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# NEWS RELEASE

**FOR IMMEDIATE RELEASE**
July 26, 2016

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## PEOPLES BANCORP INC. REPORTS SECOND QUARTER NET INCOME OF $0.44 PER SHARE

**MARIETTA, Ohio** - Peoples Bancorp Inc. ("Peoples") (NASDAQ: PEBO) today announced results for the quarter and six months ended June 30, 2016. Net income totaled $8.0 million for the second quarter of 2016, representing earnings per diluted common share of $0.44. In comparison, earnings per diluted common share were $0.44 for the first quarter of 2016 and $0.27 for the second quarter of 2015. Net income was $16.0 million and earnings per diluted common share were $0.88 for the six months ended June 30, 2016, compared to $4.2 million and $0.24 per diluted common share in 2015.

"The second quarter of 2016 demonstrated that we were able to maintain consistent earnings by overcoming the reduction in annual performance-based insurance income of $0.06 per diluted share that we received in the first quarter of 2016. Additionally, the current quarter is also the first quarter that we could see clear year-over-year results that were not impacted by an acquisition. Compared to the first quarter of 2016 and the second quarter of 2015, we have been able to grow loans, expand net interest margin, improve asset quality and control expenses," said Chuck Sulerzyski, President and Chief Executive Officer. "We are optimistic about our ability to further improve our business."

**Statement of Operations Highlights:**

- ***Net interest income grew 2% compared to the linked quarter and 6% compared to the second quarter of 2015.***
  - Net interest income benefited from higher loan balances and a reduction in higher-cost funding.
  - Net interest margin improved to 3.57% in the second quarter of 2016, compared to 3.53% for the linked quarter and 3.46% in the second quarter of 2015.
- ***Provision for loan losses was $0.7 million for the quarter as credit quality has stabilized over the last two quarters.***
- ***Total non-interest expenses were $26.5 million, up slightly from the linked quarter's non-interest expenses and 7% lower than the second quarter of 2015.***
  - Efficiency ratio, when adjusted for non-core charges, was 64.9% for the second quarter of 2016, compared to 64.3% for the first quarter of 2016 and 71.5% in the second quarter of 2015.
  - Operating leverage was positive in the first six months of 2016 compared to 2015 as revenue grew 11% and core non-interest expenses increased only 3%.

**Balance Sheet Highlights:**

- ***Period-end total loan balances grew 4% on an annualized basis compared to March 31, 2016 and 6% compared to June 30, 2015.***
  - Indirect loans grew $23.3 million, or 51% annualized, compared to the linked quarter, while total consumer loans grew $14.8 million, or 6% annualized.
  - Commercial and industrial loans increased $10.5 million, or 11% annualized, from the linked quarter as total commercial loans increased $8.9 million, or 3% annualized.
- ***Asset quality improved during the quarter as net charge-offs as a percent of average gross loans and criticized loans declined.***
  - Net charge-offs as a percent of average gross loans were 0.03% annualized for the quarter, compared to 0.09% in the linked quarter and 0.11% in the second quarter of 2015. Year-to-date, net charge-offs were 0.06% of average loans in 2016 compared to 0.07% in 2015.

   - Criticized loans, which are those categorized as watch, substandard or doubtful, decreased $13.8 million during the quarter.
   - Classified loans, which are those categorized as substandard or doubtful, decreased $6.7 million during the quarter.
   - Nonperforming assets increased slightly to 1.04% of total loans and OREO at June 30, 2016 compared to 1.00% at March 31, 2016.
   - Allowance for loan losses was relatively flat at 1.16% of originated loans, net of deferred fees and costs, at June 30, 2016, compared to 1.17% at March 31, 2016. Since December 31, 2015, the allowance for loan losses has increased $1.1 million.
- ***Other assets increased during the second quarter of 2016 as a result of an investment of $35 million in bank-owned life insurance.***
- ***Period-end total deposit balances declined $54.1 million, or 2% compared to the linked quarter.***
   - Certificates of deposit and non-interest-bearing deposits decreased $33.6 million and $16.5 million, respectively, during the quarter, while seasonal fluctuations contributed to the $13.3 million decline in governmental deposits.
   - Non-interest bearing deposits, as a percent of total deposits, remained at 28% at June 30, 2016 compared to March 31, 2016.
   - Brokered certificates of deposit totaling $12.9 million, which had a weighted-average rate of 3.84%, matured during the quarter.

**Note:** The comparison of the income statement and average balance sheet results between the first six months of 2015 and the first six months of 2016 was affected by the NB&T Financial Group, Inc. ("NB&T") acquisition, which closed March 6, 2015.

**<u>Net Interest Income:</u>**

Net interest income was $26.3 million in the second quarter of 2016, a 2% increase compared to the linked quarter and a 6% increase over the second quarter of 2015. The net interest margin for the second quarter of 2016 was 3.57%, compared to 3.53% in the first quarter of 2016 and 3.46% in the second quarter of 2015. Loan growth was the main driver of increase in interest income for the second quarter of 2016 compared to the prior periods.

For the first six months of 2016, net interest income grew 13% compared to 2015 and net interest margin improved to 3.55% from 3.46%. The NB&T acquisition, coupled with loan growth, were the drivers of the increase in interest income.

The accretion income, net of amortization expense, from the acquisitions was $0.9 million for the second quarter of 2016, compared to $1.0 million for the first quarter of 2016 and $1.1 million in the second quarter of 2015, which added 11 basis points, 12 basis points and 15 basis points, respectively, to the net interest margin. In addition, accretion income, net of amortization expense, from the acquisitions was $1.9 million in the first six months of 2016 compared to $2.3 million in the first half of 2015, and added 11 basis points and 17 basis points, respectively, to net interest margin.

Net interest margin, excluding net accretion income from acquisitions, improved 5 basis points compared to the first quarter of 2016 and 15 basis points from the second quarter of 2015. In the first half of 2016, net interest margin, excluding net accretion income from acquisitions, increased 15 basis points compared to 2015. The sustained shift in the mix of the balance sheet, for both assets and liabilities, continued to improve net interest margin.

**<u>Provision for Loan Losses:</u>**

The provision for loan losses was $0.7 million in both the second quarter of 2016 and the second quarter of 2015, compared to $1.0 million in the first quarter of 2016. For the first six months of 2016, the provision for loan losses totaled $1.7 million compared to $1.0 million in 2015. Recent loan growth and reduced net charge-off activity were the drivers of the provision for loan losses recorded during the quarter and the first six months of 2016.

**<u>Non-interest Income:</u>**

Total non-interest income declined $0.7 million, or 5%, compared to the linked quarter, and grew $0.4 million, or 4%, compared to the second quarter of 2015. The decrease in the second quarter of 2016 was primarily due to the recognition of $1.6 million of annual performance-based insurance income in the first quarter of 2016, which equated to $0.06 per diluted share, most of which is received in the first quarter of each year. Compared to the linked quarter, trust and investment income increased $0.4 million, or 17%, while insurance income, excluding the performance-based insurance income, increased $0.3 million, or 11%. Compared to the second quarter of 2015, electronic banking, trust and investment and other non-interest income grew 11%, 9% and 70%, respectively. Other non-interest income increased primarily as a result of higher commercial loan swap fee income on loans and bank-owned life insurance income that grew due to the recent purchase of additional policies.

In the first six months of 2016, total non-interest income increased $2.0 million, or 8% compared to the first half of 2015, with electronic banking income, trust and investment income and other non-interest income growing 19%, 12% and 61%, respectively. These increases were partially due to the impact of the NB&T acquisition, coupled with increased customer activity and managed fees from investment services. Increases in other non-interest income during the first six months of 2016 were primarily due to higher commercial loan swap fee income, increased bank-owned life insurance income and recoveries on acquired loans that had been fully charged-off prior to acquisition.

**Non-interest Expense:**

Total non-interest expense, on an as reported basis, for the second quarter of 2016 was $26.5 million, compared to $26.3 million for the first quarter of 2016 and $28.8 million for the second quarter of 2015. Total non-interest expense, adjusted for non-core charges, was $26.4 million for the second quarter of 2016, compared to $26.3 million for the first quarter of 2016 and lower than the $27.8 million for the second quarter of 2015. Beginning in the second quarter of 2016, non-core charges include one-time costs associated with the conversion of Peoples' core banking system. These costs are expected to be approximately $1.1 million for the remainder of 2016, with the conversion taking place in the fourth quarter of 2016.

During the second quarter of 2016, professional fees and data processing and software expenses increased $664,000 and $264,000, respectively, and were partially offset by reductions in salaries and employee benefits, and net occupancy and equipment expense compared to the first quarter of 2016. The increased professional fees were partially due to charges related to annual trust client tax preparation and fees for outsourced services. Compared to the second quarter of 2015, total non-interest expense declined $0.7 million due primarily to decreases in both marketing expense and salaries and employee benefits, coupled with decreases of $0.5 million in both net occupancy and equipment and foreclosed real estate and other loan expense.

For the six months ended June 30, 2016, reported total non-interest expense was $52.8 million, a decrease of 14% from $61.7 million for the first half of 2015. Total non-interest expense, adjusted for non-core charges, was $52.7 million in the first six months of 2016, compared to $51.4 million in 2015, with the increase primarily due to the addition of operating expenses from the NB&T acquisition, partially offset by reductions in marketing and foreclosed real estate and other loan expenses. Peoples' number of full time equivalent employees declined to 803 at June 30, 2016, compared to 821 at March 31, 2016 and 831 at June 30, 2015.

The efficiency ratio for the second quarter of 2016 was 65.1%, compared to 64.3% for the linked quarter and 74.2% for the second quarter of 2015. For the first six months of 2016, the efficiency ratio was 64.7% compared to 84.8% in the first half of 2015. The efficiency ratio, when adjusted for non-core charges, was 64.9% for the second quarter of 2016, 64.3% for the linked quarter and 71.5% for the second quarter of 2015. The higher adjusted efficiency ratio in the second quarter of 2016 compared to the linked quarter was primarily due to increased non-interest expenses of 1% as revenue was flat. Revenue grew 5% and core expenses decreased 5% in the second quarter of 2016 compared to the second quarter of 2015. For the first six months of 2016, the adjusted efficiency ratio was 64.6% compared to 70.2% for the first half of 2015, as revenue grew 11% and core expenses increased 3%.

**Loans:**

In the second quarter of 2016, period-end total loan balances increased $23.7 million, or 4% annualized, compared to March 31, 2016. Indirect lending continued to be a key component of loan growth, as balances increased $23.3 million, or 51% annualized, during the quarter, and 48% annualized compared to December 31, 2015. Commercial loans grew $8.9 million, or 3% annualized, with increases in commercial and industrial loans of $10.5 million being partially offset by a decrease of $1.7 million in commercial real estate loans during the quarter. Period-end total loan balances increased $116.8 million, or 6%, compared to June 30, 2015. Consumer loans increased $61.5 million, or 7% compared to June 30, 2015, and were mostly driven by higher indirect lending activity. Commercial loans grew primarily from increases in commercial and industrial loans of $51.3 million, or 16%, compared to June 30, 2015.

Increases in indirect lending and commercial and industrial loan balances were the primary reason for higher average gross loan balances for the quarter compared to the linked quarter, with an increase of $30.3 million, or 6% annualized. Compared to the second quarter of 2015, average gross loans increased $122.0 million, or 6%, largely due to growth in non-mortgage consumer loans and commercial and industrial loans. During the first six months of 2016, average gross loan balances grew $247.7 million, or 13%, compared to the first half of 2015, primarily due to the NB&T acquisition, higher indirect lending and commercial and industrial loan balances.

Indirect lending continues to comprise a larger portion of the consumer loan portfolio and was 22% at June 30, 2016, compared to 20% at March 31, 2016 and 16% at June 30, 2015. In addition, commercial and industrial loan balances comprised 32% of the commercial portfolio at June 30, 2016, compared to 31% at March 31, 2016 and 29% at June 30,

2015. The recent increases in indirect lending and commercial and industrial loans have provided additional diversification to the loan portfolio.

**Asset Quality:**

Asset quality metrics improved during the second quarter of 2016. Annualized net charge-offs were 0.03% of average gross loans during the second quarter of 2016, compared to 0.09% in the first quarter of 2016 and 0.11% in the second quarter of 2015. During the first six months of 2016, annualized net charge-offs were 0.06% of average gross loans compared to 0.07% in 2015.

Criticized loans, which are those categorized as watch, substandard or doubtful, decreased $13.8 million during the quarter and $0.7 million compared to the second quarter of 2015. Classified loans, which are those categorized as substandard or doubtful, decreased $6.7 million during the quarter and $13.8 million compared to the second quarter of 2015.

Nonperforming assets increased $1.1 million during the second quarter of 2016 compared to the first quarter of 2016. Compared to the second quarter of 2015, nonperforming assets decreased $3.2 million, as nonaccrual loans declined $5.2 million, but was partially offset by a $2.7 million increase in loans 90+ days past due.

At June 30, 2016, the allowance for loan losses increased to $17.8 million, compared to $16.8 million at December 31, 2015. The ratio of the allowance for loan losses as a percent of originated loans (which does not include acquired loan balances), net of deferred fees and costs, was 1.16% at June 30, 2016, compared to 1.17% at March 31, 2016 and 1.42% at June 30, 2015. The decline in this ratio compared to the second quarter of 2015 was primarily due to the build up of reserves on one commercial loan relationship that was fully charged-off in the fourth quarter of 2015.

**Deposits:**

During the second quarter of 2016, period-end deposits declined $54.1 million, mainly attributable to reductions of $20.7 million in retail certificates of deposit, $16.5 million in non-interest-bearing deposits, $13.3 million in governmental deposits and $12.9 million in brokered certificates of deposit. The decrease in governmental deposits was a typical seasonal decline, as the balances are generally higher in the first quarter of each year. The decrease in retail certificates of deposits was due to planned reductions of higher cost deposits. Period-end deposits decreased $11.6 million compared to June 30, 2015, as increases of $28.6 million in savings accounts, $18.3 million in non-interest-bearing deposits and $18.1 million in interest-bearing demand deposits were more than offset by declines of $61.9 million in retail certificates of deposit and $17.1 million in brokered certificates of deposit.

Non-interest bearing deposits continued to comprise 28% of total deposits at June 30, 2016, compared to 27% at June 30, 2015.

Average deposits for the second quarter of 2016 increased $11.2 million compared to the linked quarter, with most of the growth in savings accounts and non-interest-bearing balances. Compared to the second quarter of 2015, average deposits increased $14.7 million, primarily from higher savings account balances, interest-bearing demand accounts and non-interest-bearing balances, which were partially offset by reductions in certificates of deposit. For the first six months of 2016, average deposits increased $238.9 million, or 10%, compared to the first half of 2015, mainly due to the NB&T acquisition.

**Borrowings:**

In the second quarter of 2016, long-term borrowings increased $34.8 million, primarily due to additional amortizing and non-amortizing advances of $35 million. Also during the second quarter of 2016, $20 million of long-term borrowings were restructured into lower-rate advances, resulting in a $0.7 million loss.

**Stockholders' Equity:**

At June 30, 2016, the tier 1 risk-based capital ratio was 13.33%, compared to 13.41% at March 31, 2016. The total risk-based capital ratio was 14.23% at June 30, 2016, a slight decrease from 14.29% at March 31, 2016. These capital ratios decreased slightly from the linked quarter due primarily to an increase in risk-weighted assets, which was mainly the result of growth in loans. During the second quarter of 2016, no common shares were repurchased under the share repurchase program, compared to 279,770 shares in the first quarter of 2015.

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Peoples Bancorp Inc. is a diversified financial services holding company with $3.3 billion in total assets, 81 locations, including 73 full-service bank branches, and 81 ATMs in Ohio, West Virginia and Kentucky. Peoples makes available a complete line of banking, investment, insurance and trust solutions through its subsidiaries - Peoples Bank and Peoples Insurance Agency, LLC.  Peoples' common shares are traded on the NASDAQ Global Select Market® under the symbol “PEBO”, and Peoples is a member of the Russell 3000 index of U.S. publicly-traded companies.  Learn more about Peoples at www.peoplesbancorp.com.

Conference Call to Discuss Earnings:

Peoples will conduct a facilitated conference call to discuss second quarter and year-to-date 2016 results of operations today at 11:00 a.m., Eastern Daylight Time, with members of Peoples' executive management participating.  Analysts, media and individual investors are invited to participate in the conference call by calling (866) 890-9285.  A simultaneous webcast of the conference call audio will be available online via the "Investor Relations" section of Peoples' website, www.peoplesbancorp.com.  Participants are encouraged to call or sign in at least 15 minutes prior to the scheduled conference call time to ensure participation and, if required, to download and install the necessary software.  A replay of the call will be available on Peoples' website in the "Investor Relations" section for one year.

Use of Non-GAAP Financial Measures

This news release contains financial information and performance measures determined by methods other than in accordance with accounting principles generally accepted in the United States of America ("GAAP").  Management uses these "non-GAAP" financial measures in its analysis of Peoples' performance and the efficiency of its operations. Management believes that these non-GAAP financial measures provide a greater understanding of ongoing operations and enhance comparability of results with prior periods and peers. These disclosures should not be viewed as substitutes for financial measures determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP financial measures that may be presented by other companies. Below is a listing of the non-GAAP financial measures used in this news release:

- Core non-interest expenses are non-GAAP since they exclude the impact of  costs associated with the core system conversion, acquisition-related costs, pension settlement charges, severance charges and legal settlement charges.
- Efficiency ratio is calculated as total non-interest expense (less amortization of other intangible assets) as a percentage of fully tax-equivalent net interest income plus total non-interest income.  This measure is non-GAAP since it excludes amortization of other intangible assets and all gains and/or losses included in earnings, and uses fully tax-equivalent net interest income.
- Tangible assets, tangible equity and tangible book value per common share measures are non-GAAP since they exclude the impact of goodwill and other intangible assets acquired through acquisitions on both total stockholders' equity and total assets and the related amortization from earnings.
- Pre-provision net revenue is defined as net interest income plus total non-interest income minus total non-interest expense.  This measure is non-GAAP since it excludes provision for loan losses and all gains and/or losses included in earnings.

A reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures is included at the end of this news release under the caption of "Non-GAAP Financial Measures".

Safe Harbor Statement:

Certain statements made in this news release regarding Peoples' financial condition, results of operations, plans, objectives, future performance and business, are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995.  These forward-looking statements are identified by the fact they are not historical facts and include words such as "anticipate", "estimate", "may", "feel", "expect", "believe", "plan", "will", "would", "should", "could" and similar expressions.

These forward-looking statements reflect management's current expectations based on all information available to management and its knowledge of Peoples' business and operations.  Additionally, Peoples' financial condition, results of operations, plans, objectives, future performance and business are subject to risks and uncertainties that may cause actual results to differ materially.  These factors include, but are not limited to: (1) Peoples' ability to complete the conversion of Peoples' core banking system (include the related core operating systems, data systems and products) without complications or difficulties that may otherwise result in the loss of customers, operational problems or one-time costs currently not anticipated to arise in connection with such conversion; (2) the success, impact, and timing of the implementation of Peoples' business strategies, including the successful integration of acquisitions and the expansion of consumer lending activity; (3) Peoples' ability to integrate any future acquisitions may be unsuccessful, or may be more difficult, time-consuming or costly than expected; (4) Peoples may issue equity securities in connection with future acquisitions, which could cause ownership and economic dilution to Peoples' current shareholders; (5) local, regional, national and international economic conditions and the impact these conditions may have on Peoples, its customers and its counterparties, and Peoples' assessment of the impact, which may be different than anticipated; (6) competitive pressures among financial institutions or from non-financial institutions may increase significantly, including product and pricing pressures, 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 United States ("U.S.") government and the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), which may adversely impact interest rates, interest margins and interest rate sensitivity; (8) changes in prepayment speeds, loan originations, levels of nonperforming assets, delinquent loans and charge-offs, which may be less favorable than expected and adversely impact the amount of interest income generated; (9) adverse changes in the economic conditions and/or activities, including, but not limited to, continued economic uncertainty in the U.S., the European Union (including the uncertainty created by the June 23, 2016 referendum by British voters to exit the European Union), Asia, and other areas, which could decrease sales volumes, add volatility to the global stock markets, and increase loan delinquencies and defaults; (10) legislative or regulatory changes or actions, promulgated and to be promulgated thereunder by governmental and regulatory agencies in the State of Ohio, the Federal Deposit Insurance Corporation, 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, including in particular the rules and regulations promulgated and to be promulgated under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010; (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 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 industry or Peoples as detailed from time to time in Peoples' reports filed with the Securities and Exchange Commission (the “SEC”), including those risk factors included in the disclosures under the heading "ITEM 1A. RISK FACTORS" of Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Peoples encourages readers of this news release to understand forward-looking statements to be strategic objectives rather than absolute targets of future performance. Peoples undertakes no obligation to update these forward-looking statements to reflect events or circumstances after the date of this news release or to reflect the occurrence of unanticipated events, except as required by applicable legal requirements. Copies of documents filed with the SEC are available free of charge at the SEC's website at http://www.sec.gov and/or from Peoples' website.

As required by U.S. GAAP, Peoples is required to evaluate the impact of subsequent events through the issuance date of its June 30, 2016 consolidated financial statements as part of its Quarterly Report on Form 10-Q to be filed with the SEC. Accordingly, subsequent events could occur that may cause Peoples to update its critical accounting estimates and to revise its financial information from that which is contained in this news release.

**PER COMMON SHARE DATA AND SELECTED RATIOS**

| | Three Months Ended | | | Six Months Ended | |
|---|---|---|---|---|---|
| | June 30, 2016 | March 31, 2016 | June 30, 2015 | June 30, 2016 | June 30, 2015 |
| **PER COMMON SHARE:** | | | | | |
| Earnings per common share: | | | | | |
| Basic | $ 0.44 | $ 0.44 | $ 0.27 | $ 0.88 | $ 0.25 |
| Diluted | 0.44 | 0.44 | 0.27 | 0.88 | 0.24 |
| Cash dividends declared per common share | 0.16 | 0.15 | 0.15 | 0.31 | 0.30 |
| Book value per common share | 24.07 | 23.60 | 22.74 | 24.07 | 22.74 |
| Tangible book value per common share (a) | 15.93 | 15.39 | 14.52 | 15.93 | 14.52 |
| Closing stock price at end of period | $ 21.79 | $ 19.54 | $ 23.34 | $ 21.79 | $ 23.34 |
| **SELECTED RATIOS:** | | | | | |
| Return on average stockholders' equity (b) | 7.45% | 7.59 % | 4.69% | 7.52% | 2.19% |
| Return on average assets (b) | 0.97% | 0.98 % | 0.61% | 0.98% | 0.28% |
| Efficiency ratio (c) | 65.08% | 64.26 % | 74.19% | 64.67% | 84.83% |
| Pre-provision net revenue to total average assets (b)(d) | 1.48% | 1.54 % | 0.99% | 1.51% | 0.54% |
| Net interest margin (b)(e) | 3.57% | 3.53 % | 3.46% | 3.55% | 3.46% |
| Dividend payout ratio | 36.47% | 34.37 % | 56.14% | 35.42% | 119.08% |

(a) This amount represents a non-GAAP financial measure since it excludes the balance sheet impact of intangible assets acquired through acquisitions on stockholders' equity. Additional information regarding the calculation of this ratio is included at the end of this news release.

(b) Ratios are presented on an annualized basis.

(c) Total non-interest expense (less amortization of other intangible assets) as a percentage of fully tax-equivalent net interest income plus total non-interest income. This amount represents a non-GAAP financial measure since it excludes amortization of other intangible assets, and all gains and/or losses included in earnings, and uses fully tax-equivalent net interest income. Additional information regarding the calculation of this ratio is included at the end of this news release.

(d) This ratio represents a non-GAAP financial measure since it excludes the provision for loan losses and net gains or losses on investment securities, debt extinguishment, loans held-for-sale and other real estate owned, and other assets. This measure is a key metric used by federal bank regulatory agencies in their evaluation of capital adequacy for financial institutions. Additional information regarding the calculation of this ratio is included at the end of this news release.

(e) Information presented on a fully tax-equivalent basis.

## CONSOLIDATED STATEMENTS OF OPERATIONS

| (in $000's) | Three Months Ended June 30, 2016 | Three Months Ended March 31, 2016 | Three Months Ended June 30, 2015 | Six Months Ended June 30, 2016 | Six Months Ended June 30, 2015 |
|---|---|---|---|---|---|
| Total interest income | **$ 28,921** | $ 28,443 | $ 27,566 | **$ 57,364** | $ 51,725 |
| Total interest expense | **2,613** | 2,676 | 2,773 | **5,289** | 5,513 |
| Net interest income | **26,308** | 25,767 | 24,793 | **52,075** | 46,212 |
| Provision for loan losses | **727** | 955 | 672 | **1,682** | 1,022 |
| Net interest income after provision for loan losses | **25,581** | 24,812 | 24,121 | **50,393** | 45,190 |
| Net gain on investment securities | **767** | 96 | 11 | **863** | 611 |
| Loss on debt extinguishment | **(707)** | — | — | **(707)** | (520) |
| Net loss on loans held-for-sale and other real estate owned | **—** | (1) | (73) | **(1)** | (81) |
| Net loss on other assets | **(62)** | (30) | (63) | **(92)** | (638) |
| **Non-interest income:** | | | | | |
| Insurance income | **3,299** | 4,498 | 3,283 | **7,797** | 7,595 |
| Trust and investment income | **2,776** | 2,382 | 2,544 | **5,158** | 4,591 |
| Electronic banking income | **2,567** | 2,535 | 2,312 | **5,102** | 4,292 |
| Deposit account service charges | **2,563** | 2,603 | 2,848 | **5,166** | 5,143 |
| Mortgage banking income | **265** | 160 | 412 | **425** | 715 |
| Other non-interest income | **897** | 876 | 527 | **1,773** | 1,098 |
| Total non-interest income | **12,367** | 13,054 | 11,926 | **25,421** | 23,434 |
| **Non-interest expense:** | | | | | |
| Salaries and employee benefit costs | **13,972** | 14,325 | 14,560 | **28,297** | 31,921 |
| Net occupancy and equipment expense | **2,581** | 2,806 | 3,138 | **5,387** | 5,433 |
| Professional fees | **2,123** | 1,459 | 1,808 | **3,582** | 4,255 |
| Electronic banking expense | **1,485** | 1,433 | 1,320 | **2,918** | 2,444 |
| Data processing and software expense | **1,013** | 749 | 1,025 | **1,762** | 1,760 |
| Amortization of other intangible assets | **1,007** | 1,008 | 1,144 | **2,015** | 1,817 |
| Communication expense | **584** | 628 | 592 | **1,212** | 1,094 |
| FDIC insurance expense | **540** | 617 | 530 | **1,157** | 954 |
| Franchise tax expense | **483** | 538 | 502 | **1,021** | 1,050 |
| Marketing expense | **414** | 398 | 1,071 | **812** | 1,716 |
| Foreclosed real estate and other loan expenses | **100** | 251 | 551 | **351** | 872 |
| Other non-interest expense | **2,203** | 2,070 | 2,537 | **4,273** | 8,376 |
| Total non-interest expense | **26,505** | 26,282 | 28,778 | **52,787** | 61,692 |
| Income before income taxes | **11,441** | 11,649 | 7,144 | **23,090** | 6,304 |
| Income tax expense | **3,479** | 3,654 | 2,231 | **7,133** | 2,080 |
| Net income | **$ 7,962** | $ 7,995 | $ 4,913 | **$ 15,957** | $ 4,224 |
| **PER SHARE DATA:** | | | | | |
| Earnings per common share – Basic | **$ 0.44** | $ 0.44 | $ 0.27 | **$ 0.88** | $ 0.25 |
| Earnings per common share – Diluted | **$ 0.44** | $ 0.44 | $ 0.27 | **$ 0.88** | $ 0.24 |
| Cash dividends declared per common share | **$ 0.16** | $ 0.15 | $ 0.15 | **$ 0.31** | $ 0.30 |
| Weighted-average common shares outstanding – Basic | **17,980,797** | 18,071,746 | 18,116,090 | **18,026,272** | 16,965,603 |
| Weighted-average common shares outstanding – Diluted | **18,113,812** | 18,194,990 | 18,253,918 | **18,154,260** | 17,094,095 |
| Actual common shares outstanding (end of period) | **18,185,708** | 18,157,932 | 18,391,575 | **18,185,708** | 18,391,575 |

## CONSOLIDATED BALANCE SHEETS

| (in $000's) | June 30, 2016 | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents: | | |
| Cash and due from banks | **$ 54,096** | $ 53,663 |
| Interest-bearing deposits in other banks | **12,248** | 17,452 |
| Total cash and cash equivalents | **66,344** | 71,115 |
| Available-for-sale investment securities, at fair value (amortized cost of $750,305 at June 30, 2016 and $780,304 at December 31, 2015) | **772,618** | 784,701 |
| Held-to-maturity investment securities, at amortized cost (fair value of $46,143 at June 30, 2016 and $45,853 at December 31, 2015) | **44,306** | 45,728 |
| Other investment securities, at cost | **38,402** | 38,401 |
| Total investment securities | **855,326** | 868,830 |
| Loans, net of deferred fees and costs | **2,128,790** | 2,072,440 |
| Allowance for loan losses | **(17,838)** | (16,779) |
| Net loans | **2,110,952** | 2,055,661 |
| Loans held for sale | **4,223** | 1,953 |
| Bank premises and equipment, net of accumulated depreciation | **52,731** | 53,487 |
| Goodwill | **132,631** | 132,631 |
| Other intangible assets | **15,340** | 16,986 |
| Other assets | **95,908** | 58,307 |
| **Total assets** | **$ 3,333,455** | $ 3,258,970 |
| **Liabilities** | | |
| Deposits: | | |
| Non-interest-bearing deposits | **$ 699,695** | $ 717,939 |
| Interest-bearing deposits | **1,833,276** | 1,818,005 |
| Total deposits | **2,532,971** | 2,535,944 |
| Short-term borrowings | **173,512** | 160,386 |
| Long-term borrowings | **147,980** | 113,670 |
| Accrued expenses and other liabilities | **41,239** | 29,181 |
| Total liabilities | **2,895,702** | 2,839,181 |
| **Stockholders' Equity** | | |
| Preferred stock, no par value, 50,000 shares authorized, no shares issued at June 30, 2016 and December 31, 2015 | **—** | — |
| Common stock, no par value, 24,000,000 shares authorized, 18,934,758 shares issued at June 30, 2016 and 18,931,200 shares issued at December 31, 2015, including shares in treasury | **343,540** | 343,948 |
| Retained earnings | **101,095** | 90,790 |
| Accumulated other comprehensive income (loss), net of deferred income taxes | **11,134** | (359) |
| Treasury stock, at cost, 802,957 shares at June 30, 2016 and 586,686 shares at December 31, 2015 | **(18,016)** | (14,590) |
| Total stockholders' equity | **437,753** | 419,789 |
| **Total liabilities and stockholders' equity** | **$ 3,333,455** | $ 3,258,970 |

## SELECTED FINANCIAL INFORMATION

| (in $000's, end of period) | June 30, 2016 | March 31, 2016 | December 31, 2015 | September 30, 2015 | June 30, 2015 |
|---|---|---|---|---|---|
| **Loan Portfolio** | | | | | |
| Commercial real estate, construction | **$ 98,993** | $ 81,381 | $ 75,899 | $ 81,076 | $ 61,388 |
| Commercial real estate, other | **708,910** | 728,199 | 736,276 | 710,630 | 742,532 |
| Commercial and industrial | **378,352** | 367,810 | 351,719 | 357,456 | 327,093 |
| Residential real estate | **555,123** | 565,749 | 565,555 | 571,132 | 565,768 |
| Home equity lines of credit | **109,017** | 107,701 | 106,429 | 105,767 | 103,991 |
| Consumer, indirect | **207,116** | 183,797 | 167,096 | 153,993 | 140,191 |
| Consumer, other | **70,065** | 68,395 | 68,018 | 68,874 | 67,807 |
| Deposit account overdrafts | **1,214** | 2,083 | 1,448 | 1,317 | 3,263 |
| Total loans | **$ 2,128,790** | $ 2,105,115 | $ 2,072,440 | $ 2,050,245 | $ 2,012,033 |
| Total acquired loans (a) | **$ 591,967** | $ 627,819 | $ 657,801 | $ 694,436 | $ 726,583 |
| Total originated loans | **$ 1,536,823** | $ 1,477,296 | $ 1,414,639 | $ 1,355,809 | $ 1,285,450 |
| **Deposit Balances** | | | | | |
| Non-interest-bearing deposits | **$ 699,695** | $ 716,202 | $ 717,939 | $ 711,226 | $ 681,357 |
| Interest-bearing deposits: | | | | | |
| Interest-bearing demand accounts | **252,119** | 254,241 | 250,023 | 232,354 | 234,025 |
| Retail certificates of deposit | **418,748** | 439,460 | 448,992 | 461,398 | 480,687 |
| Money market deposit accounts | **401,828** | 395,022 | 394,119 | 393,472 | 395,788 |
| Governmental deposit accounts | **300,639** | 313,904 | 276,639 | 293,889 | 304,221 |
| Savings accounts | **438,952** | 434,381 | 414,375 | 404,676 | 410,371 |
| Brokered certificates of deposit | **20,990** | 33,873 | 33,857 | 33,841 | 38,123 |
| Total interest-bearing deposits | **1,833,276** | 1,870,881 | 1,818,005 | 1,819,630 | 1,863,215 |
| Total deposits | **$ 2,532,971** | $ 2,587,083 | $ 2,535,944 | $ 2,530,856 | $ 2,544,572 |
| **Asset Quality** | | | | | |
| Nonperforming assets (NPAs): | | | | | |
| Loans 90+ days past due and accruing | **$ 5,869** | $ 6,746 | $ 5,969 | $ 3,760 | $ 3,165 |
| Nonaccrual loans | **15,582** | 13,579 | 13,531 | 21,144 | 20,823 |
| Total nonperforming loans (NPLs) | **21,451** | 20,325 | 19,500 | 24,904 | 23,988 |
| Other real estate owned (OREO) | **679** | 679 | 733 | 1,566 | 1,322 |
| Total NPAs | **$ 22,130** | $ 21,004 | $ 20,233 | $ 26,470 | $ 25,310 |
| Allowance for loan losses as a percent of NPLs (b)(c) | **83.16%** | 84.92% | 86.05% | 93.68% | 76.05% |
| NPLs as a percent of total loans (b)(c) | **1.01%** | 0.97% | 0.94% | 1.21% | 1.19% |
| NPAs as a percent of total assets (b)(c) | **0.66%** | 0.64% | 0.62% | 0.82% | 0.79% |
| NPAs as a percent of total loans and OREO (b)(c) | **1.04%** | 1.00% | 0.98% | 1.29% | 1.25% |
| Allowance for loan losses as a percent of originated loans, net of deferred fees and costs (b) | **1.16%** | 1.17% | 1.19% | 1.72% | 1.42% |
| **Capital Information (d)** | | | | | |
| Common Equity Tier 1 risk-based capital ratio | **13.03%** | 13.10% | 13.36% | 13.45% | 13.74% |
| Tier 1 risk-based capital ratio | **13.33%** | 13.41% | 13.67% | 13.77% | 14.06% |
| Total risk-based capital ratio (Tier 1 and Tier 2) | **14.23%** | 14.29% | 14.54% | 14.97% | 15.04% |
| Leverage ratio | **9.56%** | 9.45% | 9.52% | 9.57% | 9.50% |
| Common Equity Tier 1 capital | **$ 295,148** | $ 288,787 | $ 288,416 | $ 287,020 | $ 285,680 |
| Tier 1 capital | **301,977** | 295,569 | 295,151 | 293,705 | 292,316 |
| Total capital (Tier 1 and Tier 2) | **322,413** | 314,896 | 313,974 | 319,277 | 312,773 |
| Total risk-weighted assets | **$ 2,265,022** | $ 2,203,776 | $ 2,158,713 | $ 2,133,399 | $ 2,079,341 |
| Tangible equity to tangible assets (e) | **9.10%** | 8.88% | 8.69% | 8.88% | 8.73% |

(a) Includes all loans acquired in 2012 and thereafter.
(b) Data presented as of the end of the period indicated.
(c) 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.
(d) June 30, 2016 data based on preliminary analysis and subject to revision.

(e) This ratio represents a non-GAAP financial measure since it excludes the balance sheet impact of intangible assets acquired through acquisitions on both total stockholders' equity and total assets. Additional information regarding the calculation of this ratio is included at the end of this news release.

## PROVISION FOR LOAN LOSSES INFORMATION

| (in $000's) | Three Months Ended June 30, 2016 | Three Months Ended March 31, 2016 | Three Months Ended June 30, 2015 | Six Months Ended June 30, 2016 | Six Months Ended June 30, 2015 |
|---|---|---|---|---|---|
| **Provision for Loan Losses** | | | | | |
| Provision for loan losses | **$ 575** | $ 858 | $ 500 | **$ 1,433** | $ 750 |
| Provision for checking account overdrafts | **152** | 97 | 172 | **249** | 272 |
| Total provision for loan losses | **$ 727** | $ 955 | $ 672 | **$ 1,682** | $ 1,022 |
| **Net Charge-Offs** | | | | | |
| Gross charge-offs | **$ 855** | $ 2,003 | $ 971 | **$ 2,857** | $ 1,555 |
| Recoveries | **705** | 1,530 | 391 | **2,234** | 833 |
| Net charge-offs | **$ 150** | $ 473 | $ 580 | **$ 623** | $ 722 |
| **Net Charge-Offs (Recoveries) by Type** | | | | | |
| Commercial real estate, other | **$ (17)** | $ (1,136) | $ 7 | **$ (1,153)** | $ (38) |
| Commercial and industrial | **(244)** | 1,012 | 262 | **767** | 249 |
| Residential real estate | **194** | 139 | 52 | **333** | 123 |
| Home equity lines of credit | **—** | 3 | (42) | **3** | 1 |
| Consumer | **84** | 362 | 156 | **447** | 157 |
| Deposit account overdrafts | **133** | 93 | 145 | **226** | 230 |
| Total net charge-offs | **$ 150** | $ 473 | $ 580 | **$ 623** | $ 722 |
| As a percent of average gross loans (annualized) | **0.03%** | 0.09% | 0.11% | **0.06%** | 0.07% |

## SUPPLEMENTAL INFORMATION

| (in $000's, end of period) | June 30, 2016 | March 31, 2016 | December 31, 2015 | September 30, 2015 | June 30, 2015 |
|---|---|---|---|---|---|
| Trust assets under management | **$ 1,280,004** | $ 1,254,824 | $ 1,275,253 | $ 1,261,112 | $ 1,303,792 |
| Brokerage assets under management | **729,519** | 706,314 | 664,153 | 621,242 | 641,412 |
| Mortgage loans serviced for others | **$ 380,741** | $ 383,531 | $ 390,398 | $ 387,200 | $ 392,625 |
| Employees (full-time equivalent) | **803** | 821 | 817 | 821 | 831 |

## CONSOLIDATED AVERAGE BALANCE SHEETS AND NET INTEREST INCOME

| | Three Months Ended | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | June 30, 2016 | | | March 31, 2016 | | | June 30, 2015 | | |
| (in $000's) | Balance | Income/ Expense | Yield/ Cost | Balance | Income/ Expense | Yield/ Cost | Balance | Income/ Expense | Yield/ Cost |
| **Assets** | | | | | | | | | |
| Short-term investments | **$ 9,073** | **$ 11** | **0.49%** | $ 12,436 | $ 16 | 0.52% | $ 94,376 | $ 57 | 0.25% |
| Other long-term investments | **—** | **—** | **—%** | — | — | —% | 1,345 | 4 | 1.19% |
| Investment securities (a)(b) | **877,046** | **5,984** | **2.73%** | 875,644 | 5,926 | 2.71% | 838,181 | 5,840 | 2.79% |
| Gross loans (b)(c) | **2,122,000** | **23,428** | **4.39%** | 2,091,739 | 23,009 | 4.38% | 1,999,998 | 22,192 | 4.41% |
| Allowance for loan losses | **(17,362)** | | | (16,845) | | | (17,918) | | |
| Total earning assets | **2,990,757** | **29,423** | **3.92%** | 2,962,974 | 28,951 | 3.90% | 2,915,982 | 28,093 | 3.84% |
| Intangible assets | **148,464** | | | 149,528 | | | 151,736 | | |
| Other assets | **167,435** | | | 160,133 | | | 152,205 | | |
| Total assets | **$ 3,306,656** | | | $ 3,272,635 | | | $ 3,219,923 | | |
| **Liabilities and Equity** | | | | | | | | | |
| Interest-bearing deposits: | | | | | | | | | |
| Savings accounts | **$ 438,368** | **$ 58** | **0.05%** | $ 421,797 | $ 56 | 0.05% | $ 407,713 | $ 55 | 0.05% |
| Government deposit accounts | **302,852** | **146** | **0.19%** | 298,685 | 147 | 0.20% | 307,535 | 165 | 0.22% |
| Interest-bearing demand accounts | **251,773** | **46** | **0.07%** | 251,341 | 45 | 0.07% | 234,602 | 48 | 0.08% |
| Money market deposit accounts | **400,286** | **165** | **0.17%** | 398,515 | 160 | 0.16% | 397,217 | 158 | 0.16% |
| Brokered certificates of deposits | **29,542** | **273** | **3.73%** | 33,875 | 315 | 3.75% | 38,114 | 354 | 3.73% |
| Retail certificates of deposit | **431,075** | **815** | **0.76%** | 454,224 | 878 | 0.78% | 489,604 | 838 | 0.69% |
| Total interest-bearing deposits | **1,853,896** | **1,503** | **0.33%** | 1,858,437 | 1,601 | 0.35% | 1,874,785 | 1,618 | 0.35% |
| Short-term borrowings | **142,888** | **105** | **0.29%** | 135,689 | 87 | 0.26% | 76,242 | 31 | 0.16% |
| Long-term borrowings | **118,427** | **1,005** | **3.40%** | 113,370 | 988 | 3.50% | 129,891 | 1,124 | 3.47% |
| Total borrowed funds | **261,315** | **1,110** | **1.70%** | 249,059 | 1,075 | 1.74% | 206,133 | 1,155 | 2.25% |
| Total interest-bearing liabilities | **2,115,211** | **2,613** | **0.50%** | 2,107,496 | 2,676 | 0.51% | 2,080,918 | 2,773 | 0.53% |
| Non-interest-bearing deposits | **726,066** | | | 710,297 | | | 690,483 | | |
| Other liabilities | **35,307** | | | 31,299 | | | 28,709 | | |
| Total liabilities | **2,876,584** | | | 2,849,092 | | | 2,800,110 | | |
| Stockholders' equity | **430,072** | | | 423,543 | | | 419,813 | | |
| Total liabilities and equity | **$ 3,306,656** | | | $ 3,272,635 | | | $ 3,219,923 | | |
| Net interest income/spread (b) | | **$ 26,810** | **3.42%** | | $ 26,275 | 3.39% | | $ 25,320 | 3.31% |
| Net interest margin (b) | | | **3.57%** | | | 3.53% | | | 3.46% |

(a) Average balances are based on carrying value.

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

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

| (in $000's) | For the Six Months Ended June 30, 2016 Balance | Income/ Expense | Yield/ Cost | June 30, 2015 Balance | Income/ Expense | Yield/ Cost |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Short-term investments | **$ 10,754** | **$ 27** | **0.50%** | $ 78,704 | $ 94 | 0.24% |
| Other long-term investments | **—** | **—** | **—%** | 1,345 | 7 | 1.05% |
| Investment securities (a)(b) | **876,345** | **11,912** | **2.72%** | 798,442 | 11,163 | 2.80% |
| Gross loans (b)(c) | **2,106,869** | **46,435** | **4.41%** | 1,859,169 | 41,397 | 4.45% |
| Allowance for loan losses | **(17,103)** | | | (17,903) | | |
| Total earning assets | **2,976,865** | **58,374** | **3.90%** | 2,719,757 | 52,661 | 3.87% |
| Intangible assets | **148,996** | | | 136,729 | | |
| Other assets | **162,608** | | | 136,853 | | |
| Total assets | **$ 3,288,469** | | | $ 2,993,339 | | |
| **Liabilities and Equity** | | | | | | |
| Interest-bearing deposits: | | | | | | |
| Savings accounts | **$ 430,082** | **$ 114** | **0.05%** | $ 367,274 | $ 98 | 0.05% |
| Government deposit accounts | **300,769** | **293** | **0.20%** | 259,836 | 289 | 0.22% |
| Interest-bearing demand accounts | **251,557** | **91** | **0.07%** | 208,109 | 87 | 0.08% |
| Money market deposit accounts | **399,401** | **326** | **0.16%** | 373,965 | 298 | 0.16% |
| Brokered certificates of deposits | **31,708** | **588** | **3.74%** | 38,273 | 706 | 3.72% |
| Retail certificates of deposit | **442,649** | **1,692** | **0.77%** | 467,227 | 1,699 | 0.73% |
| Total interest-bearing deposits | **1,856,166** | **3,104** | **0.34%** | 1,714,684 | 3,177 | 0.37% |
| Short-term borrowings | **139,288** | **192** | **0.28%** | 80,511 | 66 | 0.16% |
| Long-term borrowings | **115,899** | **1,993** | **3.45%** | 153,989 | 2,270 | 2.96% |
| Total borrowed funds | **255,187** | **2,185** | **1.72%** | 234,500 | 2,336 | 2.00% |
| Total interest-bearing liabilities | **2,111,353** | **5,289** | **0.50%** | 1,949,184 | 5,513 | 0.57% |
| Non-interest-bearing deposits | **718,181** | | | 620,788 | | |
| Other liabilities | **32,127** | | | 34,171 | | |
| Total liabilities | **2,861,661** | | | 2,604,143 | | |
| Stockholders' equity | **426,808** | | | 389,196 | | |
| Total liabilities and equity | **$ 3,288,469** | | | $ 2,993,339 | | |
| Net interest income/spread (b) | | **$ 53,085** | **3.40%** | | $ 47,148 | 3.30% |
| Net interest margin (b) | | | **3.55%** | | | 3.46% |

(a) Average balances are based on carrying value.

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

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

## NON-GAAP FINANCIAL MEASURES

The following non-GAAP financial measures used by Peoples provide information useful to investors in understanding Peoples' operating performance and trends, and facilitate comparisons with the performance of Peoples' peers. The following tables summarize the non-GAAP financial measures derived from amounts reported in Peoples' consolidated financial statements:

| | Three Months Ended | | | Six Months Ended | |
|---|---|---|---|---|---|
| | June 30, | March 31, | June 30, | June 30, | |
| (in $000's) | 2016 | 2016 | 2015 | 2016 | 2015 |
| **Core non-interest expenses:** | | | | | |
| Total non-interest expense | $ 26,505 | $ 26,282 | $ 28,778 | $ 52,787 | $ 61,692 |
| Less: Core conversion associated costs | 90 | — | — | 90 | — |
| Less: Acquisition-related costs | — | — | 732 | — | 9,775 |
| Less: Pension settlement charges | — | — | 103 | — | 372 |
| Less: Other non-core charges | — | — | 185 | — | 185 |
| Core non-interest expenses | $ 26,415 | $ 26,282 | $ 27,758 | $ 52,697 | $ 51,360 |

| | Three Months Ended | | | Six Months Ended | |
|---|---|---|---|---|---|
| | June 30, | March 31, | June 30, | June 30, | |
| (in $000's) | 2016 | 2016 | 2015 | 2016 | 2015 |
| **Efficiency ratio:** | | | | | |
| Total non-interest expense | 26,505 | 26,282 | 28,778 | 52,787 | 61,692 |
| Less: Amortization of intangible assets | 1,007 | 1,008 | 1,144 | 2,015 | 1,817 |
| Adjusted non-interest expense | 25,498 | 25,274 | 27,634 | 50,772 | 59,875 |
| Total non-interest income | 12,367 | 13,054 | 11,926 | 25,421 | 23,434 |
| Net interest income | 26,308 | 25,767 | 24,793 | 52,075 | 46,212 |
| Add: Fully tax-equivalent adjustment | $ 502 | $ 508 | $ 527 | $ 1,010 | $ 936 |
| Net interest income on a fully taxable-equivalent basis | $ 26,810 | $ 26,275 | $ 25,320 | $ 53,085 | $ 47,148 |
| Adjusted revenue | $ 39,177 | $ 39,329 | $ 37,246 | $ 78,506 | $ 70,582 |
| Efficiency ratio | 65.08% | 64.26% | 74.19% | 64.67% | 84.83% |
| **Efficiency ratio adjusted for non-core charges:** | | | | | |
| Core non-interest expenses | $ 26,415 | $ 26,282 | $ 27,758 | $ 52,697 | $ 51,360 |
| Less: Amortization of intangible assets | $ 1,007 | $ 1,008 | $ 1,144 | $ 2,015 | $ 1,817 |
| Adjusted non-interest expense | 25,408 | 25,274 | 26,614 | 50,682 | 49,543 |
| Adjusted revenue | $ 39,177 | $ 39,329 | $ 37,246 | $ 78,506 | $ 70,582 |
| Efficiency ratio adjusted for non-core charges | 64.85% | 64.26% | 71.45% | 64.56% | 70.19% |

| (in $000's) | At or For the Three Months Ended<br>June 30, 2016 | March 31, 2016 | December 31 2015 | September 30, 2015 | June 30, 2015 |
|---|---|---|---|---|---|
| **Tangible Equity:** | | | | | |
| Total stockholders' equity, as reported | $ 437,753 | $ 428,486 | $ 419,789 | $ 424,760 | $ 418,164 |
| Less: goodwill and other intangible assets | 147,971 | 148,997 | 149,617 | 151,339 | 151,169 |
| Tangible equity | $ 289,782 | $ 279,489 | $ 270,172 | $ 273,421 | $ 266,995 |
| **Tangible Assets:** | | | | | |
| Total assets, as reported | $ 3,333,455 | $ 3,294,929 | $ 3,258,970 | $ 3,228,830 | $ 3,210,425 |
| Less: goodwill and other intangible assets | 147,971 | 148,997 | 149,617 | 151,339 | 151,169 |
| Tangible assets | $ 3,185,484 | $ 3,145,932 | $ 3,109,353 | $ 3,077,491 | $ 3,059,256 |
| **Tangible Book Value per Common Share:** | | | | | |
| Tangible equity | $ 289,782 | $ 279,489 | $ 270,172 | $ 273,421 | $ 266,995 |
| Common shares outstanding | 18,185,708 | 18,157,932 | 18,404,864 | 18,400,809 | 18,391,575 |
| Tangible book value per common share | $ 15.93 | $ 15.39 | $ 14.68 | $ 14.86 | $ 14.52 |
| **Tangible Equity to Tangible Assets Ratio:** | | | | | |
| Tangible equity | $ 289,782 | $ 279,489 | $ 270,172 | $ 273,421 | $ 266,995 |
| Tangible assets | $ 3,185,484 | $ 3,145,932 | $ 3,109,353 | $ 3,077,491 | $ 3,059,256 |
| Tangible equity to tangible assets | 9.10% | 8.88% | 8.69% | 8.88% | 8.73% |

| (in $000's) | Three Months Ended<br>June 30, 2016 | March 31, 2016 | June 30, 2015 | Six Months Ended June 30,<br>2016 | 2015 |
|---|---|---|---|---|---|
| **Pre-Provision Net Revenue:** | | | | | |
| Income (loss) before income taxes | $ 11,441 | $ 11,649 | $ 7,144 | $ 23,090 | $ 6,304 |
| Add: provision for loan losses | 727 | 955 | 672 | 1,682 | 1,022 |
| Add: loss on debt extinguishment | 707 | — | — | 707 | 520 |
| Add: net loss on loans held-for-sale and OREO | — | 1 | 73 | 1 | 81 |
| Add: net loss on other assets | 97 | 30 | 63 | 127 | 638 |
| Less: net gain on securities transactions | 767 | 96 | 11 | 863 | 611 |
| Less: gain on other assets | 35 | — | — | 35 | — |
| Pre-provision net revenue | $ 12,170 | $ 12,539 | $ 7,941 | $ 24,709 | $ 7,954 |
| Pre-provision net revenue | $ 12,170 | $ 12,539 | $ 7,941 | $ 24,709 | $ 7,954 |
| Total average assets | $ 3,306,656 | $ 3,272,635 | $ 3,219,923 | $ 3,288,469 | $ 2,993,339 |
| Pre-provision net revenue to total average assets (annualized) | 1.48% | 1.54% | 0.99% | 1.51% | 0.54% |

**END OF RELEASE**