

Peoples Bancorp, Inc.



Annual Report 2024

Peoples State Bank

1875

CELEBRATING 150 YEARS

2025

BOARD OF DIRECTORS



Paul B. Finley
Board Chairman
Director Since 2008



Stacy J. Moore
Director Since 2014



Brett A. Lessley
Director Since 2017



Tamara S. Phillips
Director Since 2020



Edward J. Grunloh
Director Since 2020



Adam J. Wolf
Director Since 2023



Jeffrey L. Ochs
Director Since 2024



Kenneth E. Snyder
Director Since 2024

Peoples Bancorp, Inc.

March 25, 2025

Dear Stockholder,

I am pleased to present our 2024 year-end financial results, marking the bank's twenty-fifth consecutive year of growth. Net income saw a modest increase from 2023, surpassing \$7 million for the third time in our history.

Total Assets reached \$695 million at year-end, reflecting a \$25 million increase from the previous year. The bank has experienced significant growth over the last five years, with total assets increasing over \$233 million during that timeframe (50.4%). Loan balance growth remained the primary driver of our expansion. Year-end loan balance finished 2024 at \$470 million, up \$51 million from prior year and up \$139 million over the last three years (42% increase). The bank's investment portfolio primarily accounts for the remainder of assets and at year-end that balance was \$168 million. Regulatory Tier 1 Capital remains strong at \$76.4 million, with a Capital to Total Assets ratio of 10.6%, well above the regulatory threshold for a "Well Capitalized Bank".

Net income for 2024 was over \$7 million for the third consecutive year, ending at \$7.08 million. While net income was up only \$42,974 over prior year, this was almost \$600,000 over budget. Solid asset growth led to an increase in interest income and resulted in an outstanding year. Our Return on Assets (ROA) continues to exceed peer banks in Illinois (those with assets less than \$3 billion), at 1.01% versus .87%.

Plans for our 150th Anniversary celebration are well underway and we look forward to celebrating with you on May 30th and 31st, 2025. Friday night we will be hosting a shareholder dinner at the West End Reception and Events Center in Newton. Saturday night we will celebrate with a free concert event at the Jasper County Fairgrounds. "Feudin' Hillbillies" will open our show around 7:30. They are a popular central Illinois band and play a wide selection of covers from 70's and 80's rock to classic and new country. Our headliner, "1973 – A Tribute to Journey" is a Midwest-based band that performed nationwide alongside renowned artists such as .38 Special, Night Ranger, Firehouse, Warrant, Jackyl, Kid Rock and many more. Formal invitations will be sent in mid-April for the shareholder dinner while the concert celebration will be free and open to the public. Please make plans to be a part of this historic event!

The Nominating Committee met on February 13, 2025, and proposed the following directors for re-election in 2025: Paul B. Finley (who currently serves as our board chairman), Edward J. Grunloh and Kenneth E. Snyder.

Your first quarter dividend was approved in the amount of \$2.00 per share. I welcome all of you to attend the Annual Meeting on April 14, 2025, at 3:30 PM CST in the main bank lobby in Newton.

As always, thank you for your continued trust and support of Peoples Bancorp, Inc. and The Peoples State Bank!

Sincerely,

A handwritten signature in black ink that reads "Stacy J. Moore". The signature is written in a cursive style with a large, stylized 'S' and 'M'.

Stacy J. Moore
President/CEO

Peoples Bancorp, Inc.

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2024 and 2023

Peoples Bancorp, Inc.
December 31, 2024 and 2023

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Independent Auditor's Report

Board of Directors and Stockholders
Peoples Bancorp, Inc.
Newton, Illinois

Opinion

We have audited the consolidated financial statements of Peoples Bancorp, Inc. and subsidiary, which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Peoples Bancorp, Inc. and subsidiary as of December 31, 2024 and 2023, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are required to be independent of Peoples Bancorp, Inc. and its subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Peoples Bancorp, Inc. and its subsidiary's ability to continue as a going concern within one year after the date that these consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Peoples Bancorp, Inc. and its subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Peoples Bancorp, Inc. and its subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Forvis Mazars, LLP

**Decatur, Illinois
February 6, 2025**

Peoples Bancorp, Inc.
Consolidated Balance Sheets
December 31, 2024 and 2023

Assets

	2024	2023
Cash and due from banks	\$ 6,902,151	\$ 9,454,548
Federal funds sold	11,551,000	17,994,000
Interest-bearing deposits in banks	2,514,278	2,625,049
Cash and cash equivalents	20,967,429	30,073,597
Available-for-sale debt securities	157,792,930	174,584,718
Held-to-maturity debt securities	10,834,263	12,176,131
Loans, net of allowance for credit losses of 2024 - \$5,280,560, 2023 - \$5,270,684	469,799,709	419,399,344
Premises and equipment, net of accumulated depreciation of 2024 - \$8,441,650, 2023 - \$8,087,003	6,524,404	6,321,221
Federal Home Loan Bank stock	2,034,500	1,912,500
Interest receivable	7,412,277	5,959,970
Goodwill	281,121	367,620
Core deposit intangibles	161,269	806,343
Bank-owned life insurance	8,667,641	8,419,747
Deferred income taxes	9,970,679	9,900,770
Other	951,758	680,059
Total assets	\$ 695,397,980	\$ 670,602,020

Liabilities and Stockholders' Equity

	<u>2024</u>	<u>2023</u>
Liabilities		
Deposits		
Non-interest bearing deposits	\$ 109,516,401	\$ 111,963,758
Interest bearing deposits	<u>467,931,943</u>	<u>445,160,149</u>
Total deposits	<u>577,448,344</u>	<u>557,123,907</u>
Federal Home Loan Bank advances	41,000,000	14,000,000
Federal Reserve Bank Term Funding Program	-	20,000,000
Securities sold under agreements to repurchase	14,909,601	22,124,643
Interest payable	417,566	1,018,015
Other	<u>4,488,964</u>	<u>4,344,451</u>
Total liabilities	<u>638,264,475</u>	<u>618,611,016</u>
Stockholders' Equity		
Common stock, \$6.25 par value; 96,000 shares authorized, issued, and outstanding	600,000	600,000
Additional paid-in capital	4,400,000	4,400,000
Retained earnings	71,872,584	66,520,915
Accumulated other comprehensive loss	<u>(19,739,079)</u>	<u>(19,529,911)</u>
Total stockholders' equity	<u>57,133,505</u>	<u>51,991,004</u>
Total liabilities and stockholders' equity	<u>\$ 695,397,980</u>	<u>\$ 670,602,020</u>

Peoples Bancorp, Inc.
Consolidated Statements of Income
Years Ended December 31, 2024 and 2023

	2024	2023
Interest Income		
Loans, including fees	\$ 27,543,385	\$ 21,841,034
Debt securities, taxable	4,067,036	4,379,743
Debt securities, tax-exempt	1,058,471	1,203,908
Federal funds sold	1,023,607	522,565
Total interest income	33,692,499	27,947,250
Interest Expense		
Deposits	12,012,800	6,136,509
Short-term borrowings	1,125,062	1,278,340
Federal Home Loan Bank advances	820,029	1,759,049
Total interest expense	13,957,891	9,173,898
Net Interest Income	19,734,608	18,773,352
Provision for Credit Losses	425,000	350,000
Net Interest Income After Provision for Credit Losses	19,309,608	18,423,352
Noninterest Income		
Retail insurance	149,263	213,191
Retail investment	1,422,660	1,296,686
Debit and credit card	310,160	454,118
Internet	163,087	178,389
Trust fees	88,499	151,702
Service charges on deposits	682,364	685,736
Realized loss on sale of securities	(77,776)	(221,172)
Other	389,908	783,317
Total noninterest income	3,128,165	3,541,967

See Notes to Consolidated Financial Statements

	<u>2024</u>	<u>2023</u>
Noninterest Expense		
Salaries and employee benefits	\$ 7,882,673	\$ 7,600,311
Occupancy expense	759,576	737,444
Equipment expense	701,230	641,076
Advertising	276,849	304,118
Postage, printing and office supplies	350,813	326,768
FDIC Insurance	312,000	255,500
Legal and audit	152,597	125,272
Amortization of goodwill	86,499	203,163
Amortization of core deposits	645,074	645,075
Other	<u>1,674,338</u>	<u>1,596,960</u>
Total noninterest expense	<u>12,841,649</u>	<u>12,435,687</u>
Income Before Income Taxes	9,596,124	9,529,632
Provision for Income Taxes	<u>2,516,455</u>	<u>2,492,937</u>
Net Income	<u>\$ 7,079,669</u>	<u>\$ 7,036,695</u>

Peoples Bancorp, Inc.
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2024 and 2023

	2024	2023
Net Income	\$ 7,079,669	\$ 7,036,695
Other Comprehensive Income		
Unrealized appreciation (depreciation) on available-for-sale debt securities, net of taxes of \$(101,029) and \$1,278,527 in 2024 and 2023, respectively	(270,611)	3,288,312
Less: Reclassification adjustment for net realized losses included in net income, net of taxes of \$16,333 and \$46,446 for 2024 and 2023, respectively	(61,443)	(174,726)
	(209,168)	3,463,038
Comprehensive Income	\$ 6,870,501	\$ 10,499,733

Peoples Bancorp, Inc.
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2024 and 2023

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2022	\$ 600,000	\$ 4,400,000	\$ 61,346,839	\$ (22,992,949)	\$ 43,353,890
Cumulative effect for adoption of ASC 326 (see Note 1)	-	-	(134,619)	-	(134,619)
Balance, January 1, 2023	600,000	4,400,000	61,212,220	(22,992,949)	43,219,271
Net income	-	-	7,036,695	-	7,036,695
Other comprehensive income	-	-	-	3,463,038	3,463,038
Dividends on common stock of \$18.00 per share	-	-	(1,728,000)	-	(1,728,000)
Balance, December 31, 2023	600,000	4,400,000	66,520,915	(19,529,911)	51,991,004
Net income	-	-	7,079,669	-	7,079,669
Other comprehensive loss	-	-	-	(209,168)	(209,168)
Dividends on common stock of \$18.00 per share	-	-	(1,728,000)	-	(1,728,000)
Balance, December 31, 2024	<u>\$ 600,000</u>	<u>\$ 4,400,000</u>	<u>\$ 71,872,584</u>	<u>\$ (19,739,079)</u>	<u>\$ 57,133,505</u>

Peoples Bancorp, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2024 and 2023

	2024	2023
Operating Activities		
Net income	\$ 7,079,669	\$ 7,036,695
Items not requiring (providing) cash		
Provision for credit losses	425,000	350,000
Depreciation, amortization & accretion	2,217,375	2,471,570
Deferred income taxes	14,787	(198,614)
Loss on sales of available-for-sale debt securities	77,776	221,172
Loss on sale of premises and equipment	-	6,144
Increase in cash surrender value of life insurance	(247,894)	(159,454)
Changes in		
Interest receivable	(1,452,307)	(908,455)
Other assets	(62,611)	(2,982)
Interest payable	(600,449)	923,351
Other liabilities	144,513	206,270
	<u>7,595,859</u>	<u>9,945,697</u>
Net cash provided by operating activities		
Investing Activities		
Proceeds from maturities of available-for-sale debt securities	10,936,879	12,308,362
Proceeds from sales of available-for-sale debt securities	4,447,839	10,013,415
Proceeds from maturities of held-to-maturity debt securities	1,296,500	1,012,500
Purchases of available-for-sale debt securities	-	(1,993,541)
Purchases of held-to-maturity debt securities	-	(3,100,000)
Purchase of Federal Home Loan Bank stock	(520,000)	(135,000)
Proceeds from redemption of Federal Home Loan Bank stock	398,000	506,500
Net change in loans	(51,103,284)	(48,783,740)
Purchases of premises and equipment	(608,187)	(254,811)
Purchases of bank-owned life insurance	-	(2,400,000)
Proceeds from sale of foreclosed assets	68,831	-
	<u>(35,083,422)</u>	<u>(32,826,315)</u>
Net cash used in investing activities		

See Notes to Consolidated Financial Statements

	2024	2023
Financing Activities		
Net decrease in non-interest bearing deposits	\$ (2,447,357)	\$ (14,514,655)
Net increase in interest bearing deposits	22,771,794	69,935,431
Proceeds from Federal Home Loan Bank advances	200,000,000	418,000,000
Repayment of Federal Home Loan Bank advances	(173,000,000)	(454,000,000)
Net increase (decrease) in securities sold under agreement to repurchase	(7,215,042)	8,343,390
Repayment from federal funds purchased	-	(2,435,000)
Proceeds from Federal Reserve Bank Term Funding Program	20,000,000	20,000,000
Repayment of Federal Reserve Bank Term Funding Program	(40,000,000)	-
Dividends paid	(1,728,000)	(1,824,000)
	<u>18,381,395</u>	<u>43,505,166</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>(9,106,168)</u>	<u>20,624,548</u>
Cash and Cash Equivalents, Beginning of Year	<u>30,073,597</u>	<u>9,449,049</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 20,967,429</u></u>	<u><u>\$ 30,073,597</u></u>
Supplemental Cash Flows Information		
Interest paid	\$ 14,558,340	\$ 8,250,547
Income taxes paid	\$ 2,552,513	\$ 2,756,396
Dividends declared, not yet paid	\$ 1,152,000	\$ 1,152,000
Real estate acquired in settlement of loans	\$ 277,919	\$ 8,047

Peoples Bancorp, Inc.
Notes to Consolidated Financial Statements
December 31, 2024 and 2023

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

Nature of Operations

Peoples Bancorp, Inc. (the “Company”) is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, The Peoples State Bank of Newton (the “Bank”). The Bank generates commercial (including agricultural), mortgage and consumer loans and receives deposits from customers located primarily in east-central Illinois. In addition to traditional banking services, the Bank also offers a full range of financial products and services through Commonwealth Financial Network. The Bank also provides wireless internet service to a limited number of communities. The Bank is subject to competition from other financial institutions. The Bank operates under a state bank charter and is subject to the regulations of certain federal and state agencies, and undergoes periodic examinations by those regulatory authorities.

Principals of Consolidation

The consolidated financial statements include the accounts of the Company and the Bank. All significant inter-company accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

A material estimate that is particularly susceptible to significant change relates to the determination of the allowance for credit losses.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2024 and 2023, cash equivalents consisted primarily of interest bearing and non-interest bearing demand deposits in banks.

At December 31, 2024, the Company’s cash accounts did not exceed federally insured limits.

Debt Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost, net of allowance for credit losses. Securities not classified as held to maturity are classified as “available for sale” and recorded at fair value, with unrealized gains and losses (for those which no allowance for credit losses are recorded) excluded from earnings and reported in other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Peoples Bancorp, Inc.
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December 31, 2024 and 2023

Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

When the fair value of securities is below the amortized cost and the Company will not be required to sell the security before recovery of its amortized cost basis, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. If the present value of cash flows expected to be collected from the security are less than the amortized cost basis of the security, an allowance for credit losses is recorded for the credit loss, limited to the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss).

<u>Circumstances of Impairment Considerations</u>	<u>Accounting Treatment</u>	
	<u>Credit Component</u>	<u>Remaining Portion</u>
Not intended for sale and more likely than not that the Company will not have to sell before recovery of cost basis	Recognized as an allowance for credit loss	Recognized in other comprehensive income (loss)
Intended for sale or more likely than not that the Company will be required to sell before recovery of cost basis	Recognized in earnings	

Allowance for Credit Losses - Held-to-Maturity Securities

The allowance for credit losses on held-to-maturity securities is a contra-asset valuation account that is deducted from the amortized cost basis of held-to-maturity securities to present the Company's best estimate of the net amount expected to be collected. Held-to-maturity securities are charged off against the allowance when deemed uncollectible. Adjustments to the allowance are reported in the consolidated income statement as a component of credit loss expense. The Company measures expected credit losses on held-to-maturity securities on a collective basis by major security type with each type sharing similar risk characteristics and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. The Company excludes accrued interest receivable on held-to-maturity securities from the estimate of credit losses. The allowance for credit losses on held-to-maturity securities is described more fully in Note 3.

Allowance for Credit Losses - Available-for-Sale Debt Securities

For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either case is affirmative, any previously recognized allowances are charged off and the security's amortized cost is written down to fair value through income. If neither case is affirmative, the security is evaluated to determine whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency and any adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the

Peoples Bancorp, Inc.
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security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss). Adjustments to the allowance are reported in our consolidated income statement as a component of credit loss expense. The Company excludes accrued interest receivable on available-for-sale securities from the estimate of credit losses. Available-for-sale securities are charged off against the allowance or, in the absence of any allowance, written down through income when deemed uncollectible by management or when either of the aforementioned criteria regarding intent or requirement to sell is met.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for credit losses, and any unamortized deferred fees or costs on originated loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan premiums and discounts are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past-due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off are reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses (ACL) - Loans

The allowance for credit losses (allowance) is established as losses are expected to occur through a provision for credit losses charged to income. Credit losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for credit losses is evaluated on a regular basis by management.

Groups of loans with similar risk characteristics are collectively evaluated. Loans that do not share risk characteristics are evaluated on an individual basis. Loans with similar risk characteristics are grouped into homogenous segments, or pools, for analysis.

Management estimated the allowance balance using relevant available information from both internal and external sources, relating to past events, current conditions and reasonable and supportable forecasts. Historical credit loss experience of the Company, paired with economic forecasts provide

Peoples Bancorp, Inc.
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the basis for the quantitative modeled estimates of expected credit losses. The Company adjusts its quantitative model, as necessary, to reflect conditions not already considered by the quantitative model. These adjustments are commonly known as the qualitative factors.

The Company's qualitative factors are considered by qualitatively adjusting model results for risk factors that are not considered within the modeling processes but are nonetheless relevant in assessing the expected credit losses within the loan pools. These qualitative factors and other qualitative adjustments may increase or decrease the Company's estimate of expected credit losses by a calculated percentage or amount based upon the estimated level of risk. The various risks that may be considered in making qualitative adjustments include, among other things, the impact of the following:

- i. Changes in lending policies and procedures, including changes in underwriting standards and practices for collections, write-offs, and recoveries
- ii. Actual and expected changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the loan pools
- iii. Changes in the nature and volume of the loan pools and in the terms of the underlying loans
- iv. Changes in the experience, ability, and depth of our lending management and staff
- v. Changes in volume and severity of past due financial assets, the volume of non-accrual assets, and the volume and severity of adversely classified or graded assets
- vi. Changes in the quality of our credit review function
- vii. Changes in the value of the underlying collateral for loans that are non-collateral dependent
- viii. The existence, growth, and effect of any concentrations of credit
- ix. Other factors such as the regulatory, legal and technological environments; competition; and events such as natural disasters or health pandemics

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Company uses the average historical loss method to measure the quantitative portion of the allowance for credit losses over the forecast and reversion periods. The following portfolio segments have been identified: agricultural real estate, agricultural production, commercial real estate, commercial and industrial, residential real estate, consumer vehicle, and consumer other. Residential real estate, consumer vehicle and consumer other loans are largely secured by underlying residential real estate or consumer collateral. Repayment of these loans is dependent on general economic conditions and unemployment levels in the Company's market area. Agricultural real estate, agricultural production, commercial real estate, and commercial and industrial loans primarily consist of income producing real estate and related business, farm, and subdivision assets. Repayment of these loans depends, to a large degree, on the results of operations, cash flow and management of the related business, farms or subdivisions. These loans may be affected largely by adverse commerce conditions or the economy in general. Accordingly, the nature of these loans makes them more difficult for management to monitor and evaluate.

Peoples Bancorp, Inc.
Notes to Consolidated Financial Statements
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Loans that do not share risk characteristics are evaluated on an individual basis. A loan is individually evaluated for allowance for credit loss when the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a troubled debt restructuring will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

Allowance for Credit Losses – Off-Balance-Sheet Credit Exposure

The allowance for credit losses on off-balance-sheet credit exposures is a liability account, representing expected credit losses over the contractual period for which the Company is exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if the Company has the unconditional right to cancel the obligation. The allowance is reported as a component of other liabilities in the consolidated balance sheets. Adjustments to the allowance are reported in the consolidated income statement as a component of credit loss expense.

Premises and Equipment

Land is carried at cost. Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line and accelerated methods over the estimated useful lives of the assets.

The estimated useful lives for each major depreciable classification of premises and equipment are as follows:

Buildings and improvements	35-39 years
Equipment	3-10 years

Goodwill

The Company elected the private company accounting alternative for amortizing goodwill. Under this alternative, goodwill is amortized on a straight-line basis over 10 years. The Company tests goodwill for impairment when there is a triggering event indicating that the fair value of the entity may be below its carrying amount.

In testing goodwill for impairment, the Company has the option first to perform a qualitative assessment to determine whether it is more likely than not that goodwill is impaired or the entity can bypass the qualitative assessment and proceed directly to the quantitative test by comparing the carrying amount, including goodwill, of the entity with its fair value. The goodwill impairment loss, if any, is measured as the amount by which the carrying amount of an entity, including goodwill, exceeds

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its fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements. There was no triggering event during the years ended December 31, 2024 and 2023.

Intangible Assets

Intangible assets with finite lives are being amortized on the straight-line basis over period of seven years. Such assets are periodically evaluated as to the recoverability of carrying values.

Long-Lived Asset Impairment

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2024 and 2023.

Federal Home Loan Bank Stock

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, carried at cost and evaluated for impairment.

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Foreclosed assets held for sale is included in other assets. Revenue and expenses from operations and changes in the valuation allowance are included in net income or expense from foreclosed assets.

Bank-owned Life Insurance

The Bank has purchased life insurance policies on certain Bank employees. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes

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in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not some portion or all of a deferred tax asset will not be realized.

Tax positions are recognized if it is more likely than not, based on the technical merits, the tax position will be realized or sustained upon examination. The term “more likely than not” means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management’s judgment.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Company files consolidated income tax returns with its subsidiary.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) includes unrealized appreciation (depreciation) on available-for-sale securities.

Employee Retention Credit

The Coronavirus Aid, Relief, and Economic Security Act (CARES), and subsequent legislation, provides a refundable employee retention tax credit to eligible employers who meet either a gross receipts test or a government mandate test. The tax credit is equal to a specified percentage of qualified wages paid to employees subject to certain limits. The Company has elected to account for these employee retention credits by analogy to ASC 450-30. The Company determined it qualified for the tax credit and claimed and subsequently received an ERC of \$425,184, including interest, during the year ended December 31, 2023. The related income affected by these transactions is reflected in other noninterest income in the consolidated income statement as of December 31, 2023.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company (put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership), (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

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Adoption of New Accounting Standards

On January 1, 2023, the Company adopted ASU 2016-13: *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The Company adopted ASC 326 using a modified retrospective method for all financial instruments measured at amortized cost and off-balance-sheet credit exposures. Reporting periods beginning after January 1, 2023 are presented under ASC 326. The Company recorded a net decrease to retained earnings of \$134,619 as of January 1, 2023 for the cumulative effect of adopting ASC 326.

The following table illustrates the impact of ASC 326:

	As Reported under ASC 326	Pre-ASC 326 Adoption	ASC 326 Adoption
Assets:			
Agricultural Real Estate	\$ 1,210,205	\$ 1,626,005	\$ (415,800)
Agricultural Production	963,893	1,218,990	(255,097)
Commerical Real Estate	1,451,030	924,355	526,675
Commerical & Industrial	823,681	787,832	35,849
Residential Real Estate	470,630	367,846	102,784
Consumer Vehicle	106,313	72,135	34,178
Consumer Other	81,075	64,054	17,021
Total Allowance for credit losses on loans	<u>5,106,827</u>	<u>5,061,217</u>	<u>45,610</u>
Other Asset (deferred tax effect)	1,496,107	1,442,447	53,660
Total Assets	<u>\$ 3,610,720</u>	<u>\$ 3,618,770</u>	<u>\$ (8,050)</u>
Liabilities:			
Allowance for credit losses on unfunded commitments	\$ 142,669	\$ -	\$ 142,669
Total Liabilities	<u>\$ 142,669</u>	<u>\$ -</u>	<u>\$ 142,669</u>

Note 2: Restriction on Cash and Due from Banks

The Company had no reserve requirement to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank at December 31, 2024.

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Note 3: Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Debt Securities				
December 31, 2024				
U.S. government and federal agency	\$ 9,748,423	\$ -	\$ 1,052,364	\$ 8,696,059
Corporate bonds	5,750,000	-	724,472	5,025,528
Mortgage-backed securities	113,984,379	132,177	17,280,754	96,835,802
State and political subdivisions	<u>56,031,764</u>	<u>27</u>	<u>8,796,250</u>	<u>47,235,541</u>
	<u>\$ 185,514,566</u>	<u>\$ 132,204</u>	<u>\$ 27,853,840</u>	<u>\$ 157,792,930</u>
Available-for-Sale Debt Securities				
December 31, 2023				
U.S. government and federal agency	\$ 11,721,614	\$ -	\$ 1,188,533	\$ 10,533,081
Corporate bonds	5,750,000	-	851,492	4,898,508
Mortgage-backed securities	127,626,695	73,226	17,161,863	110,538,058
State and political subdivisions	<u>56,914,181</u>	<u>120</u>	<u>8,299,230</u>	<u>48,615,071</u>
	<u>\$ 202,012,490</u>	<u>\$ 73,346</u>	<u>\$ 27,501,118</u>	<u>\$ 174,584,718</u>

All mortgage-backed securities are with government sponsored enterprises (GSEs) such as the Federal National Mortgage Association, Government National Mortgage Association, Federal Home Loan Bank, and Federal Home Loan Mortgage Corporation.

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The amortized cost and approximate fair values, together with gross unrealized gains and losses, of held-to-maturity securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-Maturity Debt Securities				
December 31, 2024				
State and political subdivisions	\$ 10,834,263	\$ 968	\$ 327,008	\$ 10,508,223
Held-to-Maturity Debt Securities				
December 31, 2023				
State and political subdivisions	\$ 12,176,131	\$ 6,715	\$ 250,964	\$ 11,931,882

The amortized cost and fair value of available-for-sale debt securities and held-to-maturity debt securities at December 31, 2024, 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.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	\$ 3,600,253	\$ 3,586,167	\$ 565,000	\$ 565,111
Over one through five years	11,302,272	10,595,670	1,436,059	1,434,577
Over five through ten years	23,625,670	20,167,591	5,313,969	5,187,679
Over ten years	33,001,992	26,607,700	3,519,235	3,320,855
Mortgage-backed securities	113,984,379	96,835,802	-	-
	<u>\$ 185,514,566</u>	<u>\$ 157,792,930</u>	<u>\$ 10,834,263</u>	<u>\$ 10,508,222</u>

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was \$64,892,413 and \$106,514,935 at December 31, 2024 and 2023, respectively.

Gross gains of \$0 and \$74,535 and gross losses of \$77,776 and \$295,707 resulting from sales of available-for-sale debt securities were realized during the years ended December 31, 2024 and 2023, respectively.

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than historical cost. Total fair value of these investments at December 31, 2024 and 2023, was \$155,062,779 and \$173,114,792, which is approximately 92 and 93 percent, respectively, of the Company's available-for-sale and held-to-maturity debt securities. These declines primarily resulted from recent changes in market interest rates.

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The following table shows the Company's investments' gross unrealized losses and fair value of the Company's investments for which an allowance for credit losses has not been recorded, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2024 and 2023:

Description of Debt Securities	December 31, 2024					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale:						
U.S. government and federal agency	\$ -	\$ -	\$ 8,696,059	\$ 1,052,364	\$ 8,696,059	\$ 1,052,364
Corporate bonds	-	-	5,025,528	724,472	5,025,528	724,472
Mortgage-backed securities	2,056,828	3,041	86,275,635	17,277,713	88,332,463	17,280,754
State and political subdivisions	-	-	47,075,514	8,796,250	47,075,514	8,796,250
Total aggregated by investment category	<u>\$ 2,056,828</u>	<u>\$ 3,041</u>	<u>\$ 147,072,736</u>	<u>\$ 27,850,799</u>	<u>\$ 149,129,564</u>	<u>\$ 27,853,840</u>

Description of Debt Securities	December 31, 2023					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale:						
U.S. government and federal agency	\$ -	\$ -	\$ 10,533,081	\$ 1,188,533	\$ 10,533,081	\$ 1,188,533
Corporate bonds	-	-	4,898,508	851,492	4,898,508	851,492
Mortgage-backed securities	2,915,236	28,651	101,712,327	17,133,212	104,627,563	17,161,863
State and political subdivisions	-	-	48,454,951	8,299,230	48,454,951	8,299,230
Total aggregated by investment category	<u>\$ 2,915,236</u>	<u>\$ 28,651</u>	<u>\$ 165,598,867</u>	<u>\$ 27,472,467</u>	<u>\$ 168,514,103</u>	<u>\$ 27,501,118</u>

Description of Securities	December 31, 2024					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-Maturity						
State and political subdivisions	<u>\$ 2,440,155</u>	<u>\$ 24,464</u>	<u>\$ 3,493,060</u>	<u>\$ 302,544</u>	<u>\$ 5,933,215</u>	<u>\$ 327,008</u>

Description of Securities	December 31, 2023					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-Maturity						
State and political subdivisions	<u>\$ 1,496,819</u>	<u>\$ 3,742</u>	<u>\$ 3,103,870</u>	<u>\$ 247,222</u>	<u>\$ 4,600,689</u>	<u>\$ 250,964</u>

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Unrealized losses on available-for-sale debt securities have not been recorded as an allowance for credit loss because the Company does not intend to sell the securities prior to their anticipated recovery and the decline in fair value is largely due to changes in interest rates and other market conditions.

The Company's held-for-sale security portfolio consisted of 230 and 255 securities, of which 219 and 246 were in an unrealized loss position as of December 31, 2024 and 2023, respectively.

For the Company's investments in each type of security having a significant effect on unrealized losses, note the following:

U.S. Government and Federal Agency and Corporate Bonds

The unrealized losses on the Company's investments in direct obligations of U.S. government and federal agency and corporate bonds were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases 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 its amortized cost bases, which may be maturity, the Company has not recorded an allowance for credit losses at December 31, 2024 and 2023.

Mortgage-backed Securities

The unrealized losses on the Company's investment in residential mortgage-backed securities were caused by changes in interest rates and illiquidity. The Company expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and illiquidity, and not credit quality, and 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 bases, which may be maturity, the Company has not recorded an allowance for credit loss at December 31, 2024 and 2023.

State and Political Subdivisions

The unrealized losses on the Company's investments in securities of state and political subdivisions were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases 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 its amortized cost bases, which may be maturity, the Company has not recorded an allowance for credit loss at December 31, 2024 and 2023.

The Company had no credit losses on available-for-sale and held-to-maturity debt securities for which an allowance for credit losses was recorded for the year ended December 31, 2024 and 2023.

Credit Quality Indicators

The Company monitors the credit quality of held-to-maturity securities through the use of credit ratings. The credit rating are monitored on quarterly basis. The following table summarizes the amortized cost of held-to-maturity securities at December 31, 2024 and 2023, aggregated by credit quality indicator:

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	2024	2023
	State and Political Subdivisions	State and Political Subdivisions
Investment grade (ratings at or above BBB-*)	\$ 5,759,907	\$ 7,793,031
Non-rated	5,074,356	4,383,100
Total	\$ 10,834,263	\$ 12,176,131

*As determined by S&P Global ratings scale

The Company had no held-to-maturity debt securities on nonaccrual or past due over 89 days still on accrual as of December 31, 2024 and 2023 or during the years ended December 31, 2024 and 2023.

A security is considered to be past due once it is 30 days contractually past due under the terms of the agreement. As of December 31, 2024 and 2023 the Company had no past due held-to-maturity debt securities.

Note 4: Loans and Allowance for Credit Losses

Classes of loans at December 31, include:

	2024	2023
Agricultural Real Estate	\$118,449,958	\$ 106,486,854
Agricultural Production	72,022,152	64,749,854
Commerical Real Estate	90,248,077	86,266,664
Commerical & Industrial	101,128,307	81,384,844
Residential Real Estate	76,060,989	69,329,782
Consumer Vehicle	6,895,144	7,544,435
Consumer Other	10,275,642	8,907,595
Total loans	475,080,269	424,670,028
Less		
Allowance for credit losses	(5,280,560)	(5,270,684)
Net loans	\$469,799,709	\$ 419,399,344

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The following tables present the balance in the allowance for credit losses and the recorded investment in loans based on portfolio segment as of December 31, 2024 and 2023:

2024

	Agricultural Real Estate	Agricultural Production	Commercial Real Estate	Commercial & Industrial	Residential Real Estate	Consumer Vehicle	Consumer Other	Total
Allowance for credit losses:								
Balance, beginning of year	1,211,991	912,656	1,496,613	857,895	558,721	95,303	137,505	5,270,684
Charge-offs	-	-	(281,495)	(68,644)	(10,203)	(44,395)	(29,863)	(434,600)
Recoveries	-	-	-	230	3,113	283	15,850	19,476
Provision	99,266	(29,608)	133,863	307,038	(131,843)	45,328	956	425,000
Balance, end of year	<u>\$ 1,311,257</u>	<u>\$ 883,048</u>	<u>\$ 1,348,981</u>	<u>\$ 1,096,519</u>	<u>\$ 419,788</u>	<u>\$ 96,519</u>	<u>\$ 124,448</u>	<u>\$ 5,280,560</u>

2023

	Agricultural Real Estate	Agricultural Production	Commercial Real Estate	Commercial & Industrial	Residential Real Estate	Consumer Vehicle	Consumer Other	Total
Allowance for credit losses:								
Beginning Balance prior to adoption of ASC326	\$ 1,626,005	\$ 1,218,990	\$ 924,355	\$ 787,832	\$ 367,846	\$ 72,135	\$ 64,054	\$ 5,061,217
Impact of adopting ASC 326	(415,800)	(255,097)	526,675	35,849	102,784	34,178	17,021	45,610
Balance, beginning of year	1,210,205	963,893	1,451,030	823,681	470,630	106,313	81,075	5,106,827
Charge-offs	-	-	-	(18,065)	(16,000)	(16,078)	(69,094)	(119,237)
Recoveries	-	16,044	-	-	-	821	16,229	33,094
Provision	1,786	(67,281)	45,583	52,279	104,091	4,247	109,295	250,000
Balance, end of year	<u>\$ 1,211,991</u>	<u>\$ 912,656</u>	<u>\$ 1,496,613</u>	<u>\$ 857,895</u>	<u>\$ 558,721</u>	<u>\$ 95,303</u>	<u>\$ 137,505</u>	<u>\$ 5,270,684</u>

The Company also recognized \$0 and \$100,000 in the provision for credit loss for off-balance-sheet commitments for 2024 and 2023, respectively.

Internal Risk Categories

The Company's internal credit exposure grading system is based on experiences with similarly graded loans. All loan relationships with a minimum aggregate balance of \$400,000 or greater are reviewed on an annual basis. Based on this review, a risk rating is applied to each credit relationship. Exceptions to this policy will be agricultural borrowers whose total debt consists of real estate secured loans on a structured repayment program and consumer customers whose total debt consists of residential real estate and other secured debt on a structured repayment program.

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The Company's internal risk ratings are as follows:

Pass – Credits range from minimal (A) to average (B) to acceptable risk (C). Borrowers have satisfactory liquidity, asset quality, debt capacity, a good credit rating and adequate collateral coverage. Fluctuating earnings may be reflected but the borrowers have sufficient financial strength to compensate for these economic events.

Special Mention – Credits have specific weaknesses or downward trends which may pose a threat if left uncorrected. Borrowers may have limited debt capacity, marginal asset quality, and/or minimal liquidity indicating above average risk. The borrower is performing as agreed but may be adversely affected by developing problems or economic conditions. They could be in a turnaround situation. No loss of principal or interest is expected but they are potentially weak and maintain a marginal position. As of December 31, 2024 and 2023, the Company had no loans with a special mention rating that had not been charged off. As such, this category has not been included in the following tables.

Substandard – Credits have well defined weaknesses that jeopardize repayment. The Company may be inadequately protected by current net worth, payment capacity or value of collateral. There is a possibility of a partial loss of principal and/or interest if these weaknesses are not corrected. Significant deterioration in cash flow based on delinquency status or reliance on a secondary source of repayment is evident.

Doubtful – Circumstances as outlined in the Substandard category plus other weaknesses that make collection or liquidation in full highly questionable. The borrower has failed to meet prior agreements. Serious problems exist and the potential for a loss of principal is likely. An actual loss has not been identified because of pending factors including a liquidation process, additional collateral, refinancing or an infusion of capital which may strengthen the credit. As of December 31, 2024 and 2023, the Company had no loans with a doubtful rating that had not been charged off. As such, this category has not been included in the following tables.

Loss – These credits are generally deemed uncollectible. There may be recovery value. However, it is not desirable to defer a write off even though partial recovery may occur. Loans are not maintained as a bankable asset while long term recovery is attempted. Credits in this category should be accompanied with a recommendation for charge off to affect timely recognition of loan losses. This is a onetime risk rating. As of December 31, 2024 and 2023, the Company had no loans with a loss rating that had not been charged off. As such, this category has not been included in the following tables.

Risk characteristics applicable to each segment of the loan portfolio are described as follows:

Agricultural Real Estate and Commercial Real Estate: Agricultural real estate and commercial real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

Agricultural Production and Commercial and Industrial Loans: The agricultural production and commercial and industrial portfolios include loans to agricultural and commercial customers for use in

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financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

Residential Real Estate: Residential estate loans include 1-4 family real estate loans that are generally secured by owner-occupied 1-4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Company's market areas that might impact either property values or a borrower's personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Consumer Vehicle and Consumer Other: The consumer loan portfolio consists of various term and line of credit loans such as automobile loans and loans for other personal purposes. Repayment for these types of loans will come from a borrower's income source that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors (such as unemployment and general economic conditions in the Company's market area) and the creditworthiness of a borrower.

The following table presents the credit risk profile of the Company's loan portfolio based on internal rating category and payment activity as of December 31, 2024 and 2023:

		2024							
		Agricultural Real Estate	Agricultural Production	Commercial Real Estate	Commercial & Industrial	Residential Real Estate	Consumer Vehicle	Consumer Other	Total
Grade									
	Pass	\$ 117,576,115	\$ 70,720,520	\$ 85,827,448	\$ 99,887,749	\$ 75,550,330	\$ 6,895,144	\$ 10,244,180	\$466,701,486
	Substandard	873,843	1,301,632	4,420,629	1,240,558	510,659	-	31,462	8,378,783
	Total	\$ 118,449,958	\$ 72,022,152	\$ 90,248,077	\$ 101,128,307	\$ 76,060,989	\$ 6,895,144	\$ 10,275,642	\$475,080,269

		2023							
		Agricultural Real Estate	Agricultural Production	Commercial Real Estate	Commercial & Industrial	Residential Real Estate	Consumer Vehicle	Consumer Other	Total
Grade									
	Pass	\$ 105,088,171	\$ 63,249,125	\$ 79,784,510	\$ 79,358,303	\$ 68,732,709	\$ 7,544,435	\$ 8,868,695	\$412,625,948
	Substandard	1,398,683	1,500,729	6,482,154	2,026,541	597,073	-	38,900	12,044,080
	Total	\$ 106,486,854	\$ 64,749,854	\$ 86,266,664	\$ 81,384,844	\$ 69,329,782	\$ 7,544,435	\$ 8,907,595	\$424,670,028

The Company evaluates the loan risk grading system definitions and allowance for loan loss methodology on an ongoing basis. No significant changes were made during the past year.

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The following tables present the Company's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2024 and 2023:

2024							
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Non-Accrual	Total Past Due	Current	Total Loans
Agricultural Real Estate	\$ -	\$ -	\$ -	\$ 351,621	\$ 351,621	\$118,098,337	\$118,449,958
Agricultural Production	20,599	73,784	-	-	94,383	71,927,769	72,022,152
Commercial Real Estate	53,412	-	-	423,479	476,891	89,771,186	90,248,077
Commercial & Industrial	824,216	23,988	4,000	348,231	1,200,435	99,927,872	101,128,307
Residential Real Estate	459,659	32,078	1,922	1,175	494,834	75,566,155	76,060,989
Consumer Vehicle	18,268	18,970	-	4,218	41,456	6,853,688	6,895,144
Consumer Other	17,323	1,600	-	35,396	54,319	10,221,323	10,275,642
Total	<u>\$ 1,393,477</u>	<u>\$ 150,420</u>	<u>\$ 5,922</u>	<u>\$ 1,164,120</u>	<u>\$ 2,713,939</u>	<u>\$472,366,330</u>	<u>\$475,080,269</u>

2023							
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Non-Accrual	Total Past Due	Current	Total Loans
Agricultural Real Estate	\$ -	\$ -	\$ -	\$ -	\$ -	\$106,486,854	\$106,486,854
Agricultural Production	-	-	-	-	-	64,749,854	64,749,854
Commercial Real Estate	-	-	-	72,576	72,576	86,194,088	86,266,664
Commercial & Industrial	471,226	250	-	401,088	872,564	80,512,280	81,384,844
Residential Real Estate	206,781	-	-	71,753	278,534	69,051,248	69,329,782
Consumer Vehicle	19,889	32,781	-	-	52,670	7,491,765	7,544,435
Consumer Other	44,094	-	-	40,004	84,098	8,823,497	8,907,595
Total	<u>\$ 741,990</u>	<u>\$ 33,031</u>	<u>\$ -</u>	<u>\$ 585,421</u>	<u>\$ 1,360,442</u>	<u>\$423,309,586</u>	<u>\$424,670,028</u>

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The following tables presents the Company's nonaccrual loans at December 31, 2024 and 2023.

	2024		
	Non-Accrual with no ACL	Non-Accrual	> 90 days still accruing
Agricultural Real Estate	\$ 351,621	\$ 351,621	\$ -
Agricultural Production	-	-	-
Commercial Real Estate	423,479	423,479	-
Commercial & Industrial	348,231	348,231	4,000
Residential Real Estate	1,175	1,175	1,922
Consumer Auto	4,218	4,218	-
Consumer Other	23,062	35,396	-
Total	<u>\$ 1,151,786</u>	<u>\$ 1,164,120</u>	<u>\$ 5,922</u>

	2023		
	Non-Accrual with no ACL	Non-Accrual	> 90 days still accruing
Agricultural Real Estate	\$ -	\$ -	\$ -
Agricultural Production	-	-	-
Commercial Real Estate	72,576	72,576	-
Commercial & Industrial	332,185	401,088	-
Residential Real Estate	71,753	71,753	-
Consumer Auto	-	-	-
Consumer Other	22,953	40,004	-
Total	<u>\$ 499,467</u>	<u>\$ 585,421</u>	<u>\$ -</u>

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The following table represents collateral dependent loans. A loan is considered to be collateral dependent when the borrower is experiencing financial difficulty and the repayment is expected to be provided substantially through the operation or sale of collateral. The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2024 and 2023.

Classes of loans at December 31, 2024 and 2023 include:

	2024		
	Commercial Real Estate	Business Assets	Vehicle
Agricultural Real Estate	\$ -	\$ -	\$ -
Agricultural Production	-	-	-
Commercial Real Estate	937,619	-	-
Commercial & Industrial	-	-	-
Residential Real Estate	-	-	-
Consumer Vehicle	-	-	-
Consumer Other	-	-	12,334
Total	<u>\$ 937,619</u>	<u>\$ -</u>	<u>\$ 12,334</u>

	2023		
	Commercial Real Estate	Business Assets	Vehicle
Agricultural Real Estate	\$ -	\$ -	\$ -
Agricultural Production	-	-	-
Commercial Real Estate	960,057	-	-
Commercial & Industrial	-	68,903	-
Residential Real Estate	-	-	-
Consumer Vehicle	-	-	-
Consumer Other	-	-	17,051
Total	<u>\$ 960,057</u>	<u>\$ 68,903</u>	<u>\$ 17,051</u>

The Company had no loans modified to borrowers experiencing financial difficulty as of and during the years ending December 31, 2024 and 2023.

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Note 5: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

	<u>2024</u>	<u>2023</u>
Land	\$ 651,503	\$ 651,503
Buildings and improvements	8,938,871	8,539,800
Equipment	<u>5,375,680</u>	<u>5,216,921</u>
	14,966,054	14,408,224
Less accumulated depreciation	<u>8,441,650</u>	<u>8,087,003</u>
Net premises and equipment	<u>\$ 6,524,404</u>	<u>\$ 6,321,221</u>

Note 6: Goodwill and Core Deposit Intangibles

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2024 and 2023 were:

	<u>2024</u>	<u>2023</u>
Goodwill	\$ 2,076,025	\$ 2,076,025
Accumulated amortization	(1,794,904)	(1,708,405)
Core deposit intangible	4,635,137	4,635,137
Accumulated amortization	<u>(4,473,868)</u>	<u>(3,828,794)</u>
	<u>\$ 442,390</u>	<u>\$ 1,173,963</u>

Amortization expense for each of the years ended December 31, 2024 and 2023, was \$731,573 and \$848,238, respectively. Estimated amortization expense for each of the following four years is:

2025	\$ 247,767
2026	86,499
2027	86,499
2028	21,625

There was no impairment to the carrying amount of goodwill for the years ended December 31, 2024 and 2023.

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Note 7: Loan Servicing

Loans serviced for others are not included in the accompanying consolidated balance sheets. The risks inherent in mortgage servicing assets relate primarily to changes in prepayments that result from shifts in mortgage interest rates. The unpaid principal balances of mortgage and other loans serviced for others were \$60,401,161 and \$59,531,573 at December 31, 2024 and 2023, respectively.

Note 8: Interest-bearing Deposits

A summary of interest-bearing deposits at December 31, 2024 and 2023 is as follows:

	2024	2023
Interest-bearing demand	\$ 136,160,878	\$ 134,041,676
Savings	112,540,977	116,933,712
Time deposits:		
Less than \$250,000	119,420,972	109,789,636
\$250,000 or more	74,924,741	59,519,500
Brokered CDs	24,884,375	24,875,625
	\$ 467,931,943	\$ 445,160,149

At December 31, 2024, the scheduled maturities of time deposits are as follows:

2025	\$ 179,094,969
2026	16,331,467
2027	12,261,917
2028	1,414,715
2029	10,127,020
	\$ 219,230,088

Note 9: Federal Home Loan Bank Advances

At December 31, 2024, the Company has secured lines of credit and outstanding letters of credit with the Federal Home Loan Bank, which are both secured by loans with a total collateral value of \$199,647,179.

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Lines of Credit:

At December 31, 2024 and 2023, the Company had \$41,000,000 and \$14,000,000 in borrowings under this credit facility. The advances are shown as follows:

December 31, 2024		
Amount	Interest Rate	Due Date
\$ 5,000,000	4.58%	January 6, 2025
7,000,000	4.49%	January 13, 2025
7,000,000	4.44%	January 21, 2025
7,000,000	4.44%	January 27, 2025
5,000,000	4.40%	August 28, 2025
5,000,000	4.13%	March 2, 2026
5,000,000	3.94%	August 28, 2026
<u><u>\$ 41,000,000</u></u>		

December 31, 2023		
Amount	Interest Rate	Due Date
\$ 5,000,000	5.47%	January 2, 2024
3,000,000	5.45%	January 8, 2024
3,000,000	5.45%	January 16, 2024
3,000,000	5.45%	January 22, 2024
<u><u>\$ 14,000,000</u></u>		

The advances as of December 31, 2024 were paid off and the Company received new advances based on liquidity needs.

Outstanding Letters of Credit:

At December 31, 2024, the Company has ten outstanding letters of credit from the FHLB in the amount of \$116,000,000 that are used to secure certain governmental deposits over and above FDIC limits. The letters of credit have initial terms of one year and then will automatically renew on the anniversary of their respective settlement dates, which are in February, June, July, August, September and October 2024.

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Note 10: Short-term Borrowings

Short-term borrowings consist of securities sold under repurchase agreements, federal funds purchased and the Federal Reserve’s bank term funding program. Securities sold under repurchase agreements consist of obligations of the Company to other parties. The balances were \$14,909,601 and \$22,124,643 on December 31, 2024 and 2023, respectively. There were no federal funds purchased at December 31, 2024 and 2023.

These repurchase agreements are collateralized by investments in debt securities consisting of obligations of U.S. government and federal agencies and state and political subdivisions which had an aggregate fair value of \$22,355,284 and \$30,549,507 at December 31, 2024 and 2023, respectively. The agreements at December 31, 2024 mature on January 1, 2025.

The Company may be required to provide additional collateral securing the borrowings in the event of principal pay downs, a decrease in the market value of the pledged securities, etc. The Company mitigates this risk by monitoring the market value and liquidity of the collateral and ensuring that it holds a sufficient level of eligible securities to cover potential increases in collateral requirements.

The average balance and maximum month-end balance of securities sold under agreements to repurchase for the years ended December 31, 2024 and 2023 are as follows:

	2024	2023
Average balance outstanding	\$ 17,056,952	\$ 19,545,559
Maximum month-end balance outstanding	\$ 23,177,152	\$ 26,671,869

There were no funds advanced through the bank term funding program as of December 31, 2024. Funds advanced as of December 31, 2023 were \$20,000,000 with an interest rate of 4.38%. The advance was repaid on March 7, 2024 before its one year maturity on March 22, 2024. New funds of \$20,000,000 with an interest rate of 5.4% and one-year maturity of March 7, 2025 were advanced on March 7, 2024. This advance was repaid on August 6, 2024. The bank term funding program was established in 2023 to make available additional funding to eligible depository institutions in order to help assure banks have the ability to meet the needs of all their depositors. The program was administered through the Discount Window of the Federal Reserve and offered advances of up to one year in length to banks, savings associations, credit unions, and other eligible depository institutions pledging any collateral eligible for purchase by the Federal Reserve Bank in open market operations, such as U.S. Treasuries, U.S. agency securities, and U.S. agency mortgage-back securities. These assets were valued at par. The Company’s advances were collateralized by such investments with a par value of \$21,746,749 at December 31, 2023 and no securities were pledged as of December 31, 2024. The Federal Reserve ceased making new loans through the program as of March 11, 2024.

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Note 11: Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction and the State of Illinois. During the years ended December 31, 2024 and 2023, the Company did not recognize expense for interest or penalties.

The provision for income taxes includes these components:

	<u>2024</u>	<u>2023</u>
Taxes currently payable	\$ 2,501,668	\$ 2,691,551
Deferred income taxes	<u>14,787</u>	<u>(198,614)</u>
Income tax expense	<u>\$ 2,516,455</u>	<u>\$ 2,492,937</u>

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	<u>2024</u>	<u>2023</u>
Computed at the statutory rate (21%)	\$ 2,015,186	\$ 2,001,223
Increase (decrease) resulting from		
Tax-exempt interest income	(283,756)	(309,692)
State income taxes	679,168	701,827
Other	<u>105,857</u>	<u>99,579</u>
Actual tax expense	<u>\$ 2,516,455</u>	<u>\$ 2,492,937</u>

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The tax effects of temporary differences related to deferred taxes shown on the consolidated balance sheets were:

	2024	2023
Deferred tax assets		
Allowance for credit losses	\$ 1,574,121	\$ 1,571,306
Goodwill impairment and core deposit amortization	728,412	637,144
Deferred compensation	75,837	86,418
Employee benefits	447,722	408,608
Deferred income	20,940	31,967
Unrealized losses on available-for-sale debt securities	7,982,557	7,897,861
Other	39,613	43,057
	10,869,202	10,676,361
Deferred tax liabilities		
Depreciation	(477,869)	(478,855)
Unrealized gains on equity security	(81,892)	(80,947)
Net accretion on debt securities	(252,075)	(215,789)
Prepaid Expenses	(86,687)	-
	(898,523)	(775,591)
Net deferred tax asset	\$ 9,970,679	\$ 9,900,770

Note 12: Employee Benefit Plans

Profit Sharing Plan

The Company has a profit-sharing plan covering substantially all full-time employees. Contributions to the plan are at the discretion of the Company's Board of Directors. During 2024 and 2023, contributions charged to expense were \$530,000 and \$525,000, respectively.

Deferred Compensation Plan

The Company has deferred compensation plans with certain directors. In addition, during 2004, the Company started a nonqualified deferred compensation plan for key employees. The employees must remain employed by the Company until age 65, the age benefits begin. The Company is recording a liability on a systematic and rational basis taking into consideration the number of years until the employee reaches age 65. At December 31, 2024 and 2023, \$1,384,719 and \$1,346,376, respectively,

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has been accrued under these plans and is included in other liabilities in the Consolidated Financial Statements. Costs for the above plans for the years ending December 31, 2024 and 2023 were \$143,382 and \$130,458, respectively.

Note 13: Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under U.S. GAAP, regulatory reporting requirements and regulatory capital standards. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Bank's regulators could require adjustments to regulatory capital not reflected in these consolidated financial statements.

Quantitative measures established by regulatory reporting standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined) to risk-weighted assets (as defined), common equity Tier I capital (as defined) to total risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2024 and 2023, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2024, the most recent notification from the Bank's regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based capital, Tier 1 risk-based capital, common equity Tier 1 risk-based capital and Tier 1 leverage ratios as set forth in the table. Effective January 1, 2020, the FDIC finalized the community bank leverage ratio allowing qualifying community banking organizations to adopt a framework so that the minimum total risk-based, Tier 1 risk-based, and common equity Tier 1 risk-based ratios will not be required to be calculated. The Bank adopted the community bank leverage ratio framework and was not required to calculate the minimum total risk-based, Tier 1 risk-based, and common equity Tier 1 risk-based ratios as of December 31, 2024 and 2023, respectively. There are no conditions or events since that notification that management believes have changed the Bank's category.

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The Bank's actual capital amounts and ratios are also presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2024						
Tier I capital (to average assets)	\$ 76,399	10.6%	\$ 28,921	4.0%	\$ 36,151	5.0%
As of December 31, 2023						
Tier I capital (to average assets)	\$ 70,349	10.4%	\$ 27,114	4.0%	\$ 33,893	5.0%

The above minimum capital requirements exclude the capital conservation buffer required to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. The capital conservation buffer was 2.5 percent at December 31, 2024 and 2023. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

Under Illinois law, the Bank may pay dividends only out of retained earnings. State and federal bank regulatory agencies have authority to prohibit a bank from paying dividends if such payment is deemed to be an unsafe or unsound practice.

Note 14: Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss), included in stockholders' equity, are as follows:

	<u>2024</u>	<u>2023</u>
Net unrealized loss on available-for-sale securities	\$(27,721,636)	\$(27,427,772)
Tax effect	<u>7,982,557</u>	<u>7,897,861</u>
Net-of-tax amount	<u><u>\$(19,739,079)</u></u>	<u><u>\$(19,529,911)</u></u>

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Note 15: Changes in Accumulated Other Comprehensive Income (Loss) by Component

Amounts reclassified from accumulated other comprehensive income (loss) (AOCI) and the affected line items in the statements of income during the years ended December 31, 2024 and 2023, were as follows:

	Amounts Reclassified from AOCI		Affected Line Item in the Statements of Income
	2024	2023	
Realized gains (losses) on available-for-sale securities	\$ (77,776)	\$ (221,172)	Realized loss on sale of securities
Tax expense	<u>16,333</u>	<u>46,446</u>	Provision for Income taxes
Other comprehensive income (loss)	<u>\$ (61,443)</u>	<u>\$ (174,726)</u>	Net reclassified amount

Note 16: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy comprises three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets, 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
- Level 3** Unobservable inputs supported by little or no market activity and that are significant to the fair value of the assets

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Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2024 and 2023:

	Total 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)
December 31, 2024				
U.S. government and federal agency	\$ 8,696,059	\$ 4,722,422	\$ 3,973,637	\$ -
Corporate bonds	5,025,528	-	5,025,528	-
Mortgage-backed securities	96,835,802	-	96,835,802	-
State and political subdivisions securities	47,235,541	-	47,235,541	-
December 31, 2023				
U.S. government and federal agency	\$ 10,533,081	\$ 6,639,219	\$ 3,893,862	\$ -
Corporate bonds	4,898,508	-	4,898,508	-
Mortgage-backed securities	110,538,058	-	110,538,058	-
State and political subdivisions securities	48,615,071	-	48,615,071	-

Following is a description of the valuation methodologies and inputs used for assets 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 and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2024.

Available-for-sale Debt 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 quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy.

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Nonrecurring Measurements

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2024 and 2023:

	Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2024				
Collateral-dependent impaired loans	\$ 848,191	\$ -	\$ -	\$ 848,191
December 31, 2023				
Collateral-dependent impaired loans	\$ 878,914	\$ -	\$ -	\$ 878,914

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheet, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Collateral-dependent Impaired Loans Net of ACL

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by the Controller's office. Appraisals are reviewed for accuracy and consistency by the Controller's office. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by the Controller's office by comparison to historical results.

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Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements.

	Fair Value	Valuation Technique	Unobservable Inputs
December 31, 2024			
Collateral-dependent impaired loans	\$ 848,191	Internal or third party appraisal	Discount to reflect realizable value
December 31, 2023			
Collateral-dependent impaired loans	\$ 878,914	Internal or third party appraisal	Discount to reflect realizable value

Note 17: Related Party Transactions

Loans

In the normal course of banking business, loans are made to officers and directors of the Company as well as to their affiliates. In management's opinion, such loans and deposits are made in the ordinary course of business with substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. They do not involve more than normal risk of collectability or present other unfavorable features. An analysis of the activity during the 2024 and 2023 is as follows:

	2024	2023
Beginning balance	\$ 2,133,630	\$ 1,874,879
New loans	1,062,702	700,733
Effect of changes in composition of related parties	2,198,524	-
Repayments	(1,102,620)	(441,982)
Ending balance	<u>\$ 4,292,236</u>	<u>\$ 2,133,630</u>

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Deposits

The deposits from officers and directors of the Company totaled approximately \$2,922,826 and \$3,198,887 at December 31, 2024 and 2023, respectively.

Note 18: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for credit losses are reflected in the note regarding loans and investments. Current vulnerabilities due to certain concentrations of credit risk are discussed in the note on commitments and credit risk.

Note 19: Revenue from Contracts with Customers

All of the Company's revenue from contracts with customers in the scope of Topic 606 is recognized within noninterest income in the accompanying statements of income. A description of the Company's revenue streams accounted for under Topic 606 are as follows:

Customer-service fees. The Company earns fees from its deposit customers for transaction-based, account maintenance and overdraft services. Transaction-based fees, which include services such as ATM fees, stop payment charges, statement rendering and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Interchange income. The Company earns interchange fees from debit and credit cardholder transactions conducted through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Trust fees. The Company earns income from its contracts with trust customers to manage assets for investment and/or to transact on their accounts. These fees are primarily earned over time as the Company provides the contracted monthly or quarterly services and are generally assessed based on a tiered scale of the market value of assets under management at month-end. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed, i.e., the trade date. Other related services are provided and the fees the Company earns, which are based on a fixed fee schedule, are recognized when the services are rendered.

Retail Insurance. The Company earns fees from insurance services provided to its customers. These fees are primarily earned and assessed each month as the Company provides the contracted monthly service.

Retail Investment. The Company earns fees from investment services provided to its customers. These fees are primarily earned and assessed each month as the Company provides the contracted monthly service.

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Internet. The Company earns fees from internet services provided to its customers. These fees are primarily earned and assessed each month as the Company provides the contracted monthly service.

Gains/Losses on Sales of OREO. The Company records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present. The gains/losses on sales of OREO are recognized in other noninterest income.

Note 20: Commitments and Credit Risk

The Company grants agribusiness, commercial and residential loans to customers throughout east central Illinois. The Company's loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors ability to honor their contracts is dependent upon the agricultural environment in east central Illinois.

Commitments to Originate Loans

Commitments to originate loans 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 a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

At December 31, 2024 and 2023, the Company had outstanding commitments to originate loans aggregating approximately \$8,462,205 and \$10,619,773, respectively. The commitments extended over varying periods of time with the majority being disbursed within a one-year period. Loan commitments at fixed rates of interest amounted to \$4,613,000 and \$806,780 at December 31, 2024 and 2023, respectively, with the remainder at floating market rates.

Standby Letters of Credit

Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under nonfinancial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers.

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Should the Company be obligated to perform under the standby letters of credit, the Company may seek recourse from the customer for reimbursement of amounts paid.

The Company had total outstanding standby letters of credit amounting to \$6,943,919 and \$6,122,021, at December 31, 2024 and 2023, respectively, with terms ranging from one year to twelve years. At December 31, 2024 and 2023, the Company's deferred revenue under standby letter of credit agreements was nominal.

Lines of Credit

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

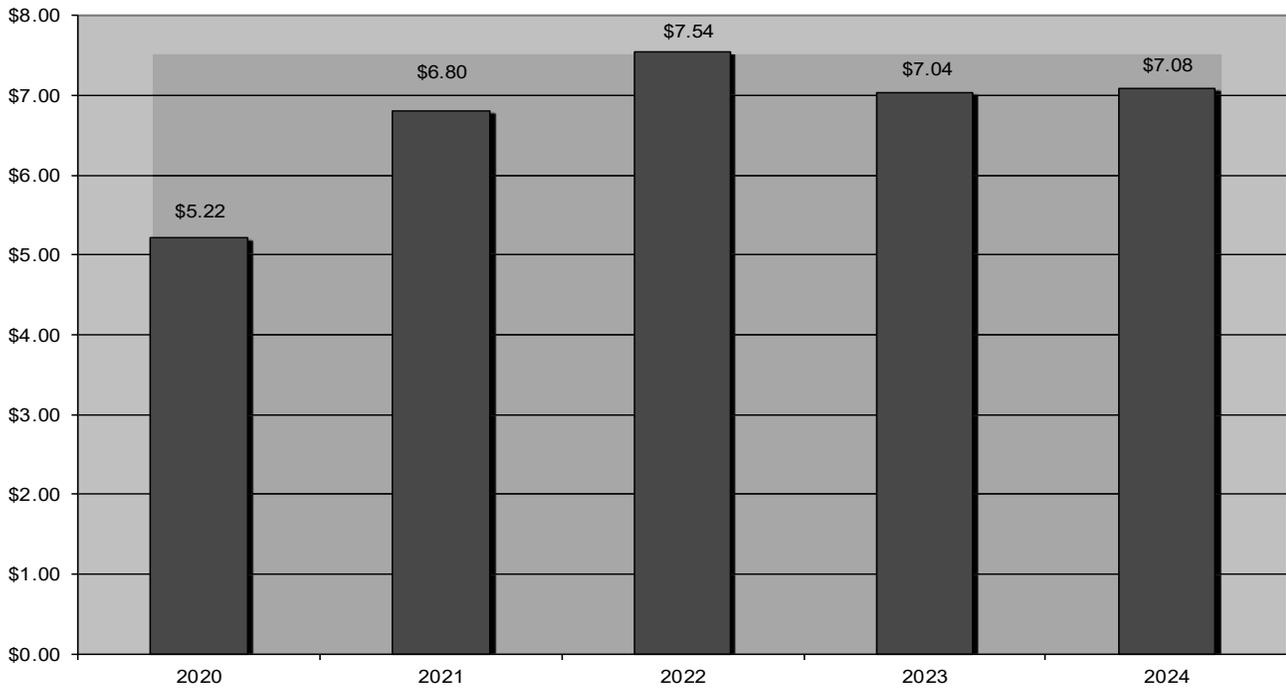
At December 31, 2024, the Company had granted unused lines of credit to borrowers aggregating approximately \$58,839,649 and \$3,349,516 for commercial lines and home equity line of credits lines, respectively. At December 31, 2023, unused lines of credit to borrowers aggregated approximately \$75,760,402, for commercial lines and \$3,415,789 for open-end consumer lines.

Note 21: Subsequent Events

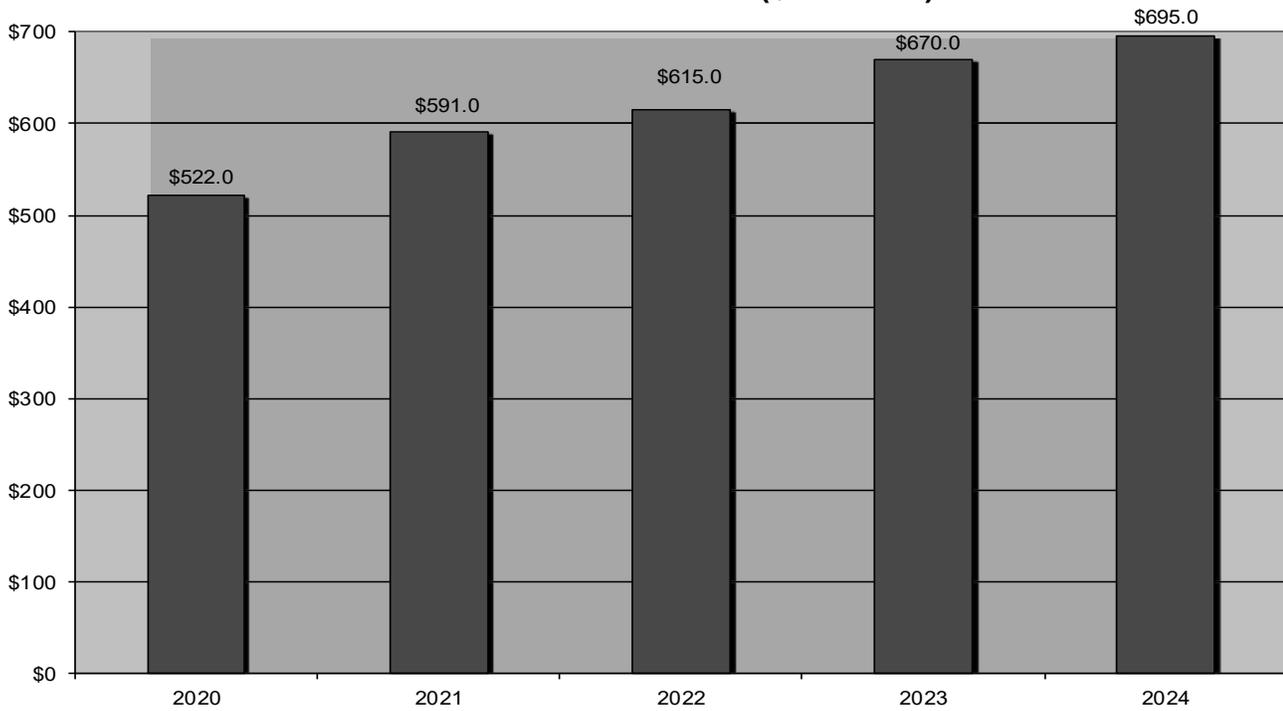
Subsequent events have been evaluated through February 6, 2025, which is the date the consolidated financial statements were available to be issued.

Supplemental Information

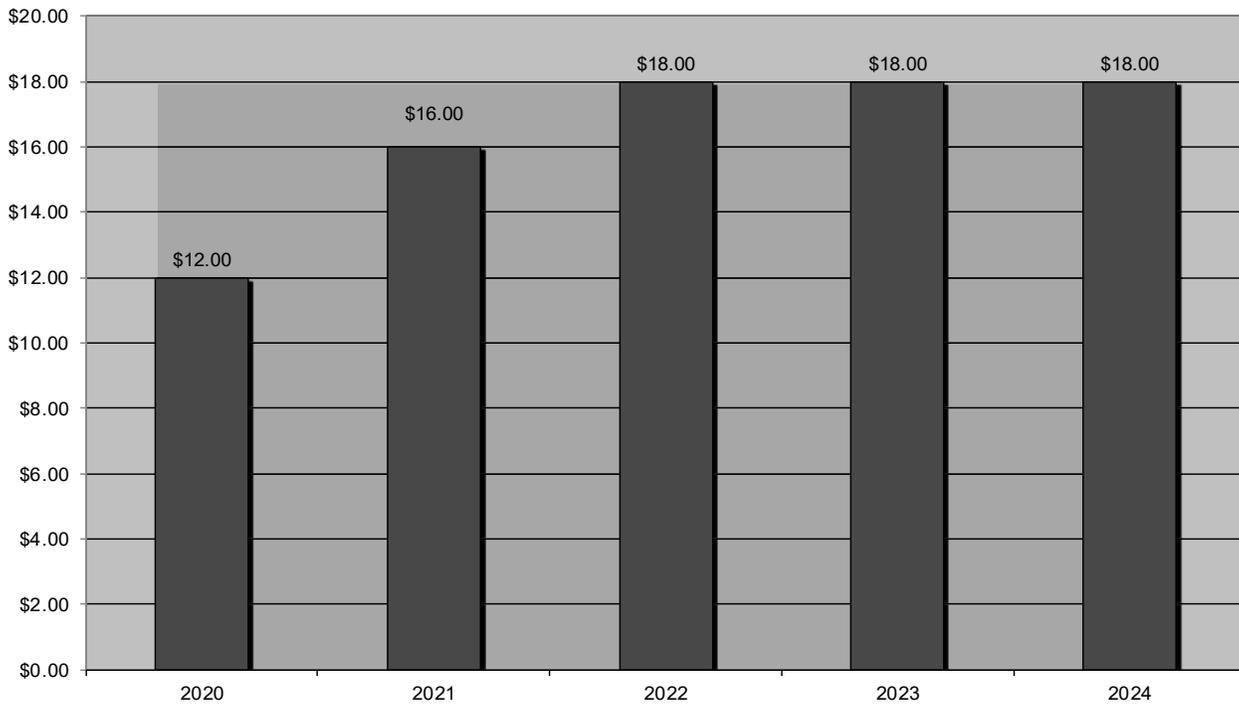
Net Income (\$ Millions)



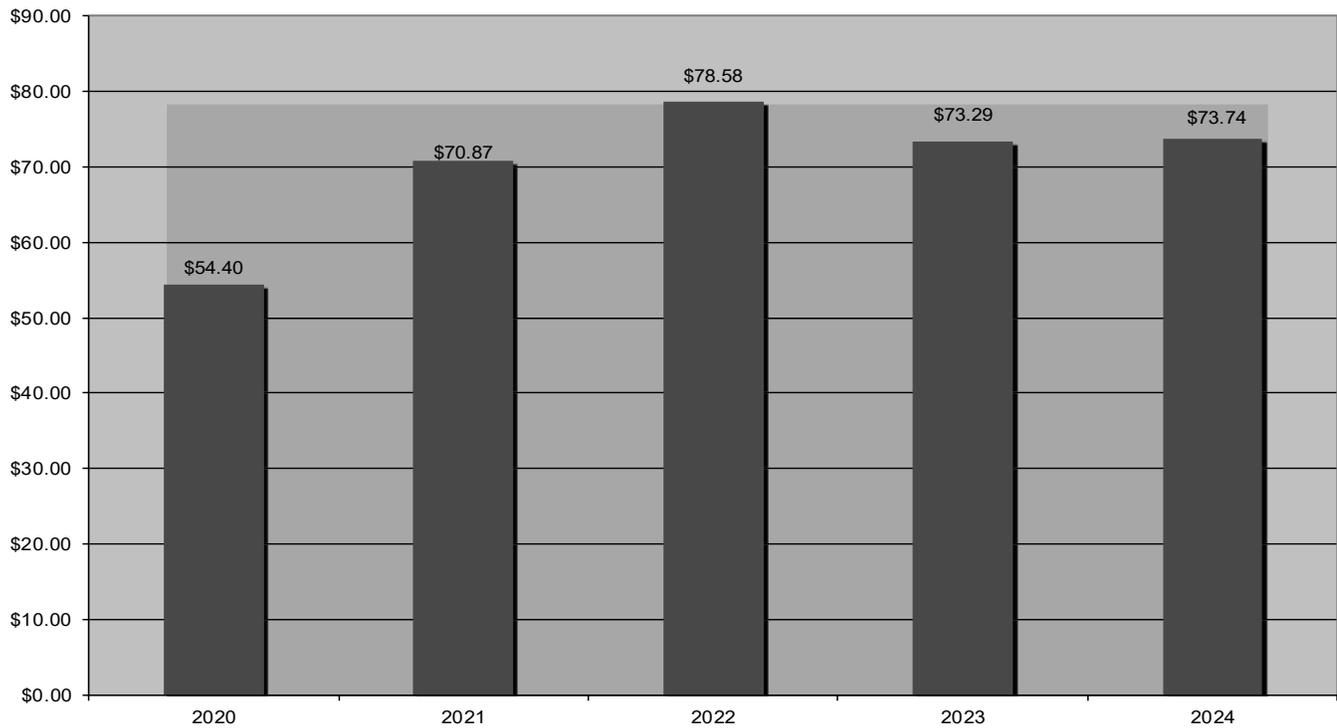
Total Assets (\$ Millions)



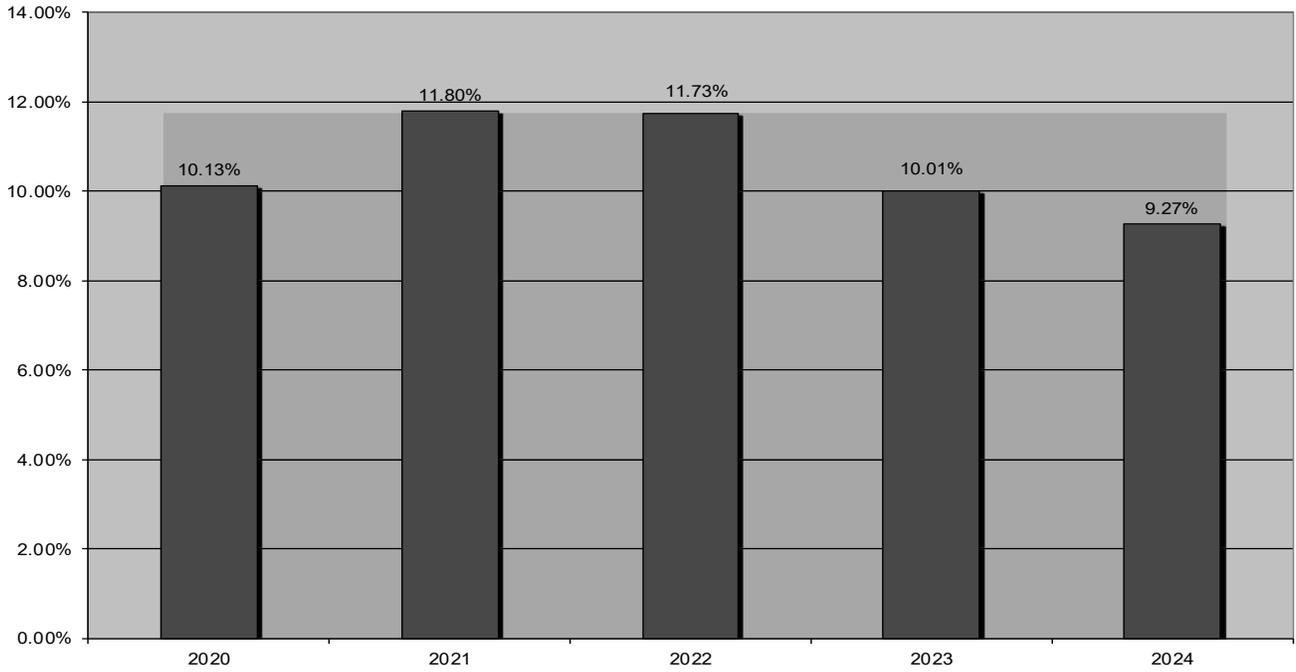
Dividends per Share



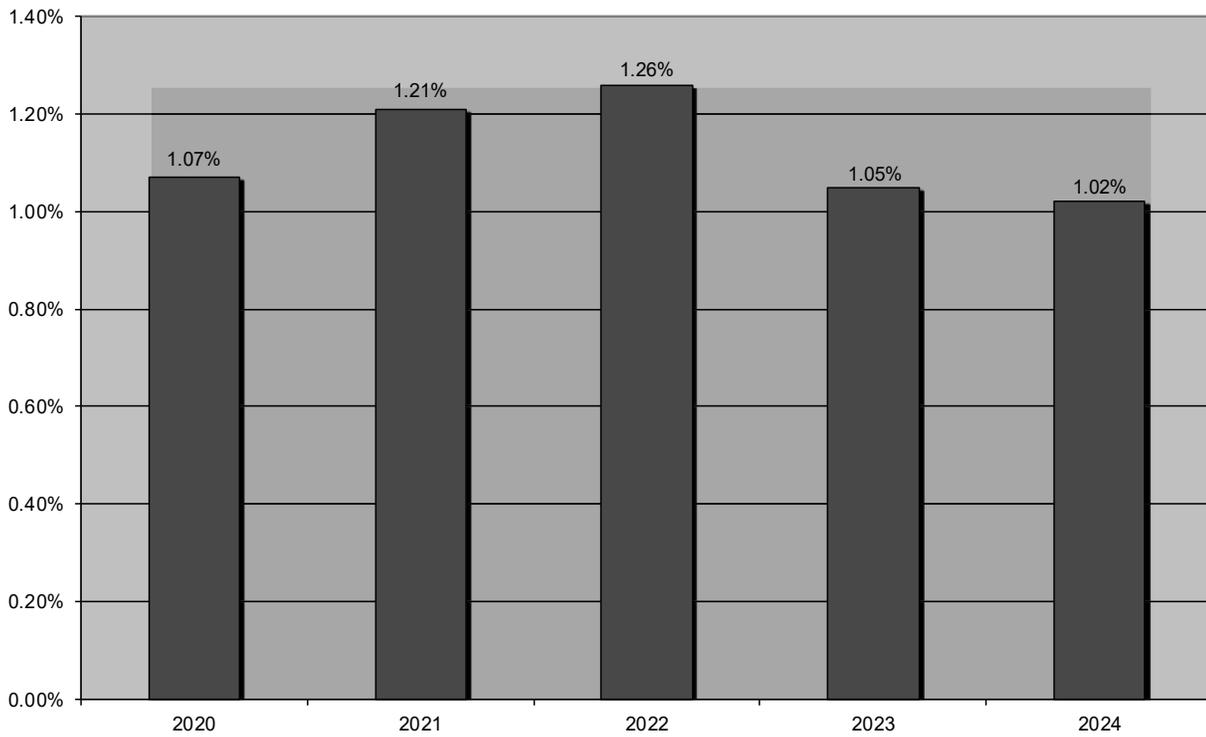
Earnings Per Share



Return on Equity (Net Income / Consolidated Tier 1 Capital)

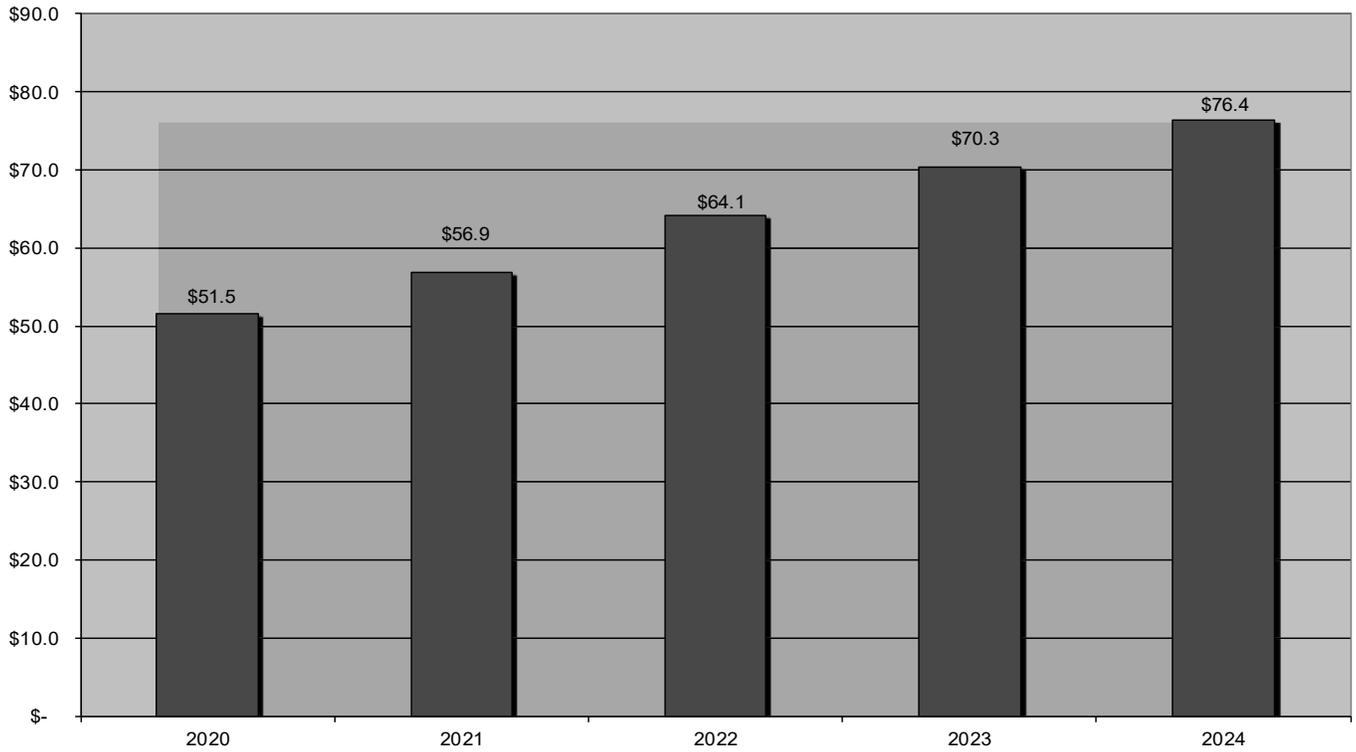


Return on Assets



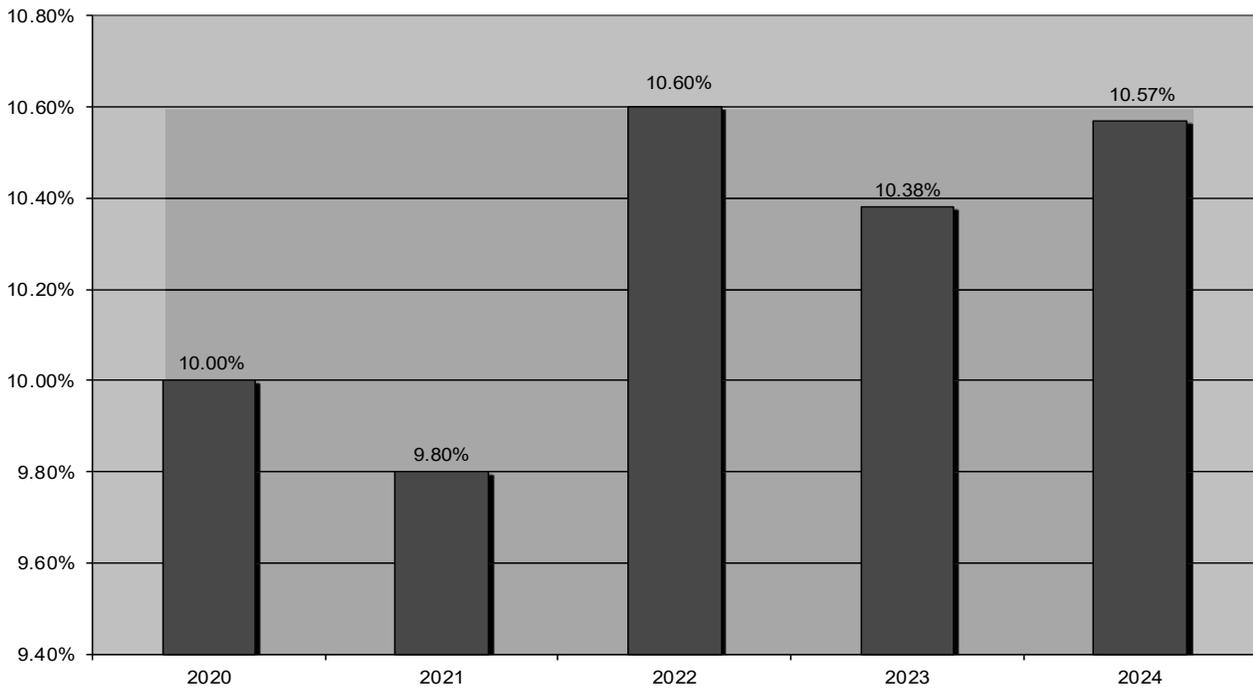
Regulatory Tier 1 Capital (\$ Millions)

(Bank Capital +/- AOCI - Goodwill - Deposit Intangibles)



Capital to Total Assets Ratio

(Regulatory Tier 1 Capital / Average Total Assets)



EXECUTIVE BANK OFFICERS



Stacy J. Moore
President
Chief Executive Officer



Brett A. Lessley
Executive Vice President
Senior Credit Officer



Karla J. Koebele
Vice President
Chief Financial Officer



Melisa A. Griffith
Vice President/Trust Officer
Chief Operating Officer



Steven M. Mammoser
Vice President
Wealth Management



Linda K. Mulvey
Vice President
Loan Operations



Eric E. Seitzinger
Vice President
Ag/Commercial Lending



Bette J. Weiler
Vice President
IT



Theresa M. Zuber
Vice President/Cashier
Compliance



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