

PEOPLES BANCORP 2010 ANNUAL REPORT



Prepared For The Future

TO OUR SHAREHOLDERS

Dear Shareholder:

Peoples Federal Savings Bank is pleased to share with you some of the results of this past year. 2010 has been another difficult year for the Banking industry. From January of 2009 to the writing of this letter, 289 banks have failed. Many others are working with their regulators to improve capital ratios and to reduce loan problems. Although the past year has seen a difficult economy, we are starting to see some signs of hope like a decreasing unemployment rate and a rebounding stock market.

Unlike the industry in general, the past year was an outstanding period for Peoples Federal Savings Bank. Our continued emphasis on excellent client service and the cost containment mandated by the Board in 2007, resulted in earnings of \$3,290,544 or \$1.28 per share. Earnings per share increased 12% or \$0.14 per share. For any year this is an impressive earnings growth; however, with the backdrop of the national economy, the unemployment rates, and the local economy, this is especially impressive.

The Company also repurchased 182,845 shares at a total cost of \$2,471,091, or an average of \$13.51 per share. These repurchases are accretive to both earnings per share and book value. Book value per share ended the year at \$24.23 per share.

The news media has reported that Banks are unwilling to lend. While we cannot speak for other institutions, that is certainly not the case at Peoples Federal. Certainly our loan balances are down from the prior year. This is due to the fact we are now selling our long term fixed rate loans into the secondary market as those loans have a high degree of interest rate risk.



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



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



Jeffrey H. Gatton
Jeffrey H. Gatton
Chief Operating Officer and
Senior Vice President

It is with deepest regret that we note the passing of Mr. John Thrapp who served as a Director here at Peoples Bancorp for twenty years. Those of you who knew John will know how much he did for his community and how little he wanted to be recognized for his contributions. John's wisdom and wit will be greatly missed by all

who had the privilege to know him.

Just like fiscal 2010, 2011 will bring challenges like the direction of interest rates and new regulation. The new Frank Dodd legislation eliminates the regulator of Peoples Federal (the Office of Thrift Supervision) and places us in the jurisdiction of the Office of the Comptroller of Currency or the OCC. Although, the basic federal regulations are the same, we are sure there will be differences in interpretation and more new regulations to hopefully rein in the risky lending of other banks that has caused the industry to be perceived unfavorably by the public. This legislation could impact our ability to generate fee revenue and will increase our administrative costs.

For a regional institution like Peoples Federal, the local economy also dictates to a large degree the amount of delinquencies, the amount needed to resolve those problem loans, and the demand for new loans. We will continue to monitor the local economy to the best of our ability and respond to our customers' needs in our local environment.

2010 has indeed been difficult, but your Company has not only met those challenges but prospered, just as I'm sure the challenges of this year will be dealt with. The Directors, Officers, and staff of Peoples Federal and Peoples Bancorp want to thank you for your support and wish you a happy and profitable New Year.

SELECTED CONSOLIDATED FINANCIAL DATA OF PEOPLES BANCORP

	September 30		
	2010	2009	2008
Balance Sheet Data:			
Total assets	\$472,518,068	\$487,841,727	\$455,097,025
Loans receivable including loans held for sale, net	251,003,675	278,882,213	316,749,980
Investments and other interest earning assets	193,715,511	181,137,188	110,623,106
Deposits	338,792,105	334,713,820	319,245,713
Borrowed funds	69,743,961	88,505,599	75,541,180
Stockholder's equity	60,213,402	60,870,740	57,531,233
For Year Ended September 30			
	2010	2009	2008
Operating Data:			
Interest income	\$21,687,995	\$23,697,872	\$26,230,667
Interest expense	8,417,976	9,965,072	11,662,689
Net interest income	\$13,270,019	\$13,732,800	\$14,567,978
Provision for losses on loans	1,041,875	733,257	522,448
Net interest income after provision for losses on loans	\$12,228,144	\$12,999,543	\$14,045,530
Other income	3,399,918	3,282,754	2,684,455
Other expenses	11,830,541	12,456,748	12,081,723
Income before income taxes	3,797,521	3,825,549	4,648,262
Income tax expense	506,977	704,466	1,325,791
Net income	\$3,290,544	\$3,121,083	\$3,322,471
Basic income per common share	\$1.28	\$1.14	\$1.12
Diluted income per common share	\$1.28	\$1.14	\$1.12
Dividends per common share	\$0.76	\$0.76	\$0.76
Other Data:			
Average yield on all interest-earning assets	4.81%	5.33%	5.96%
Average cost of all interest-bearing liabilities	2.12%	2.54%	3.05%
Interest rate spread	2.69%	2.79%	2.91%
Net interest margin	2.94%	3.09%	3.31%
Number of full service banking offices	15	15	15
Return on assets (net income divided by average total assets)	0.69%	0.66%	0.72%
Return on equity (net income divided by average total equity)	5.47%	5.24%	5.50%
Dividend payout ratio (dividends per common share divided by net income per common share)	59.38%	66.67%	67.86%
Equity to assets ratio (average total equity divided by average total assets)	12.59%	12.65%	13.23%

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"). People's financial services include Mortgages, Trusts, Consumer Banking and Individual Retirement Accounts. The Company has assets of nearly \$473 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, and an Agricultural loan origination office in Woodburn, Indiana.

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

Register and Transfer
10 Commerce Drive
Cranford, NJ 07016

Annual Meeting

The Annual Meeting of Stockholders of Peoples Bancorp will be held Wednesday, January 26, 2011, 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, cheri@peoplesfed.com or at peoplesbancorp.us

Board of Directors

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

Maurice F. Winkler, III – *CEO and President of the Company and Peoples, Auburn, Indiana. Director since 1993.*

Erica D. Dekko – *Ms. Dekko is a financial planner for LPL Financial in Kendallville, Indiana. She completed her Executive MBA from the Univ. of Notre Dame in 2000 and her B.S. in Industrial Engineering & Mgmt. from Oklahoma State University in 1992. Director since 2001.*

Bruce S. Holwerda – *Mr. Holwerda was co-owner of Ambassador Steel Corp., Auburn, Indiana and served as VP and COO from 1990 to 2003. In 2003, he sold his co-ownership and served as a consultant until April 2008. Presently, he has other real estate and business investments and is serving as a business and growth consultant to various business entities throughout the midwest. Director since 1998.*

Douglas D. Marsh – *Mr. Marsh served as Principal Broker of Castle One Realty in Auburn, Indiana until his retirement in December 2009 and currently serves as Chairman of the Board of Applied Innovations Inc. in Auburn, Indiana. Director since 1990.*

Stephen R. Olson – *Mr. Olson started with Morton Buildings in 1970 and served as manager until 2003. He currently works as part of Sales Administration and Manager Development for Morton Buildings. Mr. Olson was appointed to the Board of Directors of First Savings Bank in 1984 and became Chairman in 1993. Mr. Olson became director of the Company upon the merger of Three Rivers Financial Corporation into the Company on February 1, 2000 and a director of Peoples Federal on October 1, 2007.*

Executive Officers

G. Richard Gatton – *Chairman of the Board*

Maurice F. Winkler, III – *President and CEO*

Jeffrey H. Gatton – *Sr. Vice President and COO*

Steven H. Caryer – *Sr. Vice President and CFO*

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

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

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*

Rita M. Richardson – *Vice President – Savings*

MEMBER
F.D.I.C.

Peoples Bancorp
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EQUAL HOUSING
LENDER