

Peoples Bancorp

Accountants' Report and Consolidated Financial Statements

September 30, 2009 and 2008

Peoples Bancorp
September 30, 2009 and 2008

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Independent Accountants' Report

Audit Committee, Board of Directors
and Stockholders
Peoples Bancorp
Auburn, Indiana

We have audited the accompanying consolidated balance sheets of Peoples Bancorp as of September 30, 2009 and 2008, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Peoples Bancorp as of September 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 18, the Bank changed its method of accounting for fair value measurements in accordance with ASC Topic 820 in 2009.

BKD LLP

Indianapolis, Indiana
November 23, 2009

Peoples Bancorp
Consolidated Balance Sheets
September 30, 2009 and 2008

Assets

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 8,608,642	\$ 6,789,106
Investment securities		
Available for sale	173,246,748	103,624,296
Held to maturity (fair value of \$264,118 and \$337,566)	252,351	334,271
Total investment securities	<u>173,499,099</u>	<u>103,958,567</u>
Mortgage loans held for sale	839,400	288,000
Loans, net of allowance for loan losses of \$1,653,931 and \$1,871,970	278,042,813	316,461,983
Premises and equipment	5,555,970	6,401,220
Federal Home Loan Bank of Indianapolis stock, at cost	4,462,500	4,403,900
Goodwill	2,330,198	2,330,198
Cash surrender value of life insurance	8,377,308	8,014,986
Other assets	<u>6,125,797</u>	<u>6,453,971</u>
Total assets	<u>\$ 487,841,727</u>	<u>\$ 455,101,931</u>

Liabilities

NOW and savings deposits	\$ 150,528,982	\$ 145,577,620
Certificates of deposit	<u>184,184,838</u>	<u>173,668,093</u>
Total deposits	334,713,820	319,245,713
Short-term borrowings	1,255,599	191,180
Federal Home Loan Bank advances	87,250,000	75,350,000
Other liabilities	<u>3,751,568</u>	<u>2,783,797</u>
Total liabilities	<u>426,970,987</u>	<u>397,570,690</u>

Commitments and Contingencies

Stockholders' Equity

Preferred stock, \$1 par value		
Authorized and unissued - 5,000,000 shares		
Common stock, \$1 par value		
Authorized - 7,000,000 shares		
Issued and outstanding - 2,667,725 and 2,801,007 shares	2,667,725	2,801,007
Retained earnings	55,467,946	55,626,060
Accumulated other comprehensive income (loss)	<u>2,735,069</u>	<u>(895,826)</u>
Total stockholders' equity	<u>60,870,740</u>	<u>57,531,241</u>
Total liabilities and stockholders' equity	<u>\$ 487,841,727</u>	<u>\$ 455,101,931</u>

Peoples Bancorp
Consolidated Statements of Income
Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Interest Income		
Loans	\$ 18,331,019	\$ 21,868,814
Investment securities	5,232,571	3,858,149
Other interest and dividend income	134,282	503,706
	<u>23,697,872</u>	<u>26,230,669</u>
Interest Expense		
Deposits		
NOW and savings deposits	822,220	1,361,705
Certificates of deposit	5,712,593	7,171,924
Short-term borrowings	7,731	13,678
Federal Home Loan Bank advances	3,422,527	3,115,383
	<u>9,965,071</u>	<u>11,662,690</u>
Net Interest Income	13,732,801	14,567,979
Provision for loan losses	733,257	522,448
Net Interest Income After Provision for Loan Losses	<u>12,999,544</u>	<u>14,045,531</u>
Non-Interest Income		
Fiduciary activities	388,598	433,150
Fees and service charges	1,211,471	1,300,455
Net realized gains on available-for-sale securities	554,855	264,216
Gain on sale of loans	686,724	194,126
Cash surrender value	359,813	241,994
Other income	81,291	250,517
Total other income	<u>3,282,752</u>	<u>2,684,458</u>
Non-Interest Expenses		
Salaries and employee benefits	6,905,707	6,937,564
Net occupancy expense	1,026,680	1,046,620
Equipment expense	901,167	702,136
Data processing expense	551,291	881,614
Deposit insurance expense	521,381	57,737
Other expenses	2,550,517	2,456,047
Total other expenses	<u>12,456,743</u>	<u>12,081,718</u>
Income Before Income Tax	3,825,553	4,648,271
Income tax expense	704,466	1,325,791
Net Income	<u>\$ 3,121,087</u>	<u>\$ 3,322,480</u>
Basic Earnings Per Share	\$ 1.14	\$ 1.12
Diluted Earnings Per Share	\$ 1.14	\$ 1.12
Weighted-Average Shares Outstanding - Basic	2,730,595	2,966,957
Weighted-Average Shares Outstanding - Diluted	2,730,595	2,967,378

Peoples Bancorp
Consolidated Statements of Stockholders' Equity
Years Ended September 30, 2009 and 2008

	Common Stock		Additional Paid-in Capital	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Outstanding	Amount					
Balances, October 1, 2007	3,106,134	\$ 3,106,134	\$ 679,457		\$ 58,570,157	\$ (322,784)	\$ 62,032,964
Comprehensive income							
Net income				\$ 3,322,480	3,322,480		3,322,480
Other comprehensive income, net of tax							
Unrealized losses on securities, net of reclassification adjustment				(573,042)		(573,042)	(573,042)
Comprehensive income				\$ 2,749,438			
Cash dividends (\$.76 per share)					(2,249,173)		(2,249,173)
Stock options exercised	594	594	7,158				7,752
Repurchase of common stock	(305,721)	(305,721)	(686,615)		(4,017,404)		(5,009,740)
Balances, September 30, 2008	2,801,007	2,801,007	-		55,626,060	(895,826)	57,531,241
Comprehensive income							
Net income				\$ 3,121,087	3,121,087		3,121,087
Other comprehensive income, net of tax							
Unrealized gains on securities, net of reclassification adjustment				3,630,895		3,630,895	3,630,895
Comprehensive income				\$ 6,751,982			
Cash dividends (\$.76 per share)					(2,062,771)		(2,062,771)
Repurchase of common stock	(133,282)	(133,282)	-		(1,216,430)		(1,349,712)
Balances, September 30, 2009	2,667,725	\$ 2,667,725	\$ -		\$ 55,467,946	\$ 2,735,069	\$ 60,870,740

Peoples Bancorp

Consolidated Statements of Cash Flows

Years Ended September 30, 2009 and 2008

	2009	2008
Operating Activities		
Net income	\$ 3,121,087	\$ 3,322,480
Items not requiring (providing) cash		
Provision for loan losses	733,257	522,448
Depreciation and amortization	919,425	780,743
Investment securities amortization, net	925,938	(162,772)
(Gain) loss from sale of property, plant and equipment	24,350	(4,148)
Gain on sale of loans	(686,724)	(194,126)
(Gain) loss on real estate owned	369,092	(35,472)
Amortization of deferred loan fees	(423,332)	(321,449)
Net realized gains on available-for-sale securities	(554,855)	(264,216)
Increase in cash surrender value of life insurance	(359,813)	(241,994)
Deferred income tax	221,852	26,515
Change in		
Loans held for sale	(551,400)	(32,500)
Interest receivable	194,449	209,475
Interest payable	(48,635)	(1,043,014)
Other adjustments	(961,561)	428,456
Net cash provided by operating activities	<u>2,923,130</u>	<u>2,990,426</u>
Investing Activities		
Net change in interest-bearing deposits	-	2,567,908
Purchases of securities available for sale	(117,794,502)	(85,963,312)
Proceeds from maturities and paydowns of securities held to maturity	81,954	99,161
Proceeds from maturities and paydowns of securities available for sale	27,821,454	51,147,279
Proceeds from sales of securities available for sale	25,523,028	17,314,215
Net change in loans	37,029,891	30,639,368
Purchase of cash surrender value life insurance	-	(7,000,000)
Purchase of FHLB stock	(58,600)	-
Purchases of premises and equipment	(139,261)	(1,622,474)
Proceeds from sales of premises and equipment	40,736	-
Proceeds from sale of foreclosed real estate	1,396,986	599,099
Net cash provided by (used in) investing activities	<u>(26,098,314)</u>	<u>7,781,244</u>
Financing Activities		
Net change in		
NOW and savings deposits	4,951,362	10,102,710
Certificates of deposit	10,516,745	(40,148,179)
Short-term borrowings	1,064,419	(809,331)
Proceeds from Federal Home Loan Bank advances	45,250,000	50,850,000
Repayment of Federal Home Loan Bank advances	(33,350,000)	(28,980,000)
Cash dividends	(2,088,094)	(2,307,147)
Stock options exercised	-	7,752
Repurchase of common stock	(1,349,712)	(5,009,740)
Net cash provided by (used in) financing activities	<u>24,994,720</u>	<u>(16,293,935)</u>
Net Change in Cash and Cash Equivalents	<u>1,819,536</u>	<u>(5,522,265)</u>
Cash and Cash Equivalents, Beginning of Year	<u>6,789,106</u>	<u>12,311,371</u>
Cash and Cash Equivalents, End of Year	<u>\$ 8,608,642</u>	<u>\$ 6,789,106</u>
Additional Cash Flows Information		
Interest paid	\$ 10,013,706	\$ 13,228,617
Income tax paid	894,851	1,415,216
Transfer to other real estate from loans	1,766,078	1,121,573

Peoples Bancorp
Notes to Consolidated Financial Statements
September 30, 2009 and 2008

Note 1: Nature of Operations and Summary of Significant Accounting Policies

The accounting and reporting policies of Peoples Bancorp (Company), its wholly owned subsidiary, Peoples Federal Savings Bank of DeKalb County (Bank), the Bank's wholly owned subsidiaries, Peoples Financial Services, Inc. (Peoples Financial), PFDC Investments, Inc. and Alpha Financial, Inc. (Alpha) conform to accounting principles generally accepted in the United States of America and reporting practices followed by the thrift industry. The more significant of the policies are described below. As of October 1, 2007, First Savings Bank, a wholly owned subsidiary of the Company was merged into Peoples Federal Savings Bank of DeKalb County.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company is a thrift holding company whose principal activity is the ownership and management of the Bank. The Bank operates under a federal thrift charter and provides full banking services, including trust services. As a federally-chartered thrift, the Bank is subject to the regulation of the Office of Thrift Supervision (OTS) and the Federal Deposit Insurance Corporation.

The Bank generates commercial, mortgage and consumer loans and receives deposits from customers located primarily in north central and north eastern Indiana and south central Michigan. The Bank's loans are generally secured by specific items of collateral including real property and consumer assets.

Consolidation - The consolidated financial statements include the accounts of the Company, the Bank, Alpha, PFDC Investments, Inc. and Peoples Financial after elimination of all material intercompany transactions.

Cash Equivalents - Cash and cash equivalents include amounts due from banks and overnight investments with the Federal Home Loan Bank (FHLB). Net cash flows are reported for customer loan and deposit transactions, interest-bearing deposits in other financial institutions and repurchase agreements.

Investment Securities - Debt securities are classified as held to maturity when the Company has the positive intent and ability to hold the securities to maturity. Securities held to maturity are carried at amortized cost. Debt securities not classified as held to maturity are classified as available for sale. Securities available for sale are carried at fair value with unrealized gains and losses reported separately, net of tax, in accumulated other comprehensive income. The Company holds no securities for trading.

Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

Peoples Bancorp
Notes to Consolidated Financial Statements
September 30, 2009 and 2008

Mortgage Loans Held for Sale - Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis. Write-downs to fair value are recognized as a charge to earnings at the time the decline in value occurs. Forward commitments to sell mortgage loans are acquired to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid and considering a normal servicing rate.

Loans Receivable - Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal amount outstanding, net of deferred loan fees and costs and the allowance for loan losses. Interest income is accrued on the principal balances of loans. Generally, loans are placed on non-accrual status at ninety days past due. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed when considered uncollectible. Interest income is subsequently recognized only to the extent cash payments are received. Certain loan fees and direct costs are being deferred and amortized as an adjustment of yield on the loans.

Allowance for loan losses is maintained at a level believed by management to absorb probable incurred losses in the loan portfolio and is based on the size and current risk characteristics of the loan portfolio, an assessment of individual problem loans, actual loss experience, current economic events in specific industries and geographical areas, and other pertinent factors including general economic conditions. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience and consideration of economic trends, all of which may be susceptible to significant change. Allocations of the allowance may be made for specific loans, however, the entire allowance is available for any loan that, in management's judgment, should be charged off. A loan is impaired when full payment under the loan terms is not expected.

Loan losses are charged off against the allowance when, in management's estimation, it is unlikely that the loan will be collected, while recoveries of amounts previously charged off are credited to the allowance. A provision for loan losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors in order to maintain the allowance for loan losses at the level deemed adequate by management. The determination of whether a loan is considered past due or delinquent is based on the contractual payment terms. Management believes that, as of September 30, 2009, the allowance for loan losses is adequate based on information currently available. A worsening or protracted economic decline in the area within which the Company operates would increase the likelihood of additional losses due to credit and market risks and could create the need for additional loss provisions.

Peoples Bancorp
Notes to Consolidated Financial Statements
September 30, 2009 and 2008

Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using either a straight-line or accelerated method with useful lives ranging from 5 to 39 years. Furniture, fixtures and equipment are depreciated using a straight-line or accelerated method with useful lives ranging from 3 to 10 years. Land is carried at cost. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula.

Foreclosed assets are carried at the lower of cost or fair value less estimated selling costs. When foreclosed assets are acquired, any required adjustment is charged to the allowance for loan losses. All subsequent activity is included in current operations.

Goodwill is annually tested for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

Cash surrender value of life insurance - The Bank has purchased life insurance policies on certain key executives. The insurance is recorded at its cash surrender value, or the amount that can be realized.

Investments in limited partnerships are included in other assets. The Company utilizes the equity method of accounting for these investments. At September 30, 2009 and 2008, these investments totaled \$171,000 and \$215,000, respectively.

Pension plan costs are based on actuarial computations and charged to current operations. The funding policy is to pay at least the minimum amounts required by ERISA. The Company froze the Company's defined-benefit plan effective August 1, 2007.

Stock Options - At September 30, 2009, the Company had a stock-based employee compensation plan, which is described more fully in Note 16.

Income tax in the consolidated statements of income includes deferred income tax provisions or benefits for all significant temporary differences in recognizing income and expenses for financial reporting and income tax purposes. The Company files consolidated income tax returns with its subsidiaries.

Uncertain tax positions - in accordance with ASC 740-10-65, the Company has elected to defer the effective date of ASC 740-10-05, *Accounting for Uncertainty in Income Taxes*, until its fiscal year ended September 30, 2010. The Company has continued to account for any uncertain tax positions in accordance with literature that was authoritative immediately prior to the effective date of aforementioned standard.

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Notes to Consolidated Financial Statements
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Earnings per share have been computed based upon the weighted-average common shares outstanding during each year.

Mortgage-Servicing Rights - Mortgage-servicing rights on originated loans that have been sold are initially recorded at fair value. Capitalized servicing rights are amortized in proportion to and over the period of estimated servicing revenues. Impairment of mortgage-servicing rights is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows based on a current market interest rate. For purposes of measuring impairment, the rights are stratified based on the predominant risk characteristics of the underlying loans. The predominant characteristic currently used for stratification is type of loan. The amount of impairment recognized is the amount by which the capitalized mortgage-servicing rights for a stratum exceed their fair value.

Current economic conditions - The current economic environment presents financial institutions with unprecedented circumstances and challenges which in some cases have resulted in large declines in the fair values of investments and other assets, constraints on liquidity and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans. The consolidated financial statements have been prepared using values and information currently available to the Bank.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses and capital that could negatively impact the Bank's ability to meet regulatory capital requirements and maintain sufficient liquidity.

Reclassifications - Reclassifications have been made to the 2008 financial statements to conform to the 2009 financial statement presentation. These reclassifications had no effect on net income.

Note 2: Concentration of Funds and Restriction on Cash and Cash Equivalents

As of September 30, 2009 and 2008, respectively, there were no balances with other financial institutions in excess of the balance insured by the Federal Deposit Insurance Corporation. Additionally, the Company had \$3,644,000 and \$1,567,000 on deposit with the Federal Home Loan Bank of Indianapolis, and \$140,000 and \$125,000 on deposit with the Federal Reserve Bank of Chicago as of September 30, 2009 and 2008, respectively.

The Bank is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve funds required at September 30, 2009 totaled \$3,378,000.

Peoples Bancorp
Notes to Consolidated Financial Statements
September 30, 2009 and 2008

Note 3: Investment Securities

	2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Federal agencies	\$ 38,440,761	\$ 377,779	\$ 265,504	\$ 38,553,036
State and municipal obligations	47,004,866	2,211,855	24,950	49,191,771
Mortgage-backed securities	<u>83,653,716</u>	<u>1,865,568</u>	<u>17,343</u>	<u>85,501,941</u>
Total available for sale	169,099,343	4,455,202	307,797	173,246,748
Held to maturity				
Mortgage-backed securities	<u>252,351</u>	<u>11,767</u>	<u>-</u>	<u>264,118</u>
Total investment securities	<u>\$ 169,351,694</u>	<u>\$ 4,466,969</u>	<u>\$ 307,797</u>	<u>\$ 173,510,866</u>
	2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Federal agencies	\$ 24,303,099	\$ 218,815	\$ 271,519	\$ 24,250,395
State and municipal obligations	33,414,940	24,677	1,076,221	32,363,396
Mortgage-backed securities	<u>47,302,403</u>	<u>80,797</u>	<u>372,695</u>	<u>47,010,505</u>
Total available for sale	105,020,442	324,289	1,720,435	103,624,296
Held to maturity				
Mortgage-backed securities	<u>334,271</u>	<u>9,126</u>	<u>5,831</u>	<u>337,566</u>
Total investment securities	<u>\$ 105,354,713</u>	<u>\$ 333,415</u>	<u>\$ 1,726,266</u>	<u>\$ 103,961,862</u>

Peoples Bancorp
Notes to Consolidated Financial Statements
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The amortized cost and fair value of securities held to maturity and available for sale at September 30, 2009, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Maturity Distributions at September 30	2009			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	\$ 2,090,603	\$ 2,095,262	\$ -	\$ -
One to five years	13,103,347	13,165,867	-	-
Five to ten years	40,318,040	41,001,384	-	-
After ten years	29,933,637	31,482,294	-	-
	<u>85,445,627</u>	<u>87,744,807</u>	-	-
Mortgage-backed securities	<u>83,653,716</u>	<u>85,501,941</u>	<u>252,351</u>	<u>264,118</u>
	<u>\$ 169,099,343</u>	<u>\$ 173,246,748</u>	<u>\$ 252,351</u>	<u>\$ 264,118</u>

Securities with a carrying value of \$1,819,000 and \$897,000 were pledged at September 30, 2009 and 2008 to secure repurchase agreements. Securities with a carrying value of \$2,624,000 and \$3,504,000 were pledged at September 30, 2009 and 2008 to secure certain deposits.

Proceeds from sales of securities available for sale during 2009 and 2008 were \$25,523,000 and \$17,314,000, respectively. Gross gains of \$559,000 and \$307,000 were realized on investment transactions during 2009 and 2008, respectively. Gross losses of \$4,000 and \$43,000 were realized on investment transactions during 2009 and 2008, respectively.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at September 30, 2009 and 2008 was \$15,773,000 and \$62,972,000, which is approximately 9% and 61% of the Company's available-for-sale and held-to-maturity investment portfolio. These declines primarily resulted from fluctuations in market interest rates after the purchase.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in either net income or accumulated other comprehensive loss in the period the other-than-temporary impairment is identified.

Peoples Bancorp

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

The following table shows our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2009:

Description of Securities	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal agencies	\$ 7,991,702	\$ 108,220	\$ 342,715	\$ 157,284	\$ 8,334,417	\$ 265,504
State and municipal obligations	471,795	10,015	1,407,433	14,935	1,879,228	24,950
Mortgage-backed securities	5,236,295	16,012	322,678	1,331	5,558,973	17,343
Total temporarily impaired securities	<u>\$ 13,699,792</u>	<u>\$ 134,247</u>	<u>\$ 2,072,826</u>	<u>\$ 173,550</u>	<u>\$ 15,772,618</u>	<u>\$ 307,797</u>

The following table shows our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2008:

Description of Securities	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal agencies	\$ 3,548,507	\$ 22,359	\$ 250,840	\$ 249,160	\$ 3,799,347	\$ 271,519
State and municipal obligations	24,933,474	899,665	2,632,065	176,556	27,565,539	1,076,221
Mortgage-backed securities	29,475,913	345,434	2,131,189	33,092	31,607,102	378,526
Total temporarily impaired securities	<u>\$ 57,957,894</u>	<u>\$ 1,267,458</u>	<u>\$ 5,014,094</u>	<u>\$ 458,808</u>	<u>\$ 62,971,988</u>	<u>\$ 1,726,266</u>

Federal Agencies

The unrealized losses on the Company's investments in direct obligations of federal agencies were caused by changes in market interest rates. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2009.

Peoples Bancorp
Notes to Consolidated Financial Statements
September 30, 2009 and 2008

Note 4: Loans and Allowance

	<u>2009</u>	<u>2008</u>
Commercial and commercial mortgage loans	\$ 43,156,432	\$ 33,615,442
Real estate loans	232,810,475	278,577,145
Construction loans	-	1,150,324
Individuals' loans for household and other personal expenditures	4,474,784	5,933,113
	<u>280,441,691</u>	<u>319,276,024</u>
Less:		
Undisbursed portion of loans	149,290	203,658
Deferred loan fees and discounts	595,657	738,413
Allowance for loan losses	1,653,931	1,871,970
	<u>2,398,878</u>	<u>2,814,041</u>
Total loans	<u>\$ 278,042,813</u>	<u>\$ 316,461,983</u>

	<u>2009</u>	<u>2008</u>
Allowance for loan losses		
Balances, October 1	\$ 1,871,970	\$ 1,833,682
Provision for losses	733,257	522,448
Recoveries on loans	85,000	41,000
Loans charged off	<u>(1,036,296)</u>	<u>(525,160)</u>
Balances, September 30	<u>\$ 1,653,931</u>	<u>\$ 1,871,970</u>

Impaired loans were as follows:

	<u>2009</u>	<u>2008</u>
Year-end loans with no allocated allowance for loan losses	\$ 259,588	\$ 308,007
Year-end loans with allocated allowance for loan losses	<u>1,692,560</u>	<u>1,497,586</u>
	<u>\$ 1,952,148</u>	<u>\$ 1,805,593</u>
Amount of the allowance for loan losses allocated	\$ 217,000	\$ 477,535
	<u>2009</u>	<u>2008</u>
Average balance of impaired loans during the year	\$ 2,419,232	\$ 1,507,296
Interest income recognized during impairment	138,086	63,548
Cash-basis interest income recognized	126,315	60,775

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The Company considers its investment in one-to-four family residential loans and consumer loans to be homogeneous and therefore excluded from separate identification for evaluation of impairment.

At September 30, 2009 and 2008, non-accruing loans were \$3,632,000 and \$3,125,000, respectively. There are no loans delinquent 90 days or more and still accruing as of September 30, 2009 and 2008, respectively.

Note 5: Premises and Equipment

	<u>2009</u>	<u>2008</u>
Land and land improvements	\$ 1,362,040	\$ 1,369,541
Buildings	9,114,263	9,178,278
Equipment	<u>7,658,393</u>	<u>7,876,947</u>
Total cost	18,134,696	18,424,766
Accumulated depreciation	<u>(12,578,726)</u>	<u>(12,023,546)</u>
Net	<u>\$ 5,555,970</u>	<u>\$ 6,401,220</u>

Note 6: Deposits

	<u>2009</u>	<u>2008</u>
Noninterest-bearing demand deposits	\$ 15,652,475	\$ 15,570,530
Interest-bearing demand deposits	79,940,526	78,388,245
Savings deposits	54,935,981	51,618,845
Certificates and other time deposits of \$100,000 or more	40,826,320	31,867,199
Other certificates and time deposits	<u>143,358,518</u>	<u>141,800,894</u>
	<u>\$ 334,713,820</u>	<u>\$ 319,245,713</u>

Certificates and other time deposits maturing in years ending September 30:

2010	\$ 90,424,331
2011	55,472,852
2012	23,612,076
2013	9,435,301
2014	<u>5,240,278</u>
	<u>\$ 184,184,838</u>

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Note 7: Short-Term Borrowings

	2009	2008
Securities sold under agreements to repurchase	\$ 1,255,599	\$ 191,180

At September 30, 2009 and 2008, the securities sold under agreements to repurchase obligations were secured by investment securities and such collateral is held by a safekeeping agent. The maximum amount of outstanding agreements at any month-end during 2009 and 2008 totaled \$1,256,000 and \$1,225,000 and the average of such agreements for the years ended September 30, 2009 and 2008 totaled \$536,000 and \$555,000, respectively.

Note 8: Federal Home Loan Bank Advances

Federal Home Loan Bank advances at September 30, 2009 and 2008 totaled \$87,250,000 and \$75,350,000 and were at various rates ranging from 0.47% to 7.21% maturing at various dates through September 2021. The Federal Home Loan Bank advances are secured by first mortgage loans totaling \$189,190,000. Advances are subject to restrictions or penalties in the event of prepayment.

Maturities in years ending September 30	Amount	Weighted-Average Rate
2010	\$ 25,476,154	3.68%
2011	11,532,531	3.99%
2012	11,289,178	4.05%
2013	24,796,105	4.14%
2014	2,803,325	4.68%
Thereafter	11,352,707	4.47%
	\$ 87,250,000	

Amounts advanced totaling \$20,500,000 are subject to an option for the FHLB to convert the entire advance to a periodic adjustable rate five years after the date of the advance. The adjustable rate would be for the remaining term at the predetermined rate of three-month LIBOR or three-month LIBOR plus .0002 (.02 basis points), varying by advance. If the FHLB exercises its option to convert the advance to an adjustable rate, the advance will be pre-payable at the Bank's option, at par without a penalty fee.

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Note 9: Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage loans serviced for others was \$82,951,000 and \$57,643,000 at September 30, 2009 and 2008, respectively.

	<u>2009</u>	<u>2008</u>
Mortgage-servicing rights		
Balance, beginning of year	\$ 186,571	\$ 166,487
Servicing rights capitalized	358,636	110,227
Amortization of servicing rights	<u>(119,848)</u>	<u>(90,143)</u>
Balance, end of year	<u>\$ 425,359</u>	<u>\$ 186,571</u>

The fair value of servicing rights subsequently measured using the amortization method was as follows:

	<u>2009</u>	<u>2008</u>
Fair value, beginning of period	\$ 187	\$ 166
Fair value, end of period	620	187

Note 10: Income Tax

	<u>2009</u>	<u>2008</u>
Income tax expense		
Currently payable		
Federal	\$ 416,722	\$ 1,228,123
State	65,892	71,153
Deferred		
Federal	250,444	23,068
State	<u>(28,592)</u>	<u>3,447</u>
Total income tax expense	<u>\$ 704,466</u>	<u>\$ 1,325,791</u>
Reconciliation of federal statutory to actual tax expense		
Federal statutory income tax at 34%	\$ 1,300,687	\$ 1,580,409
Tax exempt interest	(502,467)	(213,120)
Nondeductible expenses	1,085	1,845
Effect of state income taxes	24,618	49,236
Cash surrender value	(122,336)	(82,278)
Effect of low income housing credits	(21,933)	(57,499)
Other	<u>24,812</u>	<u>47,198</u>
Actual tax expense	<u>\$ 704,466</u>	<u>\$ 1,325,791</u>

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A cumulative net deferred tax asset (liability) is included in other assets (liabilities). The components of the asset are as follows:

	<u>2009</u>	<u>2008</u>
Assets		
Allowance for loan losses	\$ 613,412	\$ 772,586
Loan fees	244,044	297,028
Net unrealized losses on securities available for sale	-	498,840
Capital loss carryforward	31,398	78,129
Other real estate owned	166,569	29,174
Net operating loss	35,801	-
Alternative minimum tax and low income housing credits	117,364	-
Other	178,457	173,188
Total assets	<u>1,387,045</u>	<u>1,848,945</u>
Liabilities		
Depreciation	34,770	71,756
State income tax	52,008	42,232
FHLB of Indianapolis stock dividend	253,694	249,079
Net unrealized gains on securities available for sale	1,441,192	-
Prepaid expenses	144,325	79,755
Other	380,708	281,253
Total liabilities	<u>2,306,697</u>	<u>724,075</u>
	<u>\$ (919,652)</u>	<u>\$ 1,124,870</u>

Management believes no valuation allowance is necessary at September 30, 2009 and 2008.

Retained earnings at September 30, 2009 include approximately \$8,102,000 for which no deferred income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions as of June 30, 1988 for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses or adjustments arising from carryback of net operating losses would create income for tax purposes only, which income would be subject to the then current corporate income tax rate. The unrecorded deferred income tax liability on the above amount was approximately \$2,755,000 at September 30, 2009.

At September 30, 2009, the Company had credit carryforwards totaling \$117,000. Of that amount, \$95,000 represents alternative minimum tax with no expiration date and \$22,000 is related to low income housing credits that will expire in 2029.

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Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may include residential real estate, income-producing commercial properties, or other assets of the borrower.

The Company has employment agreements with three officers which include provisions for payment to them of three years salary, respectively, in the event of their termination in connection with any change in ownership or control of the Company, other than by agreement. The agreements have terms of three years, which may be extended annually for successive periods of one year.

The Company and subsidiaries are also subject to possible claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate determination of such possible claims or lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

Note 13: Dividends and Capital Restrictions

Without prior approval, current regulations allow the Bank to pay dividends to the Company not exceeding net profits (as defined) for the current calendar year to date plus those for the previous two years. The Bank normally restricts dividends to a lesser amount because of the need to maintain an adequate capital structure.

Note 14: Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies and are assigned to a capital category. The assigned capital category is largely determined by ratios that are calculated according to the regulations. The ratios are intended to measure capital relative to assets and credit risk associated with those assets and off-balance sheet exposures of the entity. The capital category assigned to an entity can also be affected by qualitative judgments made by regulatory agencies about the risk inherent in the entity's activities that are not part of the calculated ratios.

There are five capital categories defined in the regulations, ranging from well capitalized to critically undercapitalized. Classification of a bank in any of the undercapitalized categories can result in actions by regulators that could have a material effect on a bank's operations. At September 30, 2009, the Bank was categorized as well capitalized and met all subject capital adequacy requirements. There are no conditions or events since September 30, 2009 that management believes have changed the Bank's classification.

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Peoples' actual and required capital amounts and ratios are as follows:

	Actual		2009 Required for Adequate Capital ¹		To Be Well Capitalized ¹	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital ¹ (to risk-weighted assets)	\$ 50,655,000	21.02%	\$ 19,276,000	8.00%	\$ 24,095,000	10.00%
Tier 1 risk-based capital ¹ (to risk-weighted assets)	49,009,000	20.34%	9,638,000	4.00%	14,457,000	6.00%
Core capital ¹ (to adjusted total assets)	49,009,000	10.19%	19,240,000	4.00%	24,050,000	5.00%
Core capital ¹ (to adjusted tangible assets)	49,009,000	10.19%	9,620,000	2.00%	NA	NA
Tangible capital ¹ (to adjusted total assets)	49,009,000	10.19%	7,215,000	1.50%	NA	NA

	Actual		2008 Required for Adequate Capital ¹		To Be Well Capitalized ¹	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital ¹ (to risk-weighted assets)	\$ 54,382,000	22.97%	\$ 18,937,000	8.00%	\$ 23,672,000	10.00%
Tier 1 risk-based capital ¹ (to risk-weighted assets)	52,525,000	22.19%	9,469,000	4.00%	14,203,000	6.00%
Core capital ¹ (to adjusted total assets)	52,525,000	11.58%	18,142,000	4.00%	22,677,000	5.00%
Core capital ¹ (to adjusted tangible assets)	52,525,000	11.58%	9,071,000	2.00%	NA	NA
Tangible capital ¹ (to adjusted total assets)	52,525,000	11.58%	6,803,000	1.50%	NA	NA

¹As defined by Regulatory Agencies

Note 15: Employee Benefit Plans

The Bank is a participant in a pension fund known as the Financial Institutions Retirement Fund (FIRF). This plan is a multi-employer plan; separate actuarial valuations are not made with respect to each participating employer. This plan provides pension benefits for substantially all of the Company's employees. Pension expense was approximately \$326,000 and \$562,000 for 2009 and 2008. The benefits of this plan were frozen on August 1, 2007.

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A profit-sharing plan is maintained for the benefit of substantially all of the Company's employees and allows for both employee and Company contributions. The Company contribution consists of a matching contribution of 50 percent of employee contributions, up to 6 percent of eligible employee compensation. The Company may also contribute an additional discretionary amount to each employee, regardless of participation in the matching program. The Company's contribution to the plan, for the matching program was approximately \$83,000 and \$101,000 for 2009 and 2008. The Company's contribution for the discretionary program was \$143,000 and \$146,000 for 2009 and 2008.

Note 16: Stock Option Plan

Under the Company's incentive stock option plan approved in 1998, which is accounted for in accordance with ASC 718, the Company grants selected executives and other key employees stock option awards which vest and become fully exercisable at the end of five years of continued employment. During 1999, the Company authorized the grant of options for up to 200,000 shares of the Company's common stock. The exercise price of each option, which has a ten-year life, was equal to or greater than the market price of the Company's stock on the date of grant. The Company has not granted any options during the two-year period ended September 30, 2009.

The following is a summary of the status of the Company's stock option plan and changes in that plan as of and for the years ended September 30, 2009 and 2008.

Options	Shares	2009 Weighted- Average Exercise Price	Weighted- Average Remaining Contractual
Outstanding, beginning of year	5,049	\$ 13.05	
Exercised	-	-	
Forfeited or expired	(5,049)	13.05	
Outstanding, end of year	<u>-</u>	\$ -	<u>-</u>
Exercisable, end of year	<u>-</u>	\$ -	<u>-</u>

The total intrinsic value of options exercised during the years ended September 30, 2009 and 2008 was \$0 and \$2,000, respectively.

As of September 30, 2009 and 2008, there was no unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan.

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Note 17: Earnings Per Share

For the year ended September 30, 2009, no options to purchase shares of common stock were outstanding. Earnings per share (EPS) were computed as follows:

	Income	2009 Weighted- Average Shares	Per-Share Amount
Basic Earnings Per Share			
Net income available to common stockholders	\$ 3,121,087	2,730,595	\$ 1.14
Effect of Dilutive Securities			
Stock options	-	-	
Diluted Earnings Per Share			
Income available to common stockholders and assumed conversions	<u>\$ 3,121,087</u>	<u>2,730,595</u>	\$ 1.14

	Income	2008 Weighted- Average Shares	Per-Share Amount
Basic Earnings Per Share			
Net income available to common stockholders	\$ 3,322,480	2,966,957	\$ 1.12
Effect of Dilutive Securities			
Stock options	-	421	
Diluted Earnings Per Share			
Income available to common stockholders and assumed conversions	<u>\$ 3,322,480</u>	<u>2,967,378</u>	\$ 1.12

Note 18: Fair Values of Financial Instruments

Effective October 1, 2008, the Bancorp adopted ASC 820, *Fair Value Measurements*. ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 has been applied prospectively as of the beginning of the year.

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ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the inputs and valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include agency securities, state and municipal obligations and mortgage-backed securities. Third-party vendors compile prices from various sources and may apply such techniques as matrix pricing to determine the value of identical or similar investment securities (Level 2). Matrix pricing is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities but rather relying on the investment securities' relationship to other benchmark quoted investment securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

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The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheet measured at fair value on a recurring basis and the level within the ASC 820 fair value hierarchy in which the fair value measurements fall at September 30, 2009:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Federal agencies	\$ 38,553,036	\$ -	\$ 38,553,036	\$ -
State and municipal obligations	49,191,771	-	49,191,771	-
Mortgage-backed securities	85,501,941	-	85,501,941	-
	<u>\$ 173,246,748</u>	<u>\$ -</u>	<u>\$ 173,246,748</u>	<u>\$ -</u>

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Impaired Loans

Loans for which it is probable that the Bancorp will not collect all principal and interest due according to contractual terms are measured for impairment in accordance with the provisions of ASC 310-10-35, *Accounting by Creditors for Impairment of a Loan*. Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans or, where a loan is determined not to be collateral dependent, using the discounted cash flow method.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value.

If the impaired loan is determined not to be collateral dependent, then the discounted cash flow method is used. This method requires the impaired loan to be recorded at the present value of expected future cash flows discounted at the loan's effective interest rate. The effective interest rate of a loan is the contractual interest rate adjusted for any net deferred loan fees or costs, premiums or discount existing at origination or acquisition of the loan.

Impaired loans are classified within Level 3 of the fair value hierarchy.

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The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheet measured at fair value on a nonrecurring basis and the level within the ASC 820 fair value hierarchy in which the fair value measurements fall at September 30, 2009.

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ 1,476,560	\$ -	\$ -	\$ 1,476,560

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and Cash Equivalents - The fair value of cash and cash equivalents approximates carrying value.

Investment Securities - Fair values are based on quoted market prices.

Loans and Loans Held for Sale - For both short-term loans and variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair value for other loans is estimated using discounted cash flow analyses using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Interest Receivable/Payable - The fair values of interest receivable/payable approximate carrying values.

FHLB Stock - Fair value of FHLB stock is based on the price at which it may be resold to the FHLB.

Deposits - The fair values of noninterest-bearing, interest-bearing demand and savings accounts are equal to the amount payable on demand at the balance sheet date. The carrying amounts for variable rate, fixed-term certificates of deposit approximate their fair values at the balance sheet date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on such time deposits.

Short-Term Borrowings - The fair value of short-term borrowings approximates carrying value.

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Federal Home Loan Bank Advances - The fair value of these borrowings is estimated using a discounted cash flow calculation, based on current rates for similar advances.

The following table presents estimated fair values of the Company's financial instruments in accordance with FAS 825-10-50 not previously disclosed at September 30, 2009.

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	\$ 8,608,642	\$ 8,608,642	\$ 6,789,106	\$ 6,789,106
Investment securities available for sale	173,246,748	173,246,748	103,624,296	103,624,296
Investment securities held to maturity	252,351	264,118	334,271	337,566
Loans, including loans held for sale	278,882,213	283,897,000	316,749,983	317,742,000
Stock in FHLB	4,462,500	4,462,500	4,403,900	4,403,900
Interest receivable	2,936,807	2,936,807	2,742,358	2,742,358
Liabilities				
Deposits	334,713,820	336,605,000	319,245,713	319,497,000
Short-term borrowings	1,255,599	1,255,599	191,180	191,180
Federal Home Loan Bank advances	87,250,000	91,281,000	75,350,000	77,484,000
Interest payable	275,436	275,436	324,071	324,071

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Note 19: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company.

Condensed Balance Sheets

	2009	2008
	<u> </u>	<u> </u>
Assets		
Cash	\$ 7,252,984	\$ 4,061,135
Investment in subsidiaries	54,117,530	53,983,794
Other assets	<u>7,818</u>	<u>21,500</u>
Total assets	<u>\$ 61,378,332</u>	<u>\$ 58,066,429</u>
Liabilities		
Dividends payable on common stock	\$ 506,868	\$ 532,191
Other	<u>724</u>	<u>2,997</u>
Total liabilities	<u>507,592</u>	<u>535,188</u>
Stockholders' Equity		
Common stock	2,667,725	2,801,007
Retained earnings	55,467,946	55,626,060
Accumulated other comprehensive gain (loss)	<u>2,735,069</u>	<u>(895,826)</u>
Total liabilities and stockholders' equity	<u>\$ 61,378,332</u>	<u>\$ 58,066,429</u>

Condensed Statements of Income

	2009	2008
	<u> </u>	<u> </u>
Income		
Dividends from subsidiaries	\$ 6,700,000	\$ 8,450,000
Interest on investments securities	<u>100</u>	<u>848</u>
	6,700,100	8,450,848
Expenses	<u>123,864</u>	<u>208,127</u>
Income before distribution in excess of income of subsidiaries and income tax expense	6,576,236	8,242,721
Distribution in excess of income of subsidiaries	<u>(3,497,149)</u>	<u>(4,998,241)</u>
Income before income tax	3,079,087	3,244,480
Income tax benefit	<u>(42,000)</u>	<u>(78,000)</u>
Net income	<u>\$ 3,121,087</u>	<u>\$ 3,322,480</u>

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Condensed Statements of Cash Flows

	2009	2008
Cash flows from operating activities		
Net income	\$ 3,121,087	\$ 3,322,480
Items not requiring (providing) cash		
Distributions in excess of income of subsidiaries	3,497,159	4,998,241
Other adjustments	11,409	(6,076)
Net cash provided by operating activities	6,629,655	8,314,645
 Cash flows from investing activity - proceeds from maturities and calls of securities available for sale	 -	 69,340
 Cash flows from financing activities		
Stock repurchased	(1,349,712)	(5,009,740)
Stock options exercised	-	7,752
Cash dividends	(2,088,094)	(2,307,147)
Net cash used in financing activities	(3,437,806)	(7,309,135)
 Net change in cash	 3,191,849	 1,074,850
 Cash at beginning of year	 4,061,135	 2,986,285
 Cash at end of year	 \$ 7,252,984	 \$ 4,061,135

Note 20: Federal Deposit Insurance Corporation Assessment

In February 2009, the Board of Directors of the Federal Deposit Insurance Corporation (FDIC) voted to amend the restoration plan for the Deposit Insurance Fund (DIF). The amended restoration plan also includes a final rule that sets assessment rates. Under this final rule, beginning on April 1, 2009, the FDIC premium assessed to the Bank will increase. The FDIC has also adopted a final rule imposing a 5 basis point special assessment, approximately \$216,000 for the Bank, on insured institutions as of June 30, 2009, which was payable on September 30, 2009. The final rule also allows the assessment of additional special assessments of up to 5 basis points per quarter, beginning September 30, 2009, as deemed necessary. While certain aspects of the FDIC's assessment plan remain unresolved, it is anticipated the impact will be material to the results of operations for the year ended September 30, 2010.

Note 21: Subsequent Events

Subsequent events have been evaluated through November 23, 2009, which is the date the financial statements were available to be issued.