PEOPLES BANCORP INC
Form 10-Q
April 27, 2018

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

OR

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

For the transition period from ____ to ____

Commission File Number: 0-16772

PEOPLES BANCORP INC.
(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| Ohio | 31-0987416 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 138 Putnam Street, P.O. Box 738, Marietta, Ohio | 45750 |
| (Address of principal executive offices) | (Zip Code) |
| Registrant’s telephone number, | (740) 373-3155 |

including
area
code:

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No  o

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

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

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

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:
Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes o   No o

APPLICABLE ONLY TO CORPORATE ISSUERS:
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 19,525,101 common shares, without par value, at April 25, 2018.

Table of Contents

Table of Contents

Table of Contents

PART I
ITEM 1. FINANCIAL STATEMENTS
PEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| (Dollars in thousands) | March 31, 2018 (Unaudited) | December 31, 2017 |
|---|---|---|
| Assets | | |
| Cash and due from banks | $55,197 | $ 58,121 |
| Interest-bearing deposits in other banks | 17,432 | 14,073 |
| Total cash and cash equivalents | 72,629 | 72,194 |
| Available-for-sale investment securities, at fair value (amortized cost of $808,689 at March 31, 2018 and $797,732 at December 31, 2017) (a) | 790,910 | 795,187 |
| Held-to-maturity investment securities, at amortized cost (fair value of $39,440 at March 31, 2018 and $41,213 at December 31, 2017) | 39,651 | 40,928 |
| Other investment securities (a) | 46,756 | 38,371 |
| Total investment securities | 877,317 | 874,486 |
| Loans, net of deferred fees and costs | 2,402,328 | 2,357,137 |
| Allowance for loan losses | (18,798) | (18,793) |
| Net loans | 2,383,530 | 2,338,344 |
| Loans held for sale | 3,581 | 2,510 |
| Bank premises and equipment, net | 56,247 | 52,510 |
| Bank owned life insurance | 62,644 | 62,176 |
| Goodwill | 133,111 | 133,111 |
| Other intangible assets | 10,709 | 11,465 |
| Other assets | 35,161 | 34,890 |
| Total assets | $3,634,929 | $ 3,581,686 |
| Liabilities | | |
| Deposits: | | |
| Non-interest-bearing | $570,804 | $ 556,010 |
| Interest-bearing | 2,242,377 | 2,174,320 |
| Total deposits | 2,813,181 | 2,730,330 |
| Short-term borrowings | 203,475 | 209,491 |
| Long-term borrowings | 123,481 | 144,019 |
| Accrued expenses and other liabilities | 37,977 | 39,254 |
| Total liabilities | 3,178,114 | 3,123,094 |
| Stockholders' equity | | |
| Preferred stock, no par value, 50,000 shares authorized, no shares issued at March 31, 2018 and December 31, 2017 | — | — |
| Common stock, no par value, 24,000,000 shares authorized, 18,956,838 shares issued at March 31, 2018 and 18,952,385 shares issued at December 31, 2017, including shares in treasury | 344,233 | 345,412 |
| Retained earnings (b) | 143,297 | 134,362 |
| Accumulated other comprehensive loss, net of deferred income taxes (b) | (16,062) | (5,215) |
| Treasury stock, at cost, 630,440 shares at March 31, 2018 and 702,449 shares at December 31, 2017 | (14,653) | (15,967) |
| Total stockholders' equity | 456,815 | 458,592 |
| Total liabilities and stockholders' equity | $3,634,929 | $ 3,581,686 |

(a) As of January 1, 2018, Peoples adopted ASU 2016-01, resulting in the reclassification of equity securities (including those held in participant accounts in the non-qualified deferred compensation plan) from available-for-sale investment securities to other investment securities. At December 31, 2017, $7.8 million of equity securities were included in available-for-sale investment securities, and at March 31, 2018, $8.4 million of equity securities were included in other investment securities.
(b) As of January 1, 2018, Peoples adopted ASU 2014-09 (which resulted in a reduction to retained earnings and an increase in other liabilities of $3.1 million, net of federal income taxes, to reflect uncompleted contracts in the initial application of the guidance) and ASU 2016-01 (which resulted in the reclassification of $5.0 million in net unrealized gains on equity securities from accumulated other comprehensive loss to retained earnings).
See Notes to the Unaudited Consolidated Financial Statements

Table of Contents

PEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in thousands, except per share data) | 2018 | 2017 |
| Interest income: | | |
| Interest and fees on loans | $26,881 | $ 24,299 |
| Interest and dividends on taxable investment securities | 5,650 | 4,709 |
| Interest on tax-exempt investment securities | 643 | 794 |
| Other interest income | 52 | 15 |
| Total interest income | 33,226 | 29,817 |
| Interest expense: | | |
| Interest on deposits | 2,213 | 1,487 |
| Interest on short-term borrowings | 968 | 251 |
| Interest on long-term borrowings | 686 | 1,134 |
| Total interest expense | 3,867 | 2,872 |
| Net interest income | 29,359 | 26,945 |
| Provision for loan losses | 1,983 | 624 |
| Net interest income after provision for loan losses | 27,376 | 26,321 |
| Non-interest income: | | |
| Insurance income | 4,655 | 4,102 |
| Trust and investment income | 3,068 | 2,682 |
| Electronic banking income | 2,785 | 2,561 |
| Deposit account service charges | 2,120 | 2,429 |
| Bank owned life insurance income | 468 | 493 |
| Mortgage banking income | 351 | 387 |
| Commercial loan swap fees | 116 | 268 |
| Net gain (loss) on asset disposals and other transactions | 74 | (3 ) |
| Net gain on investment securities | 1 | 340 |
| Other non-interest income (a) | 1,331 | 412 |
| Total non-interest income | 14,969 | 13,671 |
| Non-interest expense: | | |
| Salaries and employee benefit costs | 15,990 | 15,496 |
| Net occupancy and equipment expense | 2,866 | 2,713 |
| Professional fees | 1,718 | 1,610 |
| Electronic banking expense | 1,528 | 1,514 |
| Data processing and software expense | 1,322 | 1,142 |
| Amortization of other intangible assets | 754 | 863 |
| Franchise tax expense | 644 | 583 |
| FDIC insurance expense | 366 | 433 |
| Communication expense | 344 | 410 |
| Marketing expense | 325 | 280 |
| Foreclosed real estate and other loan expenses | 228 | 196 |
| Other non-interest expense | 2,136 | 2,091 |
| Total non-interest expense | 28,221 | 27,331 |
| Income before income taxes | 14,124 | 12,661 |
| Income tax expense | 2,383 | 3,852 |
| Net income | $11,741 | $ 8,809 |

| | | |
|---|---|---|
| Earnings per common share - basic | $0.64 | $ 0.49 |
| Earnings per common share - diluted | $0.64 | $ 0.48 |
| Weighted-average number of common shares outstanding - basic | 18,126,089 | 18,029,991 |
| Weighted-average number of common shares outstanding - diluted | 18,256,015 | 18,192,957 |
| Cash dividends declared | $4,771 | $ 3,634 |
| Cash dividends declared per common share | $0.26 | $ 0.20 |

(a) As of January 1, 2018, Peoples adopted ASU 2016-01, resulting in a net gain of $460,000 during the 1st quarter of 2018.

See Notes to the Unaudited Consolidated Financial Statements

4

Table of Contents

PEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

| (Dollars in thousands) | Three Months Ended March 31, 2018 | 2017 |
|---|---|---|
| Net income | $11,741 | $8,809 |
| Other comprehensive income: | | |
| Available-for-sale investment securities: | | |
| Gross unrealized holding (loss) gain arising in the period | (10,113) | 3,412 |
| Related tax benefit (expense) | 2,124 | (1,194) |
| Less: reclassification adjustment for net gain included in net income | 1 | 340 |
| Related tax expense | — | (119) |
| Amounts reclassified out of accumulated other comprehensive loss per ASU 2016-01 (a) | (5,020) | — |
| Related tax benefit | 1,054 | — |
| Net effect on other comprehensive (loss) income | (11,956) | 1,997 |
| Defined benefit plans: | | |
| Net gain arising during the period | — | 1 |
| Amortization of unrecognized loss and service cost on benefit plans | 26 | 23 |
| Related tax expense | (6) | (8) |
| Net effect on other comprehensive income | 20 | 16 |
| Cash flow hedges: | | |
| Net gain (loss) arising during the period | 1,378 | (103) |
| Related tax (expense) benefit | (289) | 36 |
| Net effect on other comprehensive income (loss) | 1,089 | (67) |
| Total other comprehensive (loss) income, net of tax expense | (10,847) | 1,946 |
| Total comprehensive income | $894 | $10,755 |

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

See Notes to the Unaudited Consolidated Financial Statements

Table of Contents

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

| (Dollars in thousands) | Common Shares | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock | Total Stockholders' Equity |
|---|---|---|---|---|---|
| Balance, December 31, 2017 | $345,412 | $134,362 | $ (5,215) | $(15,967) | $ 458,592 |
| Amounts reclassified out of retained earnings net of tax per ASU 2014-09 | — | (3,055) | — | — | (3,055) |
| Net income | — | 11,741 | — | — | 11,741 |
| Other comprehensive income, net of tax | — | 5,020 | (10,847) | — | (5,827) |
| Cash dividends declared | — | (4,771) | — | — | (4,771) |
| Exercise of stock appreciation rights | (3) | — | — | 3 | — |
| Reissuance of treasury stock for common stock awards | (2,281) | — | — | 2,281 | — |
| Reissuance of treasury stock for deferred compensation plan for Boards of Directors | — | — | — | 2 | 2 |
| Repurchase of treasury stock in connection with employee incentive plan and under compensation plan for Boards of Directors | — | — | — | (1,056) | (1,056) |
| Common shares issued under dividend reinvestment plan | 161 | — | — | — | 161 |
| Common shares issued under compensation plan for Boards of Directors | (84) | — | — | 84 | — |
| Stock-based compensation expense | 1,028 | — | — | — | 1,028 |
| Balance, March 31, 2018 | $344,233 | $143,297 | $ (16,062) | $(14,653) | $ 456,815 |

See Notes to the Unaudited Consolidated Financial Statements

Table of Contents

PEOPLES BANCORP INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in thousands) | 2018 | 2017 |
| Net cash provided by operating activities | $11,669 | $13,508 |
| Investing activities: | | |
| Available-for-sale investment securities: | | |
| Purchases | (44,359) | (41,088) |
| Proceeds from sales | — | 555 |
| Proceeds from principal payments, calls and prepayments | 29,582 | 32,064 |
| Held-to-maturity investment securities: | | |
| Purchases | — | (1,310) |
| Proceeds from principal payments | 1,184 | 336 |
| Other investment securities: | | |
| Purchases | (198) | — |
| Proceeds from sales | 110 | — |
| Net increase in loans | (46,404) | (23,528) |
| Net expenditures for bank premises and equipment | (1,476) | (490) |
| Proceeds from sales of (increase in) other real estate owned | 104 | (16) |
| Business acquisitions, net of cash received | — | (450) |
| Return of limited partnership and tax credit funds | 1 | 634 |
| Net cash used in investing activities | (61,456) | (33,293) |
| Financing activities: | | |
| Net increase in non-interest-bearing deposits | 14,794 | 50,626 |
| Net increase in interest-bearing deposits | 68,050 | 141,809 |
| Net decrease in short-term borrowings | (26,016) | (199,855) |
| Proceeds from long-term borrowings | — | 30,000 |
| Payments on long-term borrowings | (587) | (701) |
| Cash dividends paid | (4,741) | (3,518) |
| Repurchase of treasury stock in connection with employee incentive plan and compensation plan for Boards of Directors to be held as treasury stock | (1,056) | (288) |
| Proceeds from issuance of common shares | 2 | 3 |
| Contingent consideration payments made after a business combination | (224) | (122) |
| Net cash provided by financing activities | 50,222 | 17,954 |
| Net increase (decrease) in cash and cash equivalents | 435 | (1,831) |
| Cash and cash equivalents at beginning of period | 72,194 | 66,146 |
| Cash and cash equivalents at end of period | $72,629 | $64,315 |

See Notes to the Unaudited Consolidated Financial Statements

Table of Contents

PEOPLES BANCORP INC. AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
Note 1 Summary of Significant Accounting Policies

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

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

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

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

Accounting Standards Update ("ASU") 2018-05 - Income Taxes (Topic 740): Amendment to clarify situations where a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting under ASC 740 for certain income tax effects of the Tax Cuts and Jobs Act for the reporting period. As of December 31, 2017, Peoples partially completed the accounting for the tax effects of enactment of the Tax Cuts and Jobs Act; however, in certain cases, Peoples made reasonable estimates of the effects of a reduced federal corporate income tax rate on its existing deferred tax balances. In other cases, Peoples has not been able to make a reasonable estimate and continued to account for those items based on its existing accounting under ASC 740, and the provisions of the tax laws that were in effect immediately prior to enactment of the Tax Cuts and Jobs Act. In all cases, Peoples will continue to make and refine its calculations during the one-year re-measurement period as additional analysis is completed. In addition, these estimates may be affected as Peoples gains a more thorough understanding of the new tax reform legislation.

ASU 2018-04 - Investments - Debt Securities (Topic 320) and Regulated Operations (Topic 980): The amendment in this ASU adds, amends and supersedes various paragraphs that contain SEC guidance in ASC 320, Investments-Debt Securities and ASC 980, Regulated Operations. The amendments in this ASU are effective when a registrant adopts ASU 2016-01, which for Peoples, was January 1, 2018. This amendment is not expected to have an impact on Peoples' consolidated financial statements.

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

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

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

The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the “incurred loss” model required under current US GAAP, which delays recognition until it is probable a loss has been incurred. Accordingly, Peoples expects that the adoption of the CECL model will materially affect how the allowance for loan losses is determined and could require significant increases to the allowance for loan losses. Moreover, the CECL model may create more volatility in the level of Peoples' allowance for loan losses. If required to materially increase the level of allowance for loan losses for any reason, such increase could adversely affect Peoples' business, financial condition and results of operations.

The new CECL standard will become effective for interim and annual reporting periods beginning after December 15, 2019 (effective January 1, 2020 for Peoples). Peoples is currently evaluating the impact that the CECL model will have on Peoples' financial statements and expects to recognize a one-time cumulative-effect adjustment to the allowance for loan loss provision as of the beginning of the first reporting period in which the new standard is effective, consistent with regulatory expectations set forth in interagency guidance issued at the end of 2016. Peoples has not yet determined the magnitude of any such one-time cumulative adjustment or of the overall impact of the new standard on Peoples' financial condition or results of operations.

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

## Note 2 Fair Value of Assets and Liabilities

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

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

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

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

Table of Contents

for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for single dealer nonbinding quotes not corroborated by observable market data. This category generally includes certain private equity investments, retained interests from securitizations, and certain collateralized debt obligations.

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

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

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

| | Recurring Fair Value Measurements at Reporting Date | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2018 | | | December 31, 2017 | | |
| (Dollars in thousands) | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Assets: | | | | | | |
| Securities available-for-sale: | | | | | | |
| Obligations of: | | | | | | |
| States and political subdivisions | $ — | $97,205 | $ — | $ — | $101,569 | $ — |
| Residential mortgage-backed securities | — | 681,746 | — | — | 673,664 | — |
| Commercial mortgage-backed securities | — | 6,864 | — | — | 6,976 | — |
| Bank-issued trust preferred securities | — | 5,095 | — | — | 5,129 | — |
| Equity securities (a) | — | — | — | 7,694 | 155 | |
| Total available-for-sale securities | — | 790,910 | — | 7,694 | 787,493 | — |
| Securities held-to-maturity: | | | | | | |
| Obligations of: | | | | | | |
| States and political subdivisions | — | 4,300 | — | — | 4,417 | — |
| Residential mortgage-backed securities | — | 30,978 | — | — | 32,227 | — |
| Commercial mortgage-backed securities | — | 4,162 | — | — | 4,569 | — |
| Total held-to-maturity securities | — | 39,440 | — | — | 41,213 | — |
| Equity securities (a) | 7,310 | 160 | — | — | — | — |
| Derivative assets (b) | — | 6,633 | — | — | 4,594 | — |
| Liabilities: | | | | | | |
| Derivative liabilities (c) | $ — | $3,870 | $ — | $ — | $3,241 | $ — |

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

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

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

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

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

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

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

Table of Contents

Assets and Liabilities Required to be Measured and Reported at Fair Value on a Non-Recurring Basis
The following table provides the fair value for each class of assets and liabilities required to be measured and reported at fair value on a non-recurring basis in the Consolidated Balance Sheets by level in the fair value hierarchy.

| | Non-Recurring Fair Value Measurements at Reporting Date | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2018 | | | December 31, 2017 | | |
| (Dollars in thousands) | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Impaired loans | $— | $— | $20,386 | $— | $— | $20,602 |
| Loans held for sale | — | — | 3,581 | — | — | 2,510 |
| Other real estate owned (OREO) | — | — | 99 | — | — | 208 |

Impaired Loans: Impaired loans are measured and reported at fair value when the amounts to be received are less than the carrying value of the loans. One of the allowable methods for determining the amount of impairment is estimating fair value using the fair value of the collateral for collateral-dependent loans. Management's determination of the fair value for these loans uses a market approach representing the estimated net proceeds to be received from the sale of the collateral based on observable market prices or the market value provided by independent, licensed or certified appraisers (Level 3), less estimated selling costs. At March 31, 2018, impaired loans had an aggregate outstanding principal balance of $25.2 million.  For the three months ended March 31, 2018, Peoples recognized $20,000 of losses on impaired loans, through the allowance for loan losses.
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 (Level 3).
Other Real Estate Owned:  Other real estate owned ("OREO"), included in other assets on the Consolidated Balance Sheets, is comprised primarily of commercial and residential real estate properties acquired by Peoples in satisfaction of a loan. OREO obtained in satisfaction of a loan is recorded at the lower of cost or estimated fair value, less estimated costs to sell the property (Level 3).
Financial Instruments Not Required to be Measured or Reported at Fair Value
The following table provides the carrying amount for each class of assets and liabilities and the fair value for certain financial instruments that are not required to be measured or reported at fair value in the Consolidated Balance Sheets.

| | Fair Value Measurements of Other Financial Instruments | | | | |
|---|---|---|---|---|---|
| | | March 31, 2018 | | December 31, 2017 | |
| (Dollars in thousands) | Fair Value Hierarchy Level | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Assets: | | | | | |
| Cash and cash equivalents | 1 | $72,629 | $72,629 | $72,194 | $72,194 |
| Other investment securities: | | | | | |
| FHLB stock | 2 | 28,132 | 28,132 | 28,132 | 28,132 |
| FRB stock | 2 | 10,179 | 10,179 | 10,179 | 10,179 |
| Non-qualified deferred comp (a) | 2 | 914 | 914 | — | — |
| FHLMC stock | 2 | 60 | 60 | 60 | 60 |
| Total other investment securities | | 39,285 | 39,285 | 38,371 | 38,371 |
| Loans | 3 | 2,383,530 | 2,297,373 | 2,338,344 | 2,274,194 |
| Bank owned life insurance (BOLI) | 3 | 62,644 | 62,644 | 62,176 | 62,176 |
| Bank premises and equipment, net | 3 | 56,247 | 56,247 | 52,510 | 52,510 |
| Servicing rights (b) | 3 | 2,303 | 2,303 | 2,305 | 2,305 |
| Liabilities: | | | | | |
| Deposits | 2 | $2,813,181 | $2,809,738 | $2,730,330 | $2,730,071 |
| Short-term borrowings | 2 | 203,475 | 203,494 | 209,491 | 209,628 |

| | | | | | |
|---|---|---|---|---|---|
| Long-term borrowings | 2 | 123,481 | 119,817 | 144,019 | 142,108 |

(a) As of January 1, 2018, Peoples adopted ASU 2016-01, resulting in the reclassification of equity securities (including those held in participant accounts in the non-qualified deferred compensation plan) from available-for-sale investment securities to other investment securities.
(b) Included in other intangible assets on the Consolidated Balance Sheets. Servicing rights are carried at the lower of cost or

Table of Contents

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

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand, balances due from other banks, interest-bearing deposits in other banks, federal funds sold and other short-term investments with original maturities of ninety days or less (Level 1).

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

Loans: The fair value of portfolio loans assumes sale of the notes to a third-party financial investor. Accordingly, this value is not necessarily the value to Peoples if the notes were held to maturity. Peoples considered interest rate, credit and market factors in estimating the fair value of loans (Level 3). In the current whole loan market, financial investors are generally requiring a 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.

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

Bank Premises and Equipment: Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets owned. Major improvements to leased facilities are capitalized and included in bank premises at cost less accumulated depreciation, which is calculated on the straight-line method over the lesser of the remaining term of the leased facility or the estimated economic life of the improvement (Level 3).

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

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

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

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

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

Table of Contents

Note 3 Investment Securities

Available-for-sale

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

| (Dollars in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| March 31, 2018 | | | | |
| Obligations of: | | | | |
| States and political subdivisions | $ 96,730 | $ 1,052 | $ (577 ) | $ 97,205 |
| Residential mortgage-backed securities | 699,788 | 2,195 | (20,237 ) | 681,746 |
| Commercial mortgage-backed securities | 6,974 | — | (110 ) | 6,864 |
| Bank-issued trust preferred securities | 5,197 | 116 | (218 ) | 5,095 |
| Total available-for-sale securities | $ 808,689 | $ 3,363 | $ (21,142 ) | $ 790,910 |
| December 31, 2017 | | | | |
| Obligations of: | | | | |
| States and political subdivisions | 100,039 | 1,786 | (256 ) | 101,569 |
| Residential mortgage-backed securities | 684,100 | 2,582 | (13,018 ) | 673,664 |
| Commercial mortgage-backed securities | 7,004 | 11 | (39 ) | 6,976 |
| Bank-issued trust preferred securities | 5,195 | 141 | (207 ) | 5,129 |
| Equity securities (a) | 1,394 | 6,520 | (65 ) | 7,849 |
| Total available-for-sale securities | $ 797,732 | $ 11,040 | $ (13,585 ) | $ 795,187 |

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

Peoples' investment in equity securities was comprised largely of common stocks issued by various unrelated bank holding companies at both March 31, 2018 and December 31, 2017. At December 31, 2017, there were no equity securities of a single issuer that exceeded 10% of stockholders' equity.

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

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in thousands) | 2018 | 2017 |
| Gross gains realized | $ 2 | $ 340 |
| Gross losses realized | 1 | — |
| Net gain (loss) realized | $ 1 | $ 340 |

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

Table of Contents

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

| (Dollars in thousands) | Less than 12 Months | | | 12 Months or More | | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Loss | No. of Securities | Fair Value | Unrealized Loss | No. of Securities | Fair Value | Unrealized Loss |
| March 31, 2018 | | | | | | | | |
| Obligations of: | | | | | | | | |
| States and political subdivisions | $26,370 | $ 306 | 37 | $5,095 | $ 271 | 2 | $31,465 | $ 577 |
| Residential mortgage-backed securities | 321,636 | 7,396 | 95 | 279,802 | 12,841 | 86 | 601,438 | 20,237 |
| Commercial mortgage-backed securities | 5,609 | 93 | 2 | 1,256 | 17 | 1 | 6,865 | 110 |
| Bank-issued trust preferred securities | — | — | — | 2,782 | 218 | 3 | 2,782 | 218 |
| Total | $353,615 | $ 7,795 | 134 | $288,935 | $ 13,347 | 92 | $642,550 | $ 21,142 |
| December 31, 2017 | | | | | | | | |
| Obligations of: | | | | | | | | |
| States and political subdivisions | $16,985 | $ 89 | 18 | $5,308 | $ 167 | 1 | $22,293 | $ 256 |
| Residential mortgage-backed securities | 274,998 | 3,462 | 77 | 291,812 | 9,556 | 88 | 566,810 | 13,018 |
| Commercial mortgage-backed securities | 2,487 | 23 | 1 | 1,274 | 16 | 1 | 3,761 | 39 |
| Bank-issued trust preferred securities | — | — | — | 2,792 | 207 | 3 | 2,792 | 207 |
| Equity securities (a) | 276 | 1 | 1 | 112 | 64 | 1 | 388 | 65 |
| Total | $294,746 | $ 3,575 | 97 | $301,298 | $ 10,010 | 94 | $596,044 | $ 13,585 |

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

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

At March 31, 2018, approximately 99% of the mortgage-backed securities with a market value that had been at an unrealized loss position for twelve months or more were issued by U.S. government sponsored agencies. The remaining 1%, or four positions, consisted of privately issued mortgage-backed securities with all of the underlying mortgages originated prior to 2004. Two of the four positions had a fair value of less than 90% of their book value, with an aggregate book and fair value of $0.5 million and $0.3 million, respectively. Management analyzed the underlying credit quality of these securities and concluded the unrealized losses were primarily attributable to the floating rate nature of these investments and the low number of loans remaining in these securities.

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 March 31, 2018 were primarily attributable to the floating-rate nature of those investments, the current interest rate environment and spreads within that sector.

Table of Contents

The table below presents the amortized cost, fair value and total weighted-average yield of available-for-sale securities by contractual maturity at March 31, 2018. The weighted-average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date.

| (Dollars in thousands) | Within 1 Year | 1 to 5 Years | 5 to 10 Years | Over 10 Years | Total |
|---|---|---|---|---|---|
| Amortized cost | | | | | |
| Obligations of: | | | | | |
| States and political subdivisions | $1,294 | $10,503 | $30,295 | $54,638 | $96,730 |
| Residential mortgage-backed securities | 439 | 14,398 | 40,311 | 644,640 | 699,788 |
| Commercial mortgage-backed securities | — | 5,701 | — | 1,273 | 6,974 |
| Bank-issued trust preferred securities | — | — | 2,197 | 3,000 | 5,197 |
| Total available-for-sale securities | $1,733 | $30,602 | $72,803 | $703,551 | $808,689 |
| Fair value | | | | | |
| Obligations of: | | | | | |
| States and political subdivisions | $1,301 | $10,492 | $30,332 | $55,080 | $97,205 |
| Residential mortgage-backed securities | 433 | 14,140 | 39,654 | 627,519 | 681,746 |
| Commercial mortgage-backed securities | — | 5,608 | — | 1,256 | 6,864 |
| Bank-issued trust preferred securities | — | — | 2,313 | 2,782 | 5,095 |
| Total available-for-sale securities | $1,734 | $30,240 | $72,299 | $686,637 | $790,910 |
| Total weighted-average yield | 2.77 % | 2.52 % | 3.15 % | 2.86 % | 2.88 % |

Held-to-Maturity

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

| (Dollars in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| March 31, 2018 | | | | |
| Obligations of: | | | | |
| States and political subdivisions | $ 3,807 | $ 493 | $ — | $4,300 |
| Residential mortgage-backed securities | 31,590 | 192 | (804 ) | 30,978 |
| Commercial mortgage-backed securities | 4,254 | — | (92 ) | 4,162 |
| Total held-to-maturity securities | $ 39,651 | $ 685 | $ (896 ) | $39,440 |
| December 31, 2017 | | | | |
| Obligations of: | | | | |
| States and political subdivisions | $ 3,810 | $ 607 | $ — | $4,417 |
| Residential mortgage-backed securities | 32,487 | 269 | (529 ) | 32,227 |
| Commercial mortgage-backed securities | 4,631 | — | (62 ) | 4,569 |
| Total held-to-maturity securities | $ 40,928 | $ 876 | $ (591 ) | $41,213 |

There were no gross gains or gross losses realized by Peoples from sales of held-to-maturity securities for the three months ended March 31, 2018 and 2017.

Table of Contents

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

| | Less than 12 Months | | | 12 Months or More | | | Total | |
|---|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | Fair Value | Unrealized Loss | No. of Securities | Fair Value | Unrealized Loss | No. of Securities | Fair Value | Unrealized Loss |
| March 31, 2018 | | | | | | | | |
| Residential mortgage-backed securities | $5,774 | $ 48 | 4 | $11,729 | $ 756 | 3 | $17,503 | $ 804 |
| Commercial mortgage-backed securities | — | — | — | 4,162 | 92 | 1 | 4,162 | 92 |
| Total | $5,774 | $ 48 | 4 | $15,891 | $ 848 | 4 | $21,665 | $ 896 |
| December 31, 2017 | | | | | | | | |
| Residential mortgage-backed securities | $1,476 | $ 4 | 2 | $12,098 | $ 525 | 3 | $13,574 | $ 529 |
| Commercial mortgage-backed securities | — | — | — | 4,569 | 62 | 1 | 4,569 | 62 |
| Total | $1,476 | $ 4 | 2 | $16,667 | $ 587 | 4 | $18,143 | $ 591 |

The table below presents the amortized cost, fair value and total weighted-average yield of held-to-maturity securities by contractual maturity at March 31, 2018. The weighted-average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date.

| (Dollars in thousands) | Within 1 Year | 1 to 5 Years | 5 to 10 Years | Over 10 Years | Total |
|---|---|---|---|---|---|
| Amortized cost | | | | | |
| Obligations of: | | | | | |
| States and political subdivisions | $ — | $ 312 | $2,981 | $ 514 | $3,807 |
| Residential mortgage-backed securities | — | 439 | 6,336 | 24,815 | |