2008 ANNUAL REPORT

STRENGTH
SECURITY
COMMITMENT

TO OUR SHAREHOLDERS

G. Richard Gatton
Chairman of the Board of Directors, Peoples Bancorp & Peoples Federal Savings Bank

Maurice F. Winkler, III
Chief Executive Officer and President, Peoples Bancorp & Peoples Federal Savings Bank

Jeffrey H. Gatton
Chief Operating Officer and Senior Vice President

Dear Shareholder,

The events of the past few months have had a dramatic effect on our nation and our economy. Unemployment has surged past 6.5%, consumer confidence has fallen to its lowest reading since 1952, and the government's "bailouts" to our nation's largest banks, insurance companies and investment banking firms have all Americans very apprehensive and preparing for even more challenging economic conditions.

During these challenging times, Peoples Bancorp's strong capital position has acted as a buffer against potential economic downturns. With our stockholders equity at $57,531,241 (a 12.6% capital to asset ratio) we are positioned to weather further erosion of the national and local economies in 2009. Because of our strength, we do not plan to participate in the federal government's Troubled Asset Relief Program (TARP).

As for our operating results for the fiscal year ending September 30, 2008, we achieved an increase of 18.6% in net income with earnings of $3,322,480 versus the previous year's net income of $2,801,416. On a per share diluted basis, fiscal year 2008 earnings were $1.12 per share compared to $0.89 for the year ended September 30, 2007, or a 25.8% increase. These results are very impressive, especially with the national and local economies that loomed over us.

Your Board of Directors and Management started a plan back in 2006 to decrease and control expenses that has definitely had a positive impact on the profitability of our Company. We merged both of our banks on October 1, 2007 to cut regulatory expenses. Then in March of 2008 we reorganized our Bancorp to reduce the costs of SEC compliance and to avoid the costly impact of Sarbanes-Oxley. And finally, in May of 2008 we converted our data processing from a service bureau provider to a more efficient and less costly in-house system. All of these planned changes are having a positive impact on our expenses, and more importantly our net income. During the past year we repurchased over 305,000 shares of our stock (9.8% of shares outstanding) and as of September 30, 2008 our book value per share was $20.54.

With all the good news about our fiscal year 2008, we do have concerns about the national and local economies for 2009. We are concerned about our customers' ability to continue to make their payments as job losses mount, home values fall and consumer confidence continues to erode. Our loan delinquencies have increased from the prior year and we anticipate them to continue to increase during our fiscal year 2009. Just how much and how long this trend will be depends on the depth and duration of the recession and our nation's leaders' ability to respond to our economic crisis.

As a community and a common sense lender, Peoples is committed to serving our customers, and our communities, with care and integrity. Peoples will continue to make sound, traditional loans that serve our customers well. We know that by helping our customers, we help the community. . . our community. Our doors are open to serve… and will remain that way.

SELECTED CONSOLIDATED FINANCIAL DATA OF PEOPLES BANCORP

	September 30		
	2008	2007	2006
Balance Sheet Data:			
Total assets	$455,101,931	$469,193,037	$501,353,713
Loans receivable including loans held for sale, net	316,749,983	348,485,297	371,662,679
Investments and other interest earning assets	110,623,106	100,572,388	108,170,325
Deposits	319,245,713	349,291,182	375,848,729
Borrowed funds	75,541,180	54,480,511	59,672,791
Stockholder's equity	57,531,241	62,032,964	62,775,216

	For Year 2008		
	2008	2007	2006
Operating Data:			
Interest income	$26,230,669	$28,659,990	$28,310,432
Interest expense	11,662,690	14,559,298	12,927,583
Net interest income	$14,567,979	$14,100,692	$15,382,849
Provision for losses on loans	522,448	76,972	56,065
Net interest income after provision for losses on loans	$14,045,531	$14,023,720	$15,326,784
Other income	2,684,458	2,104,783	2,285,030
Other expenses	12,081,718	12,099,627	12,822,056
Income before income taxes	4,648,271	4,028,876	4,789,758
Income tax expense	1,325,791	1,227,460	1,537,352
Net income	$3,322,480	$2,801,416	$3,252,406
Basic income per common share	$1.12	$0.89	$0.99
Diluted income per common share	$1.12	$0.89	$0.98
Dividends per common share	$0.76	$0.76	$0.76
Other Data:			
Average yield on all interest-earning assets	5.96%	6.10%	5.99%
Average cost of all interest-bearing liabilities	3.05%	3.58%	3.09%
Interest rate spread	2.91%	2.52%	2.90%
Number of full service banking offices	15	15	15
Return on assets (net income divided by average total assets)	0.72%	0.57%	0.65%
Return on equity (net income divided by average total equity)	5.50%	4.49%	5.06%
Dividend payout ratio (dividends per common share divided by net income per common share)	67.86%	85.39%	76.77%
Equity to assets ratio (average total equity divided by average total assets)	13.23%	12.93%	12.90%

PEOPLES BANCORP

Corporate Profile

Peoples Bancorp (the "Company") is a holding company formed in 1990. Its stock is traded on Pink Sheets under the symbol PBNI.

The Company's primary asset is Peoples Federal Savings Bank of DeKalb County ("Peoples"). Peoples was formed in 1925. On October 1, 2007, First Savings was merged with and into Peoples Federal Savings Bank and the First Savings OTS Charter was retired. The Company has grown to assets of more than $455 million.

Peoples' main office is located in Auburn, Indiana with full service offices in Avilla, Columbia City (two branches), Garrett, Howe, Kendallville, LaGrange, Middlebury, Topeka, and Waterloo in Indiana and offices in Schoolcraft, Three Rivers (two branches) and Union in Michigan.

Peoples' financial services include Mortgages, Trusts, Consumer Banking, and Individual Retirement Accounts.

Peoples is a member of the Federal Home Loan Bank System, and its deposits are insured by the Federal Deposit Insurance Corp.

Independent Auditors

BKD LLP
201 North Illinois Street, Suite 700
Indianapolis, IN 46204

Legal Counsel

Barnes & Thornburg LLP
11 South Meridian Street
Indianapolis, IN 46204-3535

Transfer Agent

Computershare
Investor Services
2 North LaSalle Street
Chicago, IL 60602

Annual Meeting

The annual meeting of stockholders of Peoples Bancorp will be held Wednesday, January 28, 2009, at 2:00 p.m. at the LaQuinta Inn, 306 Touring Drive, Auburn, Indiana 46706.

Audited Financials

A copy of the Company's Audited Financial Statement will be furnished without charge to stockholders of the Company upon request to the Secretary, Peoples Bancorp, 212 West 7th Street, P.O. Box 231, Auburn, IN 46706 or E-mail: cheri@peoplesfed.com

Board of Directors

G. Richard Gatton – *Chairman of the Board of the Company and Peoples Federal Savings Bank, Auburn, Indiana. Director since 2000.*

Maurice F. Winkler, III – *Chief Executive Officer and President of the Company and Peoples Savings Bank, Auburn, Indiana. Director since 1993.*

Erica D. Dekko – *Financial Planner for Linsco Private Ledger (LPL), Kendallville, Indiana. Director since 2001.*

Bruce S. Holwerda – *Retired Vice President and Chief Operating Officer of Ambassador Steel Corporation, Auburn, Indiana. Currently is part owner of four companies. Director since 1998.*

Douglas D. Marsh – *Principal Broker of Castle One Realty, Auburn, Indiana. Chairman of the Board Applied Innovations, Inc., Auburn, Indiana. Director since 1990.*

Stephen R. Olson – *Sales Administration and Manager Development of Morton Buildings, Three Rivers, Michigan. Director since 2000.*

John C. Thrapp – *Attorney, Thrapp & Thrapp, Kendallville, Indiana. Director since 1990.*

Roger J. Wertenberger (Director Emeritus) - *Retired President of Peoples Federal Savings Bank, Auburn, Indiana.*

Executive Officers

G. Richard Gatton – *Chairman of the Board*

Maurice F. Winkler, III – *President and Chief Executive Officer*

Jeffrey H. Gatton – *Sr. Vice President and Chief Operating Officer*

Steven H. Caryer – *Vice President – Chief Financial Officer*

Cheryl L. Taylor – *Corporate Secretary of the Company*

Donald E. Budd – *Vice President – Trust Officer*

Lee A. Dick – *Vice President – Commercial Lending*

Jeffrey L. Grate – *Vice President – Lending Operations*

John D. Haggarty, II – *Vice President – Operations*

Larry D. Kummer – *Vice President – Agricultural Lending*

Rita M. Richardson – *Vice President – Savings*

MEMBER F.D.I.C

Peoples Bancorp
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EQUAL HOUSING LENDER