933,074	$1,580,758

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

(Dollars in thousands)	Retail	Brokered	Total
2015	$234,810	$5,899	$240,709
2016	100,523	18,148	118,671
2017	44,464	—	44,464
2018	31,982	1,147	33,129
2019	20,386	14,497	34,883
Thereafter	398	—	398
Total maturities	$432,563	$39,691	$472,254

Deposits from related parties approximated $34.0 million and $5.9 million at December 31, 2014 and 2013, respectively.

Note 8. Short-Term Borrowings

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

(Dollars in thousands)	Retail Repurchase Agreements		FHLB Advances		Other Short-Term Borrowings	
2014						
Ending balance	$73,277		$15,000		$—	
Average balance	59,324		36,678		38	
Highest month-end balance	76,459		108,000		—	
Interest expense	99		47		—	
Weighted-average interest rate:						
End of year	0.17	%	0.14	%	—	%
During the year	0.17	%	0.13	%	0.75	%
2013						
Ending balance	$42,590		$71,000		$—	
Average balance	37,077		44,127		90	
Highest month-end balance	46,850		92,500		—	
Interest expense	58		55		1	
Weighted-average interest rate:						
End of year	0.16	%	0.14	%	—	%
During the year	0.16	%	0.12	%	0.74	%
2012						
Ending balance	$32,769		$15,000		$—	
Average balance	37,386		13,240		15	
Highest month-end balance	44,905		39,900		—	
Interest expense	57		17		—	
Weighted-average interest rate:						
End of year	0.15	%	0.15	%	—	%
During the year	0.15	%	0.12	%	0.74	%

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

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

Other short-term borrowings consist of Federal Funds purchased and advances from the Federal Reserve Discount Window. Federal Funds purchased are short-term borrowings from correspondent banks that typically mature within one to ninety days. Peoples has available Federal Funds of $20 million from certain of its correspondent banks. Interest on Federal Funds purchased is set daily by the correspondent bank based on prevailing market rates. The Federal Reserve Discount Window provides credit facilities to financial institutions, which are designed to ensure adequate liquidity by providing a source of short-term funds. Discount Window advances are typically overnight and must be secured by collateral acceptable to the lending Federal Reserve Bank.

On December 19, 2012, Peoples obtained a $5 million revolving credit loan from an unaffiliated financial institution, and on August 4, 2014, the revolving credit loan amount was increased to $10 million. This loan bears interest at a fixed per annum rate equal to 3% plus the one-month LIBOR rate, to be reset monthly. This revolving credit loan is subject to the same covenants as detailed in Note 9 for the term loan. At December 31, 2014 and 2013, this revolving credit loan had no outstanding principal balance.

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Note 9. Long-Term Borrowings

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

(Dollars in thousands)	2014 Balance	Weighted-Average Rate		2013 Balance	Weighted-Average Rate	
Term note payable (parent company)	$14,369	3.50	%	$19,147	3.80	%
Callable national market repurchase agreements	40,000	3.63	%	40,000	3.63	%
FHLB putable non-amortizing, fixed rate advances	83,995	3.30	%	50,000	3.32	%
FHLB amortizing, fixed rate advances	40,719	2.13	%	12,679	3.58	%
Total long-term borrowings	$179,083	3.12	%	$121,826	3.53	%

On December 18, 2012, Peoples entered into a Loan Agreement (the "Loan Agreement") to obtain a $24 million unsecured term loan from an unaffiliated financial institution with an original maturity of five years. On August 4, 2014, the Loan Agreement was amended (as amended, the "Amended Loan Agreement"). Under the Amended Loan Agreement, the interest rate on the term loan was reduced from 3.80% to 3.50%, and certain loan covenants related to the operations of Peoples' business were modified under the Amended Loan Agreement. Peoples is required to make quarterly principal and interest payments until the earlier of either full prepayment by Peoples or the stated maturity date. This note may be prepaid at any time prior to maturity without penalties, so long as no default has occurred. Concurrently, Peoples also entered into a Negative Pledge Agreement that precludes Peoples from selling, transferring, assigning, mortgaging, encumbering, pledging, or entering into a negative pledge agreement with respect to or otherwise disposing of any interest in the capital stock or other ownership interests owned by Peoples in its subsidiaries without prior written approval. Peoples is also subject to certain covenants under the Amended Loan Agreement, which include restrictions on ownership interests of its subsidiaries; cash and cash equivalents; transfers of criticized, classified or nonperforming assets; additional indebtedness; certain material transactions; and other financial covenants which include:

- Peoples and Peoples Bank must maintain, as of the last day of each fiscal quarter, sufficient capital to qualify as "well capitalized" under applicable regulatory guidance;
- Peoples Bank must maintain a "Total Risk-Based Capital Ratio" (as defined in the Loan Agreement) equal to or in excess of 12.50%, measured as of the last day of each fiscal quarter;
- Peoples Bank must maintain a ratio of "Nonperforming Assets" to the sum of "Tangible Capital" plus the "Allowance for Loan Losses" (as each term is defined in the Loan Agreement) of not more than 20%, measured as of the last day of each fiscal quarter;
- Peoples must maintain a "Fixed Charge Coverage Ratio" (as defined in the Amended Loan Agreement) that equals or exceeds 1.25 to 1.00, commencing with the quarter ended December 31, 2012 and for each quarter thereafter, with the items used in the ratio determined on a trailing 12-month basis;
- issuance of dividends from Peoples Bank may not exceed the amount permitted by law without requiring regulatory approval;
- minimum liquidity position of $2 million at Peoples Bancorp Inc.; and
- Peoples Bank must maintain a ratio of "Allowance for Loan Losses" to "Nonperforming Loans" (as each term is defined in the Amended Loan Agreement) of not less than 70% measured as of the last day of each fiscal quarter.

As of December 31, 2014, Peoples was in compliance with the applicable material covenants imposed by the Amended Loan Agreement.

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

option, Peoples would be required to repay the agreement in whole at the quarterly date. Peoples is required to make quarterly interest payments.
The putable, non-amortizing, fixed rate FHLB advances have original maturities ranging from ten to twenty years that may be repaid prior to maturity, subject to termination fees. The FHLB has the option, solely at its discretion, to terminate the advance after the initial fixed rate periods ranging from three months to five years, requiring full repayment of the advance by Peoples, prior to the stated maturity. If the advance is terminated prior to maturity, the FHLB will offer Peoples replacement funding at the then-prevailing rate on an advance product then-offered by the FHLB, subject to normal FHLB credit and collateral requirements. These advances require monthly interest payments, with no repayment of principal until the earlier of either an option exercise by the FHLB or the stated maturity. During 2014, Peoples obtained two FHLB amortizing, fixed-rate advances, totaling $30 million. The amortizing, fixed rate FHLB advances have a fixed rate for the term of the loan, with maturities ranging from ten to twenty years. These advances require monthly principal and interest payments, with some having a constant prepayment rate requiring an additional principal payment annually. These advances are not eligible for optional prepayment prior to maturity. As discussed in Note 8, long-term FHLB advances are collateralized by assets owned by Peoples.
At December 31, 2014, the aggregate minimum annual retirements of long-term borrowings in future periods were as follows:

(Dollars in thousands)	Balance	Weighted-Average Rate	
2015	$14,377	2.43	%
2016	11,980	2.56	%
2017	10,107	2.71	%
2018	44,700	3.24	%
2019	43,233	3.51	%
Thereafter	54,686	3.08	%
Total long-term borrowings	$179,083	3.12	%

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Note 10. Stockholders' Equity

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

	Common Stock	Treasury Stock
Shares at December 31, 2011	11,122,247	615,123
Changes related to stock-based compensation awards:		
Release of restricted common shares	14,552	4,270
Changes related to deferred compensation plan for Board of Directors:		
Purchase of treasury stock		3,918
Reissuance of treasury stock		(8,897)
Common shares issued under dividend reinvestment plan	18,849	
Common shares issued under compensation plan for Board of Directors		(6,726)
Shares at December 31, 2012	11,155,648	607,688
Changes related to stock-based compensation awards:		
Release of restricted common shares	31,246	6,862
Changes related to deferred compensation plan for Board of Directors:		
Purchase of treasury stock		3,652
Reissuance of treasury stock		(9,147)
Common shares issued under dividend reinvestment plan	19,682	
Common shares issued under compensation plan for Board of Directors		(8,261)
Shares at December 31, 2013	11,206,576	600,794
Changes related to stock-based compensation awards:		
Release of restricted common shares	68,754	18,031
Exercise of stock options for common shares		(2,792)
Reissuance of treasury stock for common stock awards		(12,030)
Changes related to deferred compensation plan for Board of Directors:		
Purchase of treasury stock		4,236
Reissuance of treasury stock		(9,390)
Common shares issued under dividend reinvestment plan	17,230	
Common shares issued under compensation plan for Board of Directors		(8,603)
Issuance of common shares related to acquisitions:		
Midwest Bancshares, Inc.	256,282	
Ohio Heritage Bancorp, Inc.	1,364,735	
North Akron Savings Bank	665,570	
Common shares issued to institutional investors in private placement	1,847,826	
Shares at December 31, 2014	15,426,973	590,246

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

Under its Amended Articles of Incorporation, Peoples is authorized to issue up to 50,000 preferred shares, in one or more series, having such voting powers, designations, preferences, rights, qualifications, limitations and restrictions as determined by the Board of Directors. In 2009, Peoples' Board of Directors created a series of preferred shares designated as Peoples' Fixed Rate Cumulative Perpetual Preferred Shares, Series A, each without par value and having a liquidation preference of $1,000 per share, and fixed 39,000 shares as the authorized number of such shares (the "Series A Preferred Shares"). These Series A Preferred Shares subsequently were sold to the United States Department of the Treasury (the "U.S. Treasury"), along with a ten-year warrant (the "Warrant") to purchase 313,505 Peoples common shares at an exercise price of $18.66 per share (subject to certain anti-dilution and other adjustments), for an aggregate purchase price of $39 million in cash in connection with Peoples' participation in the U.S. Treasury's TARP Capital Purchase Program. The entire 39,000 Series A Preferred Shares were repurchased during 2011 at an aggregate price of $39 million. Peoples repurchased the Warrant for a purchase price of $1.2 million in 2012.

Accumulated Other Comprehensive Income (Loss)

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

(Dollars in thousands)	Unrealized Gain (Loss) on Securities	Unrecognized Net Pension and Postretirement Costs	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2011	$7,439	$(6,027)	$1,412
Other comprehensive loss, net of reclassifications and tax	(547)	(211)	(758)
Balance, December 31, 2012	$6,892	$(6,238)	$654
Reclassification adjustments to net income:			
Realized gain on sale of securities, net of tax	(318)	—	(318)
Realized loss due to settlement and curtailment, net of tax	—	175	175
Other comprehensive (loss) income, net of reclassifications and tax	(16,335)	2,580	(13,755)
Balance, December 31, 2013	$(9,761)	$(3,483)	$(13,244)
Reclassification adjustments to net income:			
Realized gain on sale of securities, net of tax	(259)	—	(259)
Realized loss due to settlement and curtailment, net of tax	—	910	910
Other comprehensive income (loss), net of reclassifications and tax	12,562	(1,270)	11,292
Balance, December 31, 2014	$2,542	$(3,843)	$(1,301)

Note 11. Employee Benefit Plans

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

Peoples also provides post-retirement health and life insurance benefits to former employees and directors. Only those individuals who retired before January 27, 2012 were eligible for life insurance benefits. All retirees are eligible for health benefits; however, Peoples only pays 100% of the cost for those individuals who retired before January 1, 1993. For all others, the retiree is responsible for most, if not all, of the cost of health benefits. Peoples' policy is to fund the cost of the benefits as they arise.

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The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the two-year period ended December 31, 2014, and a statement of the funded status as of December 31, 2014 and 2013:

	Pension Benefits		Postretirement Benefits	
(Dollars in thousands)	2014	2013	2014	2013
Change in benefit obligation:				
Obligation at January 1	$ 14,723	$ 17,306	$ 143	$