
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2004**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transaction period from _____ to _____

Commission file number 0-26128

NorthWest Indiana Bancorp

(Exact name of registrant as specified in its charter)

Indiana

(State or other jurisdiction of
incorporation or organization)

35-1927981

(I.R.S. Employer Identification No.)

**9204 Columbia Avenue
Munster, Indiana**

(Address of principal executive offices)

46321

(Zip Code)

(219) 836-4400

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, without par value

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Include by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes No

Based on the average bid and ask prices for the registrant's Common Stock at June 30, 2004, at that date, the aggregate market value of the registrant's Common Stock held by nonaffiliates of the registrant (assuming solely for the purposes of this calculation that all directors and executive officers of the registrant are "affiliates") was \$70,189,327.

There were 2,777,665 shares of the registrant's Common Stock, without par value, outstanding at February 28, 2005.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents have been incorporated by reference into this Annual Report on Form 10-K:

1. 2004 Annual Report to Shareholders. (Part II)
 2. Definitive Proxy Statement for the 2005 Annual Meeting of Shareholders. (Part III)
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TABLE OF CONTENTS

PART I

[Item 1. Business](#)

[Item 2. Properties](#)

[Item 3. Legal Proceedings](#)

[Item 4. Submission of Matters to a Vote of Security Holders](#)

PART II

[Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities](#)

[Item 6. Selected Financial Data](#)

[Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations](#)

[Item 7A. Quantitative and Qualitative Disclosures About Market Risk](#)

[Item 8. Financial Statements and Supplementary Data](#)

[Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure](#)

[Item 9A. Controls and Procedures](#)

[Item 9B. Other Information](#)

PART III

[Item 10. Directors and Executive Officers of the Registrant](#)

[Item 11. Executive Compensation](#)

[Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters](#)

[Item 13. Certain Relationships and Related Transactions](#)

[Item 14. Principal Accountant Fees and Services](#)

PART IV

[Item 15. Exhibits and Financial Statement Schedules](#)

SIGNATURES

EXHIBIT INDEX

[EX-10.8 Summary Sheet Director and Officer Compensation](#)

[EX-13 Annual Report/Financials for 2004](#)

[EX-21 Subsidiaries](#)

[EX-23 Consent](#)

[EX-31.1 Certification 302-CEO](#)

[EX-31.2 Certification 302-CFO](#)

[EX-32 Certification 906-CEO and CFO](#)

PART I

Item 1. Business

General

NorthWest Indiana Bancorp, an Indiana corporation (the “Bancorp”), was incorporated on January 31, 1994, and is the holding company for Peoples Bank SB, an Indiana savings bank (the “Bank”). The Bank is a wholly owned subsidiary of the Bancorp. The Bancorp has no other business activity other than being the holding company for the Bank and the Bank’s wholly owned subsidiaries.

The Bank is primarily engaged in the business of attracting deposits from the general public and the origination of loans, mostly upon the security of single family residences and commercial real estate, as well as, construction loans and various types of consumer loans and commercial business loans, within its primary market area of Lake County, in northwest Indiana. In addition, the Bancorp’s trust department provides estate administration, estate planning, guardianships, land trusts, retirement planning, self-directed IRA and Keogh accounts, investment agency accounts, and serves as personal representative of estates and acts as trustee for revocable and irrevocable trusts .

The Bank’s deposit accounts are insured up to applicable limits by the Savings Association Insurance Fund (“SAIF”), which is administered by the Federal Deposit Insurance Corporation (“FDIC”), an agency of the federal government. As the holding company for the Bank, the Bancorp is subject to comprehensive examination, supervision and regulation by the Board of Governors of the Federal Reserve System (“FRB”), while the Bank is subject to comprehensive examination, supervision and regulation by both the FDIC and the Indiana Department of Financial Institutions (“DFI”). The Bank is also subject to regulation by the FRB governing reserves required to be maintained against certain deposits and other matters. The Bank is also a member of the Federal Home Loan Bank (“FHLB”) of Indianapolis, which is one of the twelve regional banks comprising the system of Federal Home Loan Banks.

The Bancorp maintains its corporate office at 9204 Columbia Avenue, Munster, Indiana, from which it oversees the operation of its eight branch locations. For further information, see “Properties.”

Forward-Looking Statements

Statements contained in this filing on Form 10-K that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words or phrases “would be,” “will allow,” “intends to,” “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” or similar expressions are also intended to identify “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act. The Bancorp cautions readers that forward-looking statements, including without limitation those relating to the Bancorp’s future business prospects, interest income and expense, net income, liquidity,

[Table of Contents](#)

and capital needs are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due to, among other things, factors identified in this filing, including the following:

Regulatory Risk. The banking industry is heavily regulated. These regulations are intended to protect depositors, not shareholders. As discussed above, the Bank and Bancorp are subject to regulation and supervision by the DFI, FDIC, FRB, and the SEC (Securities and Exchange Commission). The burden imposed by federal and state regulations puts banks at a competitive disadvantage compared to less regulated competitors such as finance companies, mortgage banking companies and leasing companies. The banking industry continues to lose market share to competitors.

Legislation. Because of concerns relating to the competitiveness and the safety and soundness of the industry, Congress continues to consider a number of wide-ranging proposals for altering the structure, regulation, and competitive relationships of the nation's financial institutions. Among such bills are proposals to combine banks and thrifts under a unified charter, to combine regulatory agencies, and to further expand the powers of depository institutions, bank holding companies, and competitors of depository institutions. Management cannot predict whether or in what form any of these proposals will be adopted or the extent to which the business of the Bancorp or the Bank may be affected thereby.

Credit Risk. One of the greatest risks facing lenders is credit risk, that is, the risk of losing principal and interest due to a borrower's failure to perform according to the terms of a loan agreement. While management attempts to provide an allowance for loan losses at a level adequate to cover probable incurred losses based on loan portfolio growth, past loss experience, general economic conditions, information about specific borrower situations, and other factors, future adjustments to reserves may become necessary, and net income could be significantly affected, if circumstances differ substantially from assumptions used with respect to such factors.

Exposure to Local Economic Conditions. The Bank's primary market area for deposits and loans encompasses Lake County, in northwest Indiana, where all of its offices are located. Ninety-five percent of the Bank's business activities are within this area. This concentration exposes the Bank to risks resulting from changes in the local economy. A dramatic drop in local real estate values would, for example, adversely affect the quality of the Bank's loan portfolio.

Interest Rate Risk. The Bancorp's earnings depend to a great extent upon the level of net interest income, which is the difference between interest income earned on loans and investments and the interest expense paid on deposits and other borrowings. Interest rate risk (IRR) is the risk that the earnings and capital will be adversely affected by changes in interest rates. While the Bancorp attempts to adjust its asset/liability mix in order to limit the magnitude of interest rate risk, IRR management is not an exact science. Rather, it involves estimates as to how changes in the general level of interest rates will impact the yields earned on assets and the rates paid on liabilities. Moreover, rate changes can vary depending upon the level of rates and competitive factors. From time to time, maturities of assets and liabilities are not balanced, and a rapid increase or decrease in interest rates could have an

[Table of Contents](#)

adverse effect on net interest margins and results of operations of the Bancorp. To moderate unfavorable operating results in periods of rising or high interest rates, the Bancorp restructures its asset-liability mix on an ongoing basis. Increasing the amount of interest-earning assets that are rate sensitive, extending the maturities of customer deposits, increasing the balances of checking/NOW accounts and utilizing cost effective borrowings are all part of management's commitment toward reducing the Bancorp's overall vulnerability to interest rate risk. While these steps may reduce the overall vulnerability to interest rate risk, the Bancorp will still be adversely affected by a rising or high interest rate environment, and is beneficially affected by a falling or low interest rate environment because rate sensitive liabilities exceed rate sensitive assets within a one year time period. Further discussion of interest rate risk can be found under the caption "Asset/Liability Management and Market Risk" in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the Bancorp's 2004 Annual Report to Shareholders.

Competition. The activities of the Bancorp and the Bank in the geographic market served involve competition with other banks as well as with other financial institutions and enterprises, many of which have substantially greater resources than those available to the Bancorp. In addition, non-bank competitors are generally not subject to the extensive regulation applicable to the Bancorp and the Bank.

Lending Activities

General. The Bancorp's product offerings include residential mortgage loans, construction loans, commercial real estate loans, consumer loans and commercial business loans. The Bancorp's lending strategy stresses quality growth, product diversification and, competitive and profitable pricing. While lending efforts include both fixed and adjustable rate products, the focus has been on products with adjustable rates and/or shorter terms to maturity. It is management's goal that all programs are marketed aggressively.

The Bancorp is primarily a portfolio lender. Mortgage banking activities are limited to the sale of fixed rate mortgage loans with contractual maturities generally exceeding fifteen years. These loans are sold, on a case-by-case basis, in the secondary market as part of the Bancorp's efforts to manage interest rate risk. All loan sales are made to Freddie Mac. Loans are sold in the secondary market with servicing retained by the Bancorp. All loans held for sale are recorded at the lower of cost or market value.

Under Indiana Law, an Indiana stock savings bank generally may not make any loan to a borrower or its related entities if the total of all such loans by the savings bank exceeds 15% of its unimpaired capital and unimpaired surplus (plus up to an additional 10% of unimpaired capital and unimpaired surplus, in the case of loans fully collateralized by readily marketable collateral); provided, however, that certain specified types of loans are exempted from these limitations or subject to different limitations. The maximum amount that the Bank could have loaned to one borrower and the borrower's related entities at December 31, 2004, under the 15% of capital and surplus limitation was approximately \$7,188,000. At December 31, 2004, the Bank had no loans that exceeded the regulatory limitations.

Table of Contents

At December 31, 2004, there were no concentrations of loans in any type of industry that exceeded 10% of total loans that were not otherwise disclosed as a loan category.

Loan Portfolio. The following table sets forth selected data relating to the composition of the Bancorp's loan portfolio by type of loan and type of collateral at the end of each of the last five years. The amounts are stated in thousands (000's).

	2004	2003	2002	2001	2000
Type of loan:					
Conventional real estate loans:					
Construction and development loans	\$ 38,619	\$ 23,674	\$ 13,449	\$ 12,652	\$ 16,028
Loans on existing properties (1)	331,378	339,461	320,426	281,917	265,532
Consumer loans	4,685	5,099	6,293	9,889	10,715
Commercial business	47,270	35,767	39,009	37,653	33,372
Government and other (2)	11,838	5,807	1,251	531	560
Loans receivable (3)	<u>\$ 433,790</u>	<u>\$ 409,808</u>	<u>\$ 380,428</u>	<u>\$ 342,642</u>	<u>\$ 326,207</u>
Type of collateral:					
Real estate:					
1-to-4 family	\$ 226,695	\$ 233,454	\$ 222,620	\$ 191,239	\$ 173,410
Other dwelling units, land and commercial real estate	143,302	129,680	111,255	103,330	108,149
Consumer loans	4,559	4,909	6,102	9,597	10,425
Commercial business	44,923	34,554	37,477	36,689	31,985
Government and other (2)	11,838	5,807	1,251	531	560
Loans receivable (4)	<u>\$ 431,317</u>	<u>\$ 408,404</u>	<u>\$ 378,705</u>	<u>\$ 341,386</u>	<u>\$ 324,529</u>
Average loans outstanding during the period (3)	<u>\$ 415,098</u>	<u>\$ 394,955</u>	<u>\$ 365,632</u>	<u>\$ 325,911</u>	<u>\$ 314,891</u>

- (1) Includes residential and commercial construction loans converted to permanent term loans and commercial real estate loans.
- (2) Includes overdrafts to deposit accounts.
- (3) Net of unearned income and deferred loan fees.
- (4) Net of unearned income and deferred loan fees. Does not include unsecured loans.

Table of Contents

Loan Originations, Purchases and Sales. Set forth below is a table showing loan origination, purchase and sale activity for each of the last three years. The amounts are stated in thousands (000's).

	2004	2003	2002
Loans originated:			
Conventional real estate loans:			
Construction and development loans	\$ 22,845	\$ 13,450	\$ 6,234
Loans on existing property	49,678	71,248	67,391
Loans refinanced	12,920	19,850	16,447
Total conventional real estate loans originated	85,443	104,548	90,072
Commercial business loans	114,684	108,853	89,186
Consumer loans	4,124	3,576	6,485
Total loans originated	<u>\$ 204,251</u>	<u>\$ 216,977</u>	<u>\$ 185,743</u>
Loan participations purchased	<u>\$ 17,756</u>	<u>\$ 7,566</u>	<u>\$ 14,711</u>
Whole loans and participations sold	<u>\$ 16,100</u>	<u>\$ 2,827</u>	<u>\$ 10,464</u>

Loan Maturity Schedule. The following table sets forth certain information at December 31, 2004 regarding the dollar amount of loans in the Bancorp's portfolio based on their contractual terms to maturity. Demand loans, loans having no schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. Contractual principal repayments of loans do not necessarily reflect the actual term of the loan portfolio. The average life of mortgage loans is substantially less than their contractual terms because of loan prepayments and because of enforcement of due-on-sale clauses, which give the Bancorp the right to declare a loan immediately due and payable in the event, among other things, that the borrower sells the property subject to the mortgage. The amounts are stated in thousand's (000's).

	Maturing Within one year	After one but within five years	After five years	Total
Real estate loans	\$ 48,143	\$ 42,852	\$ 279,002	\$ 369,997
Consumer loans	1,376	3,123	186	4,685
Commercial business, other loans	34,616	15,052	9,440	59,108
Total loans receivable	<u>\$ 84,135</u>	<u>\$ 61,027</u>	<u>\$ 288,628</u>	<u>\$ 433,790</u>

The table below sets forth the dollar amount of all loans due after one year from December 31, 2004 which have predetermined interest rates or have floating or adjustable interest rates. The amounts are stated in thousands (000's).

	Predetermined rates	Floating or adjustable rates	Total
Real estate loans	\$ 165,123	\$ 156,731	\$ 321,854
Consumer loans	3,308	—	3,308
Commercial business, other loans	17,154	7,339	24,493
Total	<u>\$ 185,585</u>	<u>\$ 164,070</u>	<u>\$ 349,655</u>

[Table of Contents](#)

Lending Area. The primary lending area of the Bancorp encompasses all of Lake County in northwest Indiana, where a majority of loan activity is concentrated. The Bancorp is also an active lender in Porter, and to a lesser extent, LaPorte, Newton and Jasper counties in Indiana. During the past 15 years, the communities of Munster, Highland, Crown Point, Dyer, St. John, Merrillville and Schererville have experienced rapid growth and, therefore, have provided the greatest lending opportunities. At December 31, 2004 the housing vacancy rate in the Bancorp's primary lending area was below 5%.

Loan Origination Fees. All loan origination and commitment fees, as well as incremental direct loan origination costs, are deferred and amortized into income as yield adjustments over the contractual lives of the related loans.

Loan Origination Procedure. The primary sources for loan originations are referrals from commercial customers, real estate brokers and builders, solicitations by the Bancorp's lending staff, and advertising of loan programs and rates. The Bancorp employs no staff appraisers. All appraisals are performed by fee appraisers that have been approved by the Board of Directors and who meet all federal guidelines and state licensing and certification requirements.

Designated officers have authorities, established by the Board of Directors, to approve loans. Loans from \$600,000 to \$2,000,000 are approved by the loan officers loan committee. Loans from \$2,000,000 to \$3,000,000 are approved by the senior officers loan committee. All loans in excess of \$3,000,000, up to the legal lending limit of the Bank, must be approved by the Bank's Board of Directors or its Executive Committee. (All members of the Bank's Board of Directors and Executive Committee are also members of the Bancorp's Board of Directors and Executive Committee, respectively.) Peoples Bank will not extend credit to any of its executive officers, directors, or principal shareholders or to any related interest of that person, except in compliance with the insider lending restrictions of Regulation O under the Federal Reserve Act and in an amount that, when aggregated with all other extensions of credit to that person, exceeds \$500,000 unless: (1) the extension of credit has been approved in advance by a majority of the entire Board of Directors of the Bank, and (2) the interested party has abstained from participating directly or indirectly in the voting.

All loans secured by personal property must be covered by insurance in an amount sufficient to cover the full amount of the loan. All loans secured by real estate must be covered by insurance in an amount sufficient to cover the full amount of the loan or restore the property to its original state. First mortgage loans must be covered by a lenders title insurance policy in the amount of the loan.

The Current Lending Programs

Residential Mortgage Loans. The primary lending activity of the Bancorp has been the granting of conventional mortgage loans to enable borrowers to purchase existing homes, refinance existing homes, or construct new homes. Conventional loans are made up to a maximum of 100% of the purchase price or appraised value, whichever is less. For loans made in excess of 80% of value, private mortgage insurance is generally required in an amount sufficient to reduce the Bancorp's exposure to 80% or less of the appraised value of the property. Loans insured by private

Table of Contents

mortgage insurance companies can be made for up to 100% of value. During 2004 over 90% of mortgage loans closed were conventional loans with borrowers having 20% or more equity in the property. This type of loan does not require private mortgage insurance because of the borrower's level of equity investment.

Fixed-rate loans currently originated, generally conform to Freddie Mac guidelines for loans purchased under the one-to-four family program. Loan interest rates are determined based on secondary market yield requirements and local market conditions. Fixed rate mortgage loans with contractual maturities generally exceeding fifteen years may be sold and/or classified as held for sale to control exposure to interest rate risk.

The 15-year mortgage loan program has gained wide acceptance in the Bancorp's primary market area. As a result of the shortened maturity of these loans, this product has been priced below the comparable 20 and 30 year loan offering. Mortgage applicants for 15 year loans tend to have a larger than normal down payment; this, coupled with the larger principal and interest payment amount, has caused the 15 year mortgage loan portfolio to consist, to a significant extent, of second time home buyers whose underwriting qualifications tend to be above average.

The Bancorp's Adjustable Rate Mortgage Loans ("ARMs") include offerings that reprice annually or are "Mini-Fixed". The "Mini-Fixed" mortgage reprices annually after a three, five or seven year period. ARM originations totaled \$34.2 million for 2004, \$30.5 million for 2003, and \$25.5 million for 2002. During 2004, ARMs represented 47% of total mortgage loan originations. The ability of the Bancorp to successfully market ARM's depends upon loan demand, prevailing interest rates, volatility of interest rates, public acceptance of such loans, and terms offered by competitors.

Construction Loans. Construction loans on residential properties are made primarily to individuals and contractors who are under contract with individual purchasers. These loans are personally guaranteed by the borrower. The maximum loan-to-value ratio is 80% of either the current appraised value or the cost of construction, whichever is less. Residential construction loans are typically made for periods of six months to one year.

Loans are also made for the construction of commercial properties. All such loans are made in accordance with well-defined underwriting standards. Generally, these types of loans require proof of intents to lease and a confirmed end-loan takeout. In most cases, these loans are personally guaranteed by the borrower. In general, loans made do not exceed 75% of the appraised value of the property. Commercial construction loans are typically made for periods not to exceed two years or date of occupancy, whichever is less.

Commercial Real Estate Loans. Commercial real estate loans are typically made to a maximum of 75% of the appraised value. Such loans are generally made on an adjustable rate basis. These loans are typically made for terms of 15 to 20 years. Loans with an amortizing term exceeding 15 years normally have a balloon feature calling for a full repayment within seven to ten years from the date of the loan. The balloon feature affords the Bancorp the opportunity to restructure the loan if economic conditions so warrant. Commercial real estate loans include loans secured

[Table of Contents](#)

by commercial rental units, apartments, condominium developments, small shopping centers, commercial/industrial properties, and other retail and commercial developments.

While commercial real estate lending is generally considered to involve a higher degree of risk than single-family residential lending due to the concentration of principal in a limited number of loans and the effects of general economic conditions on real estate developers and managers, the Bancorp has endeavored to reduce this risk in several ways. In originating commercial real estate loans, the Bancorp considers the feasibility of the project, the financial strength of the borrowers and lessees, the managerial ability of the borrowers, the location of the project and the economic environment. Management evaluates the debt coverage ratio and analyzes the reliability of cash flows, as well as the quality of earnings. All such loans are made in accordance with well-defined underwriting standards and are generally supported by personal guarantees which represent a secondary source of repayment.

Loans for the construction of commercial properties are generally located within an area permitting physical inspection and regular review of business records. Projects financed outside of the Bancorp's primary lending area generally involve borrowers and guarantors who are or were previous customers of the Bancorp.

Consumer Loans. The Bancorp offers consumer loans to individuals for most personal, household or family purposes. Consumer loans are either secured by adequate collateral, or unsecured. Unsecured loans are based on the strength of the applicant's financial condition. All borrowers must meet current underwriting standards. The consumer loan program includes both fixed and variable rate products. The Bancorp purchases indirect dealer paper from various well-established businesses in its immediate banking area.

Home Equity Line of Credit. The Bancorp offers a revolving line of credit secured by the equity in the borrower's home. The offering, which is tied to the prime rate of interest, requires borrowers to repay 1.5% of their outstanding balance each month. Equity lines will typically require a second mortgage appraisal and a second mortgage lenders title insurance policy. Loans are generally made up to a maximum of 80% of the appraised value of the property less any outstanding liens.

Home Improvement Loans and Equity Loans—Fixed Term. Home improvement and equity loans are made up to a maximum of 80% of the appraised value of the improved property, less any outstanding liens. These loans are offered on both a fixed and variable rate basis with a maximum term of 120 months. All home equity loans are made on a direct basis to borrowers.

Commercial Business Loans. Although the Bancorp's priority in extending various types of commercial business loans changes from time to time, the basic considerations in determining the makeup of the commercial business loan portfolio are economic factors, regulatory requirements and money market conditions. The Bancorp seeks commercial loan relationships from the local business community and from its present customers. Conservative lending policies based upon sound credit analysis governs the extension of commercial credit. The following loans, although not inclusive, are considered preferable for the Bancorp's commercial loan portfolio: loans collateralized by liquid assets; loans secured by general

[Table of Contents](#)

use machinery and equipment; secured short-term working capital loans to established businesses; short-term loans with established sources of repayment and secured by sufficient equity and real estate; and unsecured loans to customers whose character and capacity to repay are firmly established.

Non-Performing Assets, Asset Classification and Provision for Loan Losses

Loans are reviewed on a regular basis and are generally placed on a non-accrual status when, in the opinion of management, serious doubt exists as to the collectibility of a loan. Loans are generally placed on non-accrual status when either principal or interest is 90 days or more past due. Consumer non-residential loans are generally charged off when the loan becomes over 120 days delinquent. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income. Subsequent payments are either applied to the outstanding principal balance, tax and insurance reserve, or recorded as interest income, depending on the assessment of the ultimate collectibility of the loan.

The Bancorp's mortgage loan collection procedures provide that, when a mortgage loan is 15 days or more delinquent, the borrower will be contacted by mail and payment requested. If the delinquency continues, subsequent efforts will be made to contact the delinquent borrower. In certain instances, the Bancorp will recast the loan or grant a limited moratorium on loan payments to enable the borrower to reorganize their financial affairs. If the loan continues in a delinquent status for 60 days, the Bancorp will generally initiate foreclosure proceedings. Any property acquired as the result of foreclosure or by voluntary transfer of property made to avoid foreclosure is classified as foreclosed real estate until such time as it is sold or otherwise disposed of by the Bancorp. Foreclosed real estate is recorded at fair value at the date of foreclosure. At foreclosure, any write-down of the property is charged to the allowance for loan losses. Costs relating to improvement of property are capitalized, whereas holding costs are expensed. Valuations are periodically performed by management, and a valuation allowance is established by a charge to operations if the carrying value of a property exceeds its estimated fair value less selling costs. Subsequent gains or losses on disposition, including expenses incurred in connection with the disposition, are charged to operations. Collection procedures for consumer loans provide that when a consumer loan becomes ten days delinquent, the borrower will be contacted by mail and payment requested. If the delinquency continues, subsequent efforts will be made to contact the delinquent borrower. In certain instances, the Bancorp may grant a payment deferral. If a loan continues delinquent after 90 days and all collection efforts have been exhausted, the Bancorp will initiate legal proceedings. Collection procedures for commercial business loans provide that when a commercial loan becomes ten days delinquent, the borrower will be contacted by mail and payment requested. If the delinquency continues, subsequent efforts will be made to contact the delinquent borrower pursuant to the commercial loan collection policy. In certain instances, the Bancorp may grant a payment deferral or restructure the loan. Once it has been determined that collection efforts are unsuccessful, the Bancorp will initiate legal proceedings.

The table that follows sets forth information with respect to the Bancorp's non-performing assets at December 31, for the periods indicated.

Table of Contents

During the periods shown, the Bancorp had no troubled debt restructurings which involve forgiving a portion of interest or principal on any loans or making loans at a rate materially less than market rates. The amounts are stated in thousands (000's).

	2004	2003	2002	2001	2000
Loans accounted for on a non-accrual basis:					
Real estate:					
Residential	\$ 574	\$ 601	\$ 430	\$ 944	\$ 854
Commercial	136	137	1,197	—	20
Commercial business	266	611	363	1,460	527
Consumer	7	—	13	86	55
Total	<u>\$ 983</u>	<u>\$ 1,349</u>	<u>\$ 2,003</u>	<u>\$ 2,490</u>	<u>\$ 1,456</u>
Accruing loans which are contractually past due 90 days or more:					
Real estate:					
Residential	\$ 61	\$ 370	\$ 277	\$ 412	\$ 303
Commercial	5	—	105	—	41
Commercial business	—	—	—	—	10
Consumer	—	—	—	3	—
Total	<u>\$ 66</u>	<u>\$ 370</u>	<u>\$ 382</u>	<u>\$ 415</u>	<u>\$ 354</u>
Total of non-accrual and 90 days past due	<u>\$ 1,049</u>	<u>\$ 1,719</u>	<u>\$ 2,385</u>	<u>\$ 2,905</u>	<u>\$ 1,810</u>
Ratio of non-performing loans to total assets	0.19%	0.34%	0.49%	0.66%	0.46%
Ratio of non-performing loans to total loans	0.24%	0.42%	0.63%	0.85%	0.55%
Foreclosed real estate	<u>\$ 280</u>	<u>\$ —</u>	<u>\$ 127</u>	<u>\$ 111</u>	<u>\$ 100</u>
Ratio of foreclosed real estate to total assets	0.05%	0.00%	0.03%	0.03%	0.03%

During 2004, gross interest income of \$89,000 would have been recorded on loans accounted for on a non-accrual basis if the loans had been current throughout the period. Interest on such loans included in income during the period amounted to \$30,000.

Federal regulations require savings banks to classify their own loans and to establish appropriate general and specific allowances, subject to regulatory review. These regulations are designed to encourage management to evaluate loans on a case-by-case basis and to discourage automatic classifications. Loans classified as substandard or doubtful must be evaluated by management to determine loan loss reserves. Loans classified as loss must either be written off or reserved for by a specific allowance. Amounts reported in the general loan loss reserve are included in the calculation of the Bancorp's total risk-based capital requirement (to the extent that the amount does not exceed 1.25% of total risk-based assets), but are not included in Tier 1 leverage ratio calculations and Tier 1 risk-based capital requirements. Amounts reserved for by a specific allowance are not counted toward capital for purposes of any of the regulatory capital requirements. At December 31, 2004, \$3.2 million of the Bancorp's loans were classified as substandard. The total represents 24 loans. Substandard loans include non-performing loans and potential problem loans, where information about possible credit issues or other conditions causes management to question the ability of such borrowers to comply with loan covenants or repayment terms. In addition

[Table of Contents](#)

to identifying and monitoring non-performing and other classified loans, the Bancorp maintains a list of watch loans. Watch loans represent loans management is more closely monitoring due to one or more factors that may cause the loan to become classified. Watch loans were \$7.7 million and \$8.3 million at December 31, 2004 and 2003.

The balance for non-performing and substandard loans includes one loan to one borrower totaling \$266 thousand that has been classified as impaired. Impaired loans are loans where full payment under the loan terms is not expected. There were no other loans considered to be impaired loans as of December 31, 2004.

At December 31, 2004, management of the Bancorp is of the opinion that there are no loans, except those discussed above, where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as nonaccrual, past due or restructured loans. Also, at December 31, 2004, there are no other interest bearing assets that would be required to be disclosed as nonaccrual, past due, restructured or potential problem if such assets were loans.

Because some loans may not be repaid in accordance with contractual agreements, an allowance for loan losses (ALL) has been maintained. While management may periodically allocate portions of the allowance for specific problem loans, the entire allowance is available to absorb probable incurred losses that arise from the loan portfolio and is not segregated for, or allocated to, any particular loan or group of loans. The provision is based on management's current judgments about the credit quality of the loan portfolio, loan portfolio growth, changes in the portfolio mix and local economic conditions. While the quality of the loan portfolio remains sound, provisions during 2004 were warranted because of the current balance in classified loans, increased average daily loan balances, apparent weaknesses in the local economy, the inherent risk associated with growth in commercial real estate and commercial business loans, and loan charge-offs. The appropriateness of the current year provision and the overall adequacy of the ALL were determined through a disciplined and consistently applied quarterly process that combines a review of the current position with a risk assessment worksheet.

[Table of Contents](#)

The table that follows sets forth the allowance for loan losses and related ratios for the periods indicated. There were no charge-offs or recoveries of real estate construction loans during the periods presented. The amounts are stated in thousands (000's).

	2004	2003	2002	2001	2000
Balance at beginning of period	\$ 3,787	\$ 3,635	\$ 3,156	\$ 3,322	\$ 3,309
Loans charged-off:					
Real estate — residential	(14)	—	—	—	—
Commercial real estate	—	(136)	—	—	—
Commercial business	(297)	(120)	(300)	(612)	168
Consumer	(30)	(21)	(36)	13	(2)
Total charge-offs	(341)	(277)	(336)	(625)	(170)
Recoveries:					
Residential real estate	41	—	—	—	—
Commercial real estate	—	3	—	—	—
Commercial business	14	—	91	228	5
Consumer	6	6	4	1	3
Total recoveries	61	9	95	229	8
Net (charge-offs)/recoveries	(280)	(268)	(241)	(396)	(162)
Provision for loan losses	385	420	720	230	175
Balance at end of period	<u>\$ 3,892</u>	<u>\$ 3,787</u>	<u>\$ 3,635</u>	<u>\$ 3,156</u>	<u>\$ 3,322</u>
ALL to loans outstanding	0.90%	0.92%	0.96%	0.92%	1.02%
ALL to nonperforming loans	371.0%	220.3%	152.4%	108.6%	183.5%
Net charge-offs/recoveries to average loans out- standing during the period	0.07%	0.07%	0.07%	0.12%	0.05%

The following table shows the allocation of the allowance for loan losses at December 31, for the dates indicated. The dollar amounts are stated in thousands (000's). The percent columns represent the percentage of loans in each category to total loans.

	2004		2003		2002		2001		2000	
	\$	%	\$	%	\$	%	\$	%	\$	%
Real estate loans:										
Residential	550	57.2	500	58.9	450	58.0	300	54.7	472	58.3
Commercial and other dwelling	950	24.0	637	26.1	1,750	25.8	350	26.7	1,100	28.0
Consumer loans	150	5.2	150	4.8	120	5.6	124	7.4	150	3.3
Commercial business and other	2,242	13.6	2,500	10.2	1,315	10.6	2,382	11.1	1,600	10.4
Total	<u>3,892</u>	<u>100.0</u>	<u>3,787</u>	<u>100.0</u>	<u>3,635</u>	<u>100.0</u>	<u>3,156</u>	<u>100.0</u>	<u>3,322</u>	<u>100.0</u>

[Table of Contents](#)**Investment Activities**

The primary objective of the investment portfolio is to provide for the liquidity needs of the Bancorp and to contribute to profitability by providing a stable flow of dependable earnings. Securities are classified as either held-to-maturity (HTM) or available-for-sale (AFS) at the time of purchase. No securities are classified as trading. At December 31, 2004, AFS securities totaled \$69.2 million or 96.4% of total securities. AFS securities are those the Bancorp may decide to sell if needed for liquidity, asset-liability management or other reasons. During 2004, the Bancorp did not have derivative instruments and was not involved in hedging activities as defined by SFAS No. 133. It has been the policy of the Bancorp to invest its excess cash in U.S. government securities and federal agency obligations. In addition, short-term funds are generally invested as interest-bearing balances in financial institutions and federal funds. At December 31, 2004, the Bancorp's investment portfolio totaled \$80.0 million. In addition, the Bancorp had \$0 in federal funds sold, and \$2.9 million in FHLB stock.

The table below shows the carrying values of the components of the investment securities portfolio at December 31, on the dates indicated. The amounts are stated in thousands (000's).

	<u>2004</u>	<u>2003</u>	<u>2002</u>
U.S. government securities:			
Available-for-sale	\$ —	\$ —	\$ 511
U.S. government agencies:			
Available-for-sale	42,947	44,955	39,579
Held-to-maturity	—	—	—
Mortgage-backed securities (1):			
Available-for-sale	13,045	10,485	5,746
Held-to-maturity	564	575	569
Collateralized Mortgage Obligations (1):			
Available-for-sale	12,324	4,511	9,629
Municipal Securities:			
Available-for-sale	845	855	837
Held-to-maturity	10,254	2,352	—
Totals	<u>\$ 79,979</u>	<u>\$ 63,733</u>	<u>\$ 56,571</u>

(1) Mortgage-backed securities and Collateralized Mortgage Obligations are U.S. government agency securities.

Table of Contents

The contractual maturities and weighted average yields for the U.S. government securities, agency securities, municipal securities, mortgage-backed securities and collateralized mortgage obligations at December 31, 2004, are summarized as follows. The carrying values are stated in thousands (000's).

	Within 1 Year		1-5 Years		5-10 Years		After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. government Securities:								
AFS	\$ —	—%	\$ —	—%	\$ —	—%	\$ —	—%
U.S. government Agencies:								
AFS	3,454	4.70	39,494	3.14	—	—	—	—
HTM	—	—	—	—	—	—	—	—
Municipal Securities:								
AFS	—	—	845	2.72	—	—	—	—
HTM	—	—	—	—	—	—	10,254	3.98
Mortgage-backed Securities:								
AFS	—	—	1,053	3.52	11,992	3.92	—	—
HTM	—	—	—	—	—	—	563	5.69
Collateralized Mortgage Obligations:								
AFS	—	—	—	—	—	—	12,324	4.10
Totals	<u>\$ 3,454</u>	<u>4.70%</u>	<u>\$ 41,392</u>	<u>3.14%</u>	<u>\$ 11,992</u>	<u>3.92%</u>	<u>\$ 23,141</u>	<u>4.09%</u>

Sources of Funds

General. Deposits are the major source of the Bancorp's funds for lending and other investment purposes. In addition to deposits, the Bancorp derives funds from maturing investment securities and certificates of deposit, dividend receipts from the investment portfolio, loan principal repayments, repurchase agreements, advances from the Federal Home Loan Bank of Indianapolis (FHLB) and other borrowings. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by general interest rates and money market conditions. Borrowings may be used on a short-term basis to compensate for reductions in the availability of other sources of funds. They may also be used on a longer-term basis for general business purposes. The Bancorp uses repurchase agreements, as well as, a line-of-credit and advances from the FHLB for borrowings. At December 31, 2004, the Bancorp had \$11.5 million in repurchase agreements. Other borrowings totaled \$45.7 million, of which \$39.5 million represents FHLB advances.

Deposits. Retail and commercial deposits are attracted principally from within the Bancorp's primary market area. The Bancorp offers a broad selection of deposit instruments including checking accounts, NOW accounts, savings accounts, money market deposit accounts, certificate accounts and retirement savings plans. Deposit accounts vary as to terms, with the principal differences being the minimum balance required, the time period the funds must remain on deposit and the interest rate. Certificate accounts currently range in maturity from ten days to 42 months. The deregulation of federal controls on insured deposits has allowed the Bancorp to be more competitive in obtaining funds and to be

[Table of Contents](#)

flexible in meeting the threat of net deposit outflows. The Bancorp does not obtain funds through brokers.

The following table presents the average daily amount of deposits and average rates paid on such for the years indicated. The amounts are stated in thousands (000's).

	2004		2003		2002	
	Amount	Rate %	Amount	Rate %	Amount	Rate %
Demand deposits	\$ 47,288	—	\$ 39,659	—	\$ 33,549	—
NOW accounts	52,857	0.77	49,949	1.23	44,061	1.39
MMDA accounts	78,326	1.07	62,575	1.55	52,818	1.83
Savings accounts	71,354	0.51	68,018	1.36	58,845	1.57
Certificates of deposit	191,004	1.95	192,046	3.15	194,063	3.12
Total deposits	<u>\$ 440,829</u>	<u>1.21</u>	<u>\$ 412,247</u>	<u>2.08</u>	<u>\$ 383,336</u>	<u>2.23</u>

Maturities of time certificates of deposit and other time deposits of \$100,000 or more at December 31, 2004 are summarized as follows. The amounts are stated in thousands (000's).

3 months or less	\$ 34,612
Over 3 months through 6 months	18,065
Over 6 months through 12 months	17,908
Over 12 months	3,330
Total	<u>\$ 73,915</u>

Borrowings. Borrowed money is used on a short-term basis to compensate for reductions in the availability of other sources of funds and is generally accomplished through repurchase agreements, as well as, through a line of credit and advances from the FHLB. Repurchase agreements generally mature within one year and are generally secured by U.S. government securities or U.S. agency securities, under the Bancorp's control. FHLB advances with maturities ranging from one year to eight years are used to fund securities and loans of comparable duration, as well as, to reduce the impact that movements in short-term interest rates have on the Bancorp's overall cost of funds. Fixed rate advances are payable at maturity, with a prepayment penalty. Putable advances are fixed for a period of one to three years and then may adjust annually to the three-month London Interbank Offered Rate (LIBOR) until maturity. Once the putable advance interest rate adjusts, the Bancorp has the option to prepay the advance on specified annual interest rate reset dates without prepayment penalty.

The following table sets forth the balances in borrowed funds at December 31, on the dates indicated. The amounts are stated in thousands (000's).

	2004	2003	2002
Repurchase agreements	\$ 11,458	\$ 11,451	\$ 12,631
Fixed rate advances from the FHLB	29,000	17,000	12,000
Putable advances from the FHLB	7,500	9,500	9,500
Variable advances from the FHLB	3,000	—	—
FHLB line-of-credit	5,242	1,536	—
Limited partnership obligation	186	248	307
Other borrowings	815	1,160	1,627
Total borrowings	<u>\$ 57,201</u>	<u>\$ 40,895</u>	<u>\$ 36,065</u>

Table of Contents

The limited partnership obligation represents an investment interest in a partnership formed for the construction, ownership and management of affordable housing projects. The original amount of the note was \$500,000. Funding began during 2000 and will continue over a nine year period. Payments are required within ten days of written demand. The obligation to make payment is absolute and unconditional. The note requires no payment of interest.

The following table sets forth certain information regarding repurchase agreements by the Bancorp at the end of and during the periods indicated. The amounts are stated in thousands (000's).

	At December 31,		
	2004	2003	2002
Balance	\$ 11,458	\$ 11,451	\$ 12,631
Securities underlying the agreements:			
Ending carrying amount	20,108	17,240	19,333
Ending fair value	20,108	17,240	19,333
Weighted average rate paid (1)	2.13%	1.86%	2.57%
	For year ended December 31,		
	2004	2003	2002
Highest month-end balance	\$ 15,233	\$ 12,653	\$ 20,320
Approximate average outstanding balance	13,439	12,111	15,302
Approximate weighted average rate paid on securities sold under agreements to repurchase (2)	1.80%	2.17%	2.53%

- (1) The weighted average rate for each period is calculated by weighting the principal balances outstanding for the various interest rates.
- (2) The weighted average rate is calculated by dividing the interest expense for the period by the average daily balances of securities sold under agreements to repurchase for the period.

Trust Powers

The activities of the Trust Department include the management of self-directed investments, IRA and Keogh plans, investment agency accounts, land trusts, serving as court-appointed executor of estates and as guardian over guardianship accounts, and trustee with discretionary investment authority for revocable and irrevocable trusts. At December 31, 2004, the market value of the trust department's assets totaled \$142.0 million.

[Table of Contents](#)

Analysis of Profitability and Key Operating Ratios

Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential.

The net earnings of the Bancorp depend primarily upon the "spread" (difference) between (a) the income it receives from its loan portfolio and other investments and (b) its cost of money, consisting principally of the interest paid on savings accounts and on other borrowings.

The following table presents the weighted average yields on loans and investment securities, the weighted average cost of interest-bearing deposits and other borrowings, and the interest rate spread at December 31, 2004.

Weighted average yield:	
Securities	3.56%
Loans receivable	4.62
Loans held for sale	5.88
Federal Home Loan Bank stock	4.25
Total interest-earning assets	5.30
Weighted average cost:	
Deposit accounts	1.19
Borrowed funds	3.00
Total interest-bearing liabilities	1.39
Interest rate spread:	
Weighted average yield on interest-earning assets minus the weighted average cost of interest-bearing funds	3.91

Financial Ratios and the Analysis of Changes in Net Interest Income

The tables below set forth certain financial ratios of the Bancorp for the periods indicated:

	Year ended December 31,		
	2004	2003	2002
Return on average assets	1.17%	1.20%	1.18%
Return on average equity	14.64	14.65	14.58
Average equity-to-average assets ratio	8.01	8.20	8.06
Dividend payout ratio	54.57	55.55	55.83

	At December 31,		
	2004	2003	2002
Total stockholders' equity to total assets	7.91%	8.17%	8.02%

Table of Contents

The average balance sheet amounts, the related interest income or expense, and average rates earned or paid are presented in the following table. The amounts are stated in thousands (000's).

	Year ended December 31, 2004			Year ended December 31, 2003			Year ended December 31, 2002		
	Average Balance	Interest Income/Expense	Average Rate	Average Balance	Interest Income/Expense	Average Rate	Average Balance	Interest Income/Expense	Average Rate
Assets:									
Interest bearing balances in financial institutions									
	\$ 5,571	\$ 74	1.33%	\$ 10,663	\$ 110	1.03%	\$ 13,441	\$ 193	1.44%
Federal funds sold	597	13	2.17	457	5	1.09	716	11	1.54
Securities	79,965	2,818	3.52	60,066	2,109	3.51	63,697	2,986	4.69
Total investments	86,133	2,905	3.37	71,186	2,224	3.12	77,854	3,190	4.10
Loans:*									
Real estate mortgage loans	362,200	21,007	5.80	350,365	21,683	6.19	318,264	21,807	6.85
Commercial business loans	47,551	2,371	4.99	39,080	2,069	5.29	39,621	2,238	5.65
Consumer loans	5,347	331	6.19	5,510	381	6.91	7,747	546	7.05
Total loans	415,098	23,709	5.71	394,955	24,133	6.11	365,632	24,591	6.73
Total interest-earning assets	501,232	26,614	5.31	466,141	26,357	5.65	443,486	27,781	6.26
Allowance for loan losses	(3,813)			(3,752)			(3,321)		
Cash and due from banks	15,963			14,833			12,993		
Premises and equipment	14,211			11,925			8,527		
Other assets	8,894			4,737			5,724		
Total assets	<u>\$ 536,486</u>			<u>\$ 493,884</u>			<u>\$ 467,409</u>		
Liabilities:									
Demand deposit	\$ 47,288	—	0.00%	\$ 39,659	—	0.00%	\$ 33,549	—	0.00%
NOW accounts	52,857	410	0.78	49,949	471	0.94	44,061	613	1.39
Money market demand accounts	78,326	837	1.07	62,575	758	1.21	52,818	967	1.83
Savings accounts	71,354	365	0.51	68,018	551	0.81	58,845	922	1.57
Certificates of deposit	191,005	3,727	1.95	192,046	4,430	2.31	194,063	6,055	3.12
Total interest-bearing deposits	440,830	5,339	1.21	412,247	6,210	1.51	383,336	8,557	2.23
Borrowed funds	48,975	1,519	3.10	37,747	1,311	3.47	41,826	1,550	3.71
Total interest-bearing liabilities	489,805	6,858	1.40	449,994	7,521	1.67	425,162	10,107	2.38
Other liabilities	3,723			3,380			4,565		
Total liabilities	493,528			453,374			429,727		
Stockholders' equity	42,958			40,510			37,682		
Total liabilities and stockholders' equity	<u>\$ 536,486</u>			<u>\$ 493,884</u>			<u>\$ 467,409</u>		
Net interest income		<u>\$ 19,756</u>			<u>\$ 18,836</u>			<u>\$ 17,674</u>	
Net interest spread			3.91%			3.98%			3.88%
Net interest margin**			3.94%			4.04%			3.99%

* Non-accruing loans have been included in the average balances.

** Net interest income divided by average interest-earning assets.

[Table of Contents](#)

Rate/Volume Analysis

The table below sets forth certain information regarding changes in interest income and interest expense of the Bancorp for the periods indicated. For each category of interest-earning asset and interest-bearing liability, information is provided on changes attributable to: (1) changes in volume (change in volume multiplied by old rate) and (2) changes in rate (change in rate multiplied by old volume). Changes attributable to both rate and volume which cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate. The amounts are stated in thousands (000's).

	Year Ended December 31,			Year Ended December 31,			Year Ended December 31,		
	2004	vs.	2003	2003	vs.	2002	2002	vs.	2001
	Increase/(Decrease) Due To			Increase/(Decrease) Due To			Increase/(Decrease) Due To		
	Volume	Rate	Total	Volume	Rate	Total	Volume	Rate	Total
Interest income:									
Loans receivable	\$ 1,196	\$ (1,620)	\$ (424)	\$ 1,888	\$ (2,346)	\$ (458)	\$ 2,874	\$ (3,443)	\$ (569)
Securities	701	8	709	(162)	(715)	(877)	737	(438)	299
Other interest-earning assets	(61)	31	(30)	(38)	(51)	(89)	(29)	(345)	(374)
Total interest-earning assets	1,836	(1,581)	255	1,688	(3,112)	(1,424)	3,582	(4,226)	(644)
Interest Expense:									
Deposits	409	(1,280)	(871)	606	(2,953)	(2,347)	1,327	(4,518)	(3,191)
Borrowed Funds	359	(151)	208	(145)	(94)	(239)	434	(358)	76
Total interest-bearing liabilities	768	(1,431)	(663)	461	(3,047)	(2,586)	1,761	(4,876)	(3,115)
Net change in net interest income/(expense)	\$ 1,068	\$ (150)	\$ 918	\$ 1,227	\$ (65)	\$ 1,162	\$ 1,821	\$ 650	\$ 2,471

Bank Subsidiary Activities

Peoples Service Corporation, a wholly owned subsidiary of the Bank was incorporated under the laws of the State of Indiana. The subsidiary currently provides insurance and annuity investments to the Bank's trust customers. At December 31, 2004, the Bank had an investment balance of \$43 thousand in Peoples Service Corporation.

NWIN, LLC is a wholly owned subsidiary of the Bank. NWIN, LLC was incorporated under the laws of the State of Nevada as an investment subsidiary. The subsidiary currently holds Bank security investments and is managed by a professional portfolio manager. At December 31, 2004, the Bank had an investment balance of \$58.9 million in NWIN, LLC.

The Consolidated Financial Statements of the Bancorp include the assets, liabilities, net worth and results of operations of the Bank and its subsidiaries. Significant inter-company transactions have been eliminated in the consolidation.

Competition

The Bancorp's primary market area for deposits and mortgage and other loans encompasses Lake County, in northwest Indiana, where all of its offices are located. Ninety-five percent of the Bancorp's business activities are within this area.

The Bancorp faces strong competition in its primary market area for the attraction and retention of deposits and in the origination of loans. The Bancorp's most direct competition for deposits has historically come from commercial banks and from savings associations located in its primary market area. Particularly in times of high interest rates, the Bancorp has had significant competition from mutual funds and other firms offering financial services. The Bancorp's competition for loans comes principally from savings associations, commercial banks, mortgage banking companies, credit unions, insurance companies and other institutional lenders.

The Bancorp competes for loans principally through the interest rates and loan fees it charges and the efficiency and quality of the services it provides borrowers, real estate brokers and homebuilders. It competes for deposits by offering depositors a wide variety of savings accounts, checking accounts, competitive interest rates, convenient branch locations, drive-up facilities, automatic teller machines, tax-deferred retirement programs, electronic banking and other miscellaneous services.

The activities of the Bancorp and the Bank in the geographic market served involve competition with other banks as well as with other financial institutions and enterprises, many of which have substantially greater resources than those available to the Bancorp. In addition, non-bank competitors are generally not subject to the extensive regulation applicable to the Bancorp and the Bank.

The Bancorp believes that it has a minority share of the deposits and residential mortgage loan market within its primary market area.

[Table of Contents](#)

Personnel

As of December 31, 2004, the Bank had 139 full-time and 28 part-time employees. The employees are not represented by a collective bargaining agreement. Management believes its employee relations are good. The Bancorp has four officers (listed below under "Executive Officers of the Bancorp"), but has no other employees. The Bancorp's officers also are full-time employees of the Bank, and are compensated by the Bank.

Regulation and Supervision

Bank Holding Company Regulation. As a registered bank holding company for the Bank, the Bancorp is subject to the regulation and supervision of the FRB under the Bank Holding Company Act of 1956, as amended (the "BHCA"). Bank holding companies are required to file periodic reports with and are subject to periodic examination by the FRB.

Under the BHCA, without the prior approval of the FRB, the Bancorp may not acquire direct or indirect control of more than 5% of the voting stock or substantially all of the assets of any company, including a bank, and may not merge or consolidate with another bank holding company. In addition, the Bancorp is generally prohibited by the BHCA from engaging in any nonbanking business unless such business is determined by the FRB to be so closely related to banking as to be a proper incident thereto. Under the BHCA, the FRB has the authority to require a bank holding company to terminate any activity or relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the FRB's determination that such activity or control constitutes a serious risk to the financial soundness and stability of any bank subsidiary of the bank holding company.

Under FRB policy, a bank holding company is expected to serve as a source of financial and managerial strength to its subsidiary banks. It is the policy of the FRB that, pursuant to this requirement, a bank holding company should stand ready to use its resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity. This support may be required by the FRB at times when the Bancorp may not have the resources to provide it or, for other reasons, would not be inclined to provide it. Additionally, under the Federal Deposit Insurance Corporation Improvements Act of 1991 ("FDICIA"), a bank holding company is required to provide limited guarantee of the compliance by any insured depository institution subsidiary that may become "undercapitalized" (as defined in the statute) with the terms of any capital restoration plan filed by such subsidiary with its appropriate federal banking agency.

Savings Bank Regulation. As an Indiana stock savings bank, the Bank is subject to federal regulation and supervision by the FDIC and to state regulation and supervision by the DFI. The Bank's deposit accounts are insured by SAIF, which is administered by the FDIC. The Bank is not a member of the Federal Reserve System.

Both federal and Indiana law extensively regulate various aspects of the banking business such as reserve requirements, truth-in-lending and truth-in-savings disclosures, equal credit opportunity, fair credit reporting, trading in securities and other aspects of banking operations. Current federal law also requires savings banks, among other things, to make deposited funds available within specified time periods.

[Table of Contents](#)

Under FDICIA, insured state chartered banks are prohibited from engaging as principal in activities that are not permitted for national banks, unless: (i) the FDIC determines that the activity would pose no significant risk to the appropriate deposit insurance fund, and (ii) the bank is, and continues to be, in compliance with all applicable capital standards.

Branches and Affiliates. The establishment of branches by the Bancorp is subject to approval of the DFI and FDIC and geographic limits established by state laws. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the “Riegle-Neal Act”) facilitates the interstate expansion and consolidation of banking organizations by permitting, among other things, (i) bank holding companies that are adequately capitalized and managed to acquire banks located in states outside their home state regardless of whether such acquisitions are authorized under the law of the host state, (ii) the interstate merger of banks, subject to the right of individual states to “opt out” of this authority, and (iii) banks to establish new branches on an interstate basis provided that such action is specifically authorized by the law of the host state.

Transactions with Affiliates. Under Indiana law, the Bank is subject to Sections 22(h), 23A and 23B of the Federal Reserve Act which restrict financial transactions between banks and affiliated companies, such as the Bancorp. The statute limits credit transactions between a bank and its executive officers and its affiliates, prescribes terms and conditions for bank affiliate transactions deemed to be consistent with safe and sound banking practices, and restricts the types of collateral security permitted in connection with a bank’s extension of credit to an affiliate.

Capital Requirements. The FRB and the FDIC have issued substantially similar risk-based and leverage capital guidelines that are applicable to the Bancorp and the Bank. These guidelines require a minimum ratio of total capital to risk-weighted assets (including certain off-balance sheet activities such as standby letters of credit) of 8%. At least half of the total required capital must be “Tier 1 capital,” consisting principally of common stockholders’ equity, noncumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries, less certain goodwill items. The remainder (“Tier 2 capital”) may consist of a limited amount of subordinated debt and intermediate-term preferred stock, certain hybrid capital instruments and other debt securities, cumulative perpetual preferred stock, and a limited amount of the allowance for loan losses.

In addition to the risk-based capital guidelines, the Bancorp and the Bank are subject to a Tier 1 (leverage) capital ratio which requires a minimum level of Tier 1 capital to adjusted average assets of 3% in the case of financial institutions that have the highest regulatory examination ratings and are not contemplating significant growth or expansion. All other institutions are expected to maintain a ratio of at least 1% to 2% above the stated minimum.

FDICIA requires, among other things, federal bank regulatory authorities to take “prompt corrective action” with respect to banks that do not meet minimum capital requirements. The FDIC has adopted

Table of Contents

regulations to implement the prompt corrective action provisions of FDICIA, which, among other things, define the relevant capital measures for five capital categories. An institution is deemed to be “well capitalized” if it has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater, and a leverage ratio of 5% or greater, and is not subject to a regulatory order, agreement or directive to meet and maintain a specific capital level for any capital measure.

The following table shows that, at December 31, 2004, the Bancorp’s capital exceeded all regulatory capital requirements. At December 31, 2004, the Bancorp’s and the Bank’s regulatory capital ratios were substantially the same. At December 31, 2004, the Bancorp and the Bank were categorized as well capitalized. The dollar amounts are stated in millions.

	Actual		Required for adequate capital		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets	\$ 48.0	12.2%	\$ 31.5	8.0%	\$ 39.4	10.0%
Tier 1 capital to risk-weighted assets	\$ 44.2	11.2%	\$ 15.7	4.0%	\$ 23.6	6.0%
Tier 1 capital to adjusted average assets	\$ 44.2	8.0%	\$ 16.6	3.0%	\$ 27.6	5.0%

Banking regulators may change these requirements from time to time, depending on the economic outlook generally and the outlook for the banking industry. The Bancorp is unable to predict whether and when higher capital requirements would be imposed and, if so, to what levels and on what schedule.

Dividend Limitations. The Bancorp is a legal entity separate and distinct from the Bank. The primary source of the Bancorp’s cash flow, including cash flow to pay dividends on the Bancorp’s Common Stock, is the payment of dividends to the Bancorp by the Bank. Under Indiana law, the Bank may pay dividends of so much of its undivided profits (generally, earnings less losses, bad debts, taxes and other operating expenses) as is considered expedient by the Bank’s Board of Directors. However, the Bank must obtain the approval of the DFI for the payment of a dividend if the total of all dividends declared by the Bank during the current year, including the proposed dividend, would exceed the sum of retained net income for the year to date plus its retained net income for the previous two years. For this purpose, “retained net income” means net income as calculated for call report purposes, less all dividends declared for the applicable period. Also, the FDIC has the authority to prohibit the Bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice in light of the financial condition of the Bank. The aggregate amount of dividends that may be declared by the Bank in 2005, without prior regulatory approval, approximates \$5,196,000 plus current 2004 net profits. In addition, under FRB supervisory policy, a bank holding company generally should not maintain its existing rate of cash dividends on common shares unless (i) the organization’s net income available to common shareholders over the past year has been sufficient to fully fund the dividends and (ii) the prospective rate of earnings retention appears consistent with the organization’s capital needs, assets, quality, and overall financial condition.

[Table of Contents](#)

Federal Deposit Insurance. The FDIC is an independent federal agency that insures the deposits, up to prescribed statutory limits, of federally insured banks and savings associations and safeguards the safety and soundness of the banking and savings industries. The FDIC administers two separate insurance funds, the Bank Insurance Fund (“BIF”), which generally insures commercial bank and state savings bank deposits, and the SAIF, which generally insures savings association deposits. The Bank is a member of the SAIF and its deposit accounts are insured by the FDIC, up to prescribed limits.

The FDIC is authorized to establish separate annual deposit insurance assessment rates for members of the BIF and the SAIF, and to increase assessment rates if it determines such increases are appropriate to maintain the reserves of either insurance fund. In addition, the FDIC is authorized to levy emergency special assessments on BIF and SAIF members. The FDIC’s deposit insurance premiums are assessed through a risk-based system under which all insured depository institutions are placed into one of nine categories and assessed insurance premiums based upon their level of capital and supervisory evaluation. Because the Bank is categorized as well capitalized no FDIC deposit insurance assessment was required during 2004.

In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, an agency of the Federal government established to recapitalize the predecessor to the SAIF. The assessment rate for 2004 was approximately 0.015% of insured deposits. These assessments will continue until the Financing Corporation bonds mature in 2017.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank of Indianapolis, which is one of 12 regional Federal Home Loan Banks. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from funds deposited by member institutions and proceeds from the sale of consolidated obligations of the Federal Home Loan Bank system. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of trustees of the Federal Home Loan Bank. As a member, the Bank is required to purchase and maintain stock in the Federal Home Loan Bank of Indianapolis in an amount equal to the greater of 1% of its aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year or 5% of our outstanding advance from the Federal Home Loan Bank. At December 31, 2004, the Bank was in compliance with this requirement.

Community Reinvestment Act. Under the Community Reinvestment Act (“CRA”), the Bank has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution’s discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the FDIC in connection with its examination of the Bank, to assess its record of meeting the credit needs of its community and to take that record into account in its evaluation of certain applications by the Bank. For example, the regulations specify that a bank’s CRA performance will be considered in its expansion (e.g., branching) proposals and may be

[Table of Contents](#)

the basis for approving, denying or conditioning the approval of an application. As of the date of its most recent regulatory examination, the Bank was rated “satisfactory” with respect to its CRA compliance.

Gramm-Leach-Bliley Act. Under the Gramm-Leach-Bliley Act (“Gramm-Leach”), bank holding companies are permitted to offer their customers virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. In order to engage in these new financial activities, a bank holding company must qualify and register with the FRB as a “financial holding company” by demonstrating that each of its bank subsidiaries is well capitalized, well managed, and has at least a satisfactory rating under the CRA. The Bancorp has no current intention to elect to become a financial holding company under Gramm-Leach.

Gramm-Leach established a system of functional regulation, under which the federal banking agencies regulate the banking activities of financial holding companies, the U.S. Securities and Exchange Commission regulates their securities activities and state insurance regulators regulate their insurance activities.

Under Gramm-Leach, federal banking regulators adopted rules limiting the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third parties. The rules require disclosure of privacy policies to consumer and, in some circumstances, allow consumers to prevent disclosure of certain personal information to nonaffiliated third parties. The privacy provisions of Gramm-Leach affect how consumer information is transmitted through diversified financial services companies and conveyed to outside vendors.

The Bancorp does not disclose any nonpublic information about any current or former customers to anyone except as permitted by law and subject to contractual confidentiality provisions which restrict the release and use of such information.

Various other legislation, including proposals to substantially change the financial institution regulatory system and to expand or contract the powers of banking institutions and bank holding companies, is from time to time introduced. This legislation may change banking statutes and the operating environment of the Bancorp and the Bank in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions and other financial institutions. The Bancorp cannot accurately predict whether any of this potential legislation will ultimately be enacted, and, if enacted, the ultimate effect that it, or implementing regulations, would have upon the financial condition or results of operations of the Bancorp or the Bank.

Federal Taxation

Historically, savings institutions, such as the Bank, had been permitted to compute bad debt deductions using either the bank experience method or the percentage of taxable income method. However, In August, 1996, legislation was enacted that repealed the reserve method of accounting for federal income tax purposes. As a result, the Bank must recapture that portion of the reserve that exceeds the amount that could have been taken under the experience method for post-1987 tax years. The

[Table of Contents](#)

recapture is occurring over a six-year period, the commencement of which began with the Bank's taxable year ending December 31, 1998, since the Bank met certain residential lending requirements. In addition, the pre-1988 reserve, for which no deferred taxes have been recorded, will not have to be recaptured into income unless (i) the Bank no longer qualifies as a bank under the Code, or (ii) excess dividends or distributions are paid out by the Bank. The total amount of bad debt to be recaptured is approximately \$2.0 million.

Depending on the composition of its items of income and expense, a savings bank may be subject to the alternative minimum tax. A savings bank must pay an alternative minimum tax equal to the amount (if any) by which 20% of alternative minimum taxable income ("AMTI"), as reduced by an exemption varying with AMTI, exceeds the regular tax due. AMTI equals regular taxable income increased or decreased by certain tax preferences and adjustments, including depreciation deductions in excess of that allowable for alternative minimum tax purposes, tax-exempt interest on most private activity bonds issued after August 7, 1986 (reduced by any related interest expense disallowed for regular tax purposes), the amount of the bad debt reserve deduction claimed in excess of the deduction based on the experience method and 75% of the excess of adjusted current earnings over AMTI (before any alternative tax net operating loss). AMTI may be reduced only up to 90% by net operating loss carryovers, but alternative minimum tax paid can be credited against regular tax due in later years.

For federal income tax purposes, the Bank reports its income and expenses on the accrual method of accounting. The Bancorp and the Bank file a consolidated federal income tax return for each fiscal year ending December 31. The federal income tax returns filed by the Bank have not been subject to an IRS examination in the last five years.

State Taxation

The Bank is subject to Indiana's Financial Institutions Tax ("FIT"), which is imposed at a flat rate of 8.5% on "adjusted gross income." "Adjusted gross income," for purposes of FIT, begins with taxable income as defined by Section 63 of the Code and, thus, incorporates federal tax law to the extent that it affects the computation of taxable income. Federal taxable income is then adjusted by several Indiana modifications. Other applicable state taxes include generally applicable sales and use taxes plus real and personal property taxes.

The Bank's state income tax returns have not been subject to an examination by a taxing authority in the last five years.

Accounting for Income Taxes

At December 31, 2004, the Bancorp's consolidated total deferred tax assets were \$2.6 million and the consolidated total deferred tax liabilities were \$1.3 million, resulting in a consolidated net deferred tax asset of \$1.3 million. Management believes it is probable that the benefit of the deferred tax asset will be realized after considering the historical and anticipated future levels of pretax earnings.

[Table of Contents](#)

Item 2. Properties

The Bancorp maintains its corporate office at 9204 Columbia Avenue, Munster, Indiana, from which it oversees the operation of the Bank's eight banking locations. The Bancorp owns all of its office properties.

The table below sets forth additional information with respect to the Bank's offices as of December 31, 2004. Net book value and total investment figures are for land, buildings, furniture and fixtures.

Office location	Year facility opened	Net book value	Approximate square footage	Total cost
9204 Columbia Avenue Munster, In 46321	1985	\$ 1,165,945	11,640	\$ 2,911,411
141 W. Lincoln Highway Scherverville, In 46375	1990	1,135,016	9,444	2,901,668
7120 Indianapolis Blvd. Hammond, In 46324	1978	235,020	2,600	791,382
1300 Sheffield Dyer, In 46311	1976	163,088	2,100	722,283
7915 Taft Merrillville, In 46410	1968	81,014	2,750	592,511
8600 Broadway Merrillville, In 46410	1996	1,451,682	4,400	2,342,954
4901 Indianapolis Blvd. East Chicago, In 46312	1995	903,225	4,300	1,451,276
1501 Lake Park Ave. Hobart, In 46342	2000	1,967,667	6,992	2,538,973
9204 Columbia Avenue Building B Munster, Indiana 46321	2003	6,973,818	36,685	8,055,650

The Bank's primary recordkeeping is accomplished through the use of microcomputer networks linked via data lines to the Metavante Corporation located in Brown Deer, Wisconsin. Metavante provides real time services for mortgage and installment loans, savings, certificates, checking accounts and general ledger transactions. In addition to the Metavante System, the Bank utilizes a microcomputer network for the trust department operations.

The net book value of the Bank's property, premises and equipment totaled \$14.2 million at December 31, 2004.

Item 3. Legal Proceedings

The Bancorp is not engaged in any legal proceedings of a material nature at the present time. From time to time, the Bank is a party to legal proceedings incident to its business, including foreclosures.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of 2004.

Executive Officers of the Bancorp

Pursuant to General Instruction G(3) of Form 10-K, the following information is included as an unnumbered item in this Part I in lieu of being included in the Bancorp's Proxy Statement for the 2005 Annual Meeting of Shareholders:

The executive officers of the Bancorp are as follows:

	Age at December 31, 2004	Position
David A. Bochnowski	59	Chairman and Chief Executive Officer
Joel Gorelick	57	Executive Vice President and Chief Lending Officer
Jon E. DeGuilio	49	Executive Vice President and Secretary
Robert T. Lowry	43	Senior Vice President, Chief Financial Officer and Treasurer

The following is a description of the principal occupation and employment of the executive officers of the Bancorp during at least the past five years:

David A. Bochnowski is Chairman and Chief Executive Officer of the Bancorp and the Bank. He has been the Chief Executive Officer since 1981 and became the Chairman in 1995. He has been a director since 1977 and was the Bank's legal counsel from 1977 to 1981. Mr. Bochnowski is a past Chairman of America's Community Bankers (ACB), a national trade association for community banks. He is a trustee of the Munster Community Hospital, and a Commissioner of the Chicago-Gary Airport Authority. He serves as Chairman of the Indiana Department of Financial Institutions. He is a former chairman of the Indiana League of Savings Institutions, now known as the Indiana Bankers Association, a former director of the Federal Home Loan Bank of Indianapolis and a former member of the Federal Reserve Thrift Institutions Advisory Committee. Before joining the Bank, Mr. Bochnowski was an attorney, self-employed in private practice. He holds a Juris Doctorate degree from Georgetown University and a Masters Degree from Howard University.

Joel Gorelick is Executive Vice President of the Bancorp and Executive Vice President Banking and Lending Group for the Bank. He is responsible for overseeing all banking and loan functions of the Bank. Mr. Gorelick has been with the Bank since 1983. He became a director in 2000. Mr. Gorelick is involved in many community service organizations and has served in positions such as, president of the Northwest Indiana Boys & Girls Club, chairman of the board of the Northwest Indiana Regional Development Corporation and President of the Lake Central High School Athletics Booster Club. Mr. Gorelick received recognition as the Small Business Advocate for 1999 at the Northwest Indiana Entrepreneurial Excellence awards program and was named the 2000 board member of the year by the National Association For Development Companies. Mr. Gorelick was named the year 2000 Financial Services Advocate by the Indiana District Office of the U. S. Small Business Administration. Mr. Gorelick has been appointed as a board member for the United States Selective Service System and currently serves as President of the Lake County Economic Development Corporation. He holds a Masters of Science in Business Administration

[Table of Contents](#)

from Indiana University and is a graduate of the Graduate School of Banking at the University of Wisconsin at Madison.

Jon E. DeGuilio is Executive Vice President and Secretary for the Bancorp and Executive Vice President, General Counsel, Trust Officer and Corporate Secretary for the Bank. Mr. DeGuilio assumed his current responsibilities with the bank and Bancorp during 2001. He joined the Bank in December of 1999 as Senior Vice President and Trust Officer. He holds a Juris Doctorate degree from the Valparaiso University School of Law and a Bachelor of Arts degree from the University of Notre Dame. Prior to his employment with the Bancorp, Mr. DeGuilio was a partner with the law firm of Barnes and Thornburg and served as the United States Attorney for the Northern District of Indiana from November of 1993 until June of 1999. Mr. DeGuilio is actively involved in community service as a Court Appointed Special Advocate (CASA) for the Lake County Juvenile Court, as well as serving on the board of directors of the "Friends Of The Lake County CASA" and also serves on the board of directors of the Lake County Drug Free Alliance.

Robert T. Lowry is Senior Vice President, Chief Financial Officer and Treasurer of the Bancorp and the Bank. He is responsible for finance, accounting, and financial reporting activities. Mr. Lowry has been with the Bank since 1985 and has previously served as the Bank's assistant controller, internal auditor and controller. Mr. Lowry is a Certified Public Accountant (CPA). Mr. Lowry holds a Masters of Business Administration Degree from Indiana University and is a graduate of America's Community Bankers National School of Banking. Mr. Lowry is a member of the American Institute of Certified Public Accountants, the Indiana CPA Society and the Financial Managers Society.

PART II

Item 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The information contained under the captions “Business” and “Market Information” in the 2004 Annual Report to Shareholders is incorporated herein by reference. Also see Item 12 of this Annual Report on Form 10-K.

Item 6. Selected Financial Data

The information contained in the table captioned “Selected Consolidated Financial Data” in the 2004 Annual Report to Shareholders is incorporated herein by reference.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The information contained in the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the 2004 Annual Report to Shareholders is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information contained in the section captioned “Asset/Liability Management and Market Risk” in the Management’s Discussion and Analysis of Financial Condition and Results of Operations section of the 2004 Annual Report to Shareholders is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The financial statements contained in the 2004 Annual Report to Shareholders, which are listed under Item 15 herein, are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no items reportable under this item.

Item 9A. Controls and Procedures

(a) Disclosure Controls and Procedures.

The Bancorp maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by the Bancorp in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by the Bancorp in the reports that it files or

[Table of Contents](#)

submits under the Exchange Act is accumulated and communicated to the Bancorp's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. The Bancorp's management, with the participation of its principal executive officer and principal financial officer, evaluates the effectiveness of the Bancorp's disclosure controls and procedures as of the end of each quarter. Based on that evaluation as of December 31, 2004, the Bancorp's principal executive officer and principal financial officer have concluded that such disclosure controls and procedures were effective as of that date.

(b) Changes in Internal Control Over Financial Reporting

There was no change in the Bancorp's internal control over financial reporting that occurred during the quarter ended December 31, 2004 that has materially affected, or is reasonably likely to materially affect, the Bancorp's internal control over financial reporting.

Item 9B. Other Information

There are no items reportable under this item.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information contained under the sections captioned “Election of Directors”, “Security Ownership by Certain Beneficial Owners and Management — Section 16(a) Beneficial Ownership Reporting Compliance” and “Code of Ethics” in the Bancorp’s definitive Proxy Statement for the 2005 Annual Meeting of Shareholders is incorporated herein by reference. Information regarding the Bancorp’s executive officers is included under the unnumbered item captioned “Executive Officers of the Bancorp” at the end of Part I hereof and is incorporated herein by reference, in accordance with General Instruction G(3) to Form 10-K and Instruction 3 to Item 401(b) of Regulation S-K.

Item 11. Executive Compensation

The information contained under the section captioned “Compensation of and Transactions with Officers and Directors” in the Bancorp’s definitive Proxy Statement for its 2005 Annual Meeting of Shareholders is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information under the section captioned “Compensation of and Transactions with Officers and Directors — Equity Compensation Plan Information” and under the section captioned “Security Ownership by Certain Beneficial Owners and Management” in the Bancorp’s definitive Proxy Statement for the 2005 Annual Meeting of Shareholders is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information contained under the section captioned “Compensation of and Transactions with Officers and Directors” in the Bancorp’s definitive Proxy Statement for its 2005 Annual Meeting of Shareholders, is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information contained under the section captioned “Independent Registered Public Accounting Firm’s Services and Fees” in the Bancorp’s definitive Proxy Statement for its 2005 Annual Meeting of Shareholders, is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements:

The following financial statements of the Bancorp are incorporated herein by reference to the 2004 Annual Report to Shareholders, filed as Exhibit 13 to this report:

- (a) Report of Independent Registered Public Accounting Firm
- (b) Consolidated Balance Sheets, December 31, 2004 and 2003
- (c) Consolidated Statements of Income for the years ended December 31, 2004, 2003 and 2002
- (d) Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2004, 2003 and 2002
- (e) Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002
- (f) Notes to Consolidated Financial Statements

All other financial statements, schedules and historical financial information have been omitted as the subject matter is not required, not present or not present in amounts sufficient to require submission.

(3) Exhibits:

Exhibit Number	Description
2.	Plan of Conversion of Peoples Bank, A Federal Savings Bank, dated December 18, 1993 (incorporated herein by reference to Exhibit A to the Bancorp's Definitive Proxy Statement/Prospectus dated March 23, 1994, as filed pursuant to Rule 424(b) under the 1933 Act on March 28, 1994).
3.i.	Articles of Incorporation (incorporated herein by reference to Exhibit 3(i) to the Bancorp's Registration Statement on Form S-4 filed March 3, 1994 (File No. 33-76038)).
3.ii.	By-Laws (incorporated herein by reference to Exhibit 3(i) to the Bancorp's Registration Statement on Form S-4 filed March 3, 1994 (File No. 33-76038)).
3.iii.	Amendment of By-Laws adopted July 27, 1994(incorporated herein by reference to Exhibit 3.iii to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 1994).
3.iv.	Amendment of By-Laws adopted January 21, 1999(incorporated herein by reference to Exhibit 3.iv. to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 1998).

Table of Contents

Exhibit Number	Description
10.1. *	1994 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit A to the Bancorp's Definitive Proxy Statement/Prospectus dated March 23, 1994, as filed pursuant to Rule 424(b) under the 1933 Act on March 28, 1994).
10.2. *	Employment Agreement, dated March 1, 1988, between Peoples Bank and David A. Bochnowski (incorporated herein by reference to Exhibit 10.2 to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 1994).
10.3. *	Amendment, dated January 18, 1992, to the Employment Agreement referred to in Exhibit 10.2 above (incorporated herein by reference to Exhibit 10.3 to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 1994).
10.4. *	Employee Stock Ownership Plan of Peoples Bank(incorporated herein by reference to Exhibit 10.4 to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 1994).
10.5. *	Unqualified Deferred Compensation Plan of Peoples Bank (incorporated herein by reference to Exhibit 10.5 to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 1996).
10.6. *	Supplemental Executive Retirement Plan of Peoples Bank (incorporated herein by reference to Exhibit 10.5 to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 1999).
10.7. *	2004 Stock Option and Incentive Plan (incorporated herein by reference to Appendix B to the Bancorp's Definitive Proxy Statement for its 2004 Annual Meeting of Shareholders, filed on March 26, 2004).
10.8. *	Summary Sheet of Director and Officer Compensation.
13.	2004 Annual Report to Shareholders
21.	Subsidiaries of the Bancorp
23.	Consent of Independent Registered Public Accounting Firm
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32	Section 1350 Certifications

* - The indicated exhibit is a management contract, compensatory plan or arrangement required to be filed by Item 601 of Regulation S-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NORTHWEST INDIANA BANCORP

By /s/ David A. Bochnowski
David A. Bochnowski
Chairman of the Board and
Chief Executive Officer

Date: March 25, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on March 25, 2005:

<u>Signature</u>	<u>Title</u>
Principal Executive Officer:	
<u>/s/ David A. Bochnowski</u> David A. Bochnowski	Chairman of the Board and Chief Executive Officer
Principal Financial Officer and Principal Accounting Officer:	
<u>/s/ Robert T. Lowry</u> Robert T. Lowry	Senior Vice President, Chief Financial Officer and Treasurer
The Board of Directors:	
<u>/s/ Frank J. Bochnowski</u> Frank J. Bochnowski	Director
<u>/s/ Leroy F. Cataldi</u> Leroy F. Cataldi	Director
<u>/s/ Lourdes M. Dennison</u> Lourdes M. Dennison	Director
<u>/s/ Edward J. Furticella</u> Edward J. Furticella	Director

[Table of Contents](#)

<u>Signature</u>	<u>Title</u>
<u>/s/ Joel Gorelick</u> Joel Gorelick	Director
<u>/s/ Gloria C. Gray</u> Gloria C. Gray	Director
<u>/s/ Kenneth V. Krupinski</u> Kenneth V. Krupinski	Director
<u>/s/ Stanley E. Mize</u> Stanley E. Mize	Director
<u>/s/ Anthony M. Puntillo</u> Anthony M. Puntillo	Director
<u>/s/ James L. Wieser</u> James L. Wieser	Director

36

EXHIBIT INDEX

Exhibit	Description
10.8	Summary Sheet of Director and Officer Compensation
13	2004 Annual Report to Shareholders
21	Subsidiaries of the Bancorp
23	Consent of Independent Registered Public Accounting Firm
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32	Section 1350 Certifications

Summary Sheet of Director and Officer Compensation

Director Compensation

All directors who are not also officers of the Company or the Bank receive an annual director's fee from the Bank of \$20,000. Directors are reimbursed for expenses incurred in connection with attendance at Board and Committee meetings.

Executive Officer Compensation

The current base salary paid to executive officers is listed below:

	Current Base Salary
David A. Bochnowski Chairman and Chief Executive Officer	\$294,926
Joel Gorelick Executive Vice President, Banking and Lending Group	\$162,659
Jon E. DeGuilio Executive Vice President, General Counsel and Secretary	\$127,490
Robert T. Lowry Senior Vice President and Chief Financial Officer	\$107,559

Effective January 31, 2005, the Compensation Committee and Board of the Bancorp authorized the payment of incentive compensation for the year ended December 31, 2004. The executive officers listed below received the incentive compensation payments on February 1, 2005:

	2004 Incentive
David A. Bochnowski Chairman and Chief Executive Officer	\$86,469
Joel Gorelick Executive Vice President, Banking and Lending Group	\$34,500
Jon E. DeGuilio Executive Vice President, General Counsel and Secretary	\$13,000
Robert T. Lowry Senior Vice President and Chief Financial Officer	\$13,000

The Bancorp's Compensation Committee and Board have established an incentive compensation system designed to offer positive salary rewards for peak performance to all employees. The incentive compensation is geared towards rewarding performance that results in increased profitability of the Bancorp. In addition, incentive compensation is awarded for consistent performance tied to corporate goals rather than short-swing profits. The incentive compensation is discretionary and approved by the Board on an annual basis, as strategic goals are achieved.

The incentive compensation is paid from a pool of funds created each year based on the Bancorp's return on equity, return on assets, and increase in earnings per basic share. Each of the three measures is tied to a

factor, which is then multiplied by the Bancorp's annual net income after incentive compensation expense to determine the incentive compensation pool. The Board also has the discretion to increase the size of the incentive compensation pool to reward outstanding performance consistent with long and short-range goals. No Board discretionary funds were included in the 2004 incentive compensation pool. The incentive compensation pool is generally allocated to the Bancorp's employees in the following manner: 30% to the Chief Executive Officer, 52% to Vice Presidents and 18% to other employees. The Chief Executive Officer, with Board approval, may reallocate a portion of his incentive compensation pool to the other compensation pools.

The allocated incentive compensation pools can be utilized to supplement the cash remuneration of the Bancorp's management according to the following guidelines: Vice Presidents up to 10% of salary; Senior Vice Presidents up to 20% of salary; Executive Vice Presidents up to 35% of salary; and Chief Executive Officer up to 50% of salary. The incentive compensation for Vice Presidents, Senior Vice Presidents and Executive Vice Presidents is awarded based on a performance review by the Chief Executive Officer, which is reviewed and approved by the Bancorp's Compensation Committee and Board. The performance review incorporates the following criteria: strategic plan implementation and goal achievement; leadership based on communication, responsiveness, efficiencies, focus and innovation; professional growth; and community involvement. The Compensation Committee and Board conduct the Chief Executive Officer's performance review and determine his incentive compensation.

The Bancorp maintains an Employees' Savings and Profit Sharing Plan and Trust for all employees who meet the plan qualifications. Contributions to the Employees' Profit Sharing Plan and Trust are made at the discretion of the Bancorp's Board of Directors. Contributions to the Company's executive officers and employees for the year ended December 31, 2004, were based on 11% of the participants' total compensation excluding incentives.

The Bancorp maintains an Unqualified Deferred Compensation Plan. Participants' accounts are credited each year with an amount based on a formula involving the participant's employer funded contributions under all qualified plans and the limitations imposed by Internal Revenue Code subsection 401(a)(17) and Code section 415.

Pursuant to a stock option plan, the Company has reserved shares of the Bancorp's common stock for issuance in respect of incentive awards granted to officers and other employees of the Bancorp and the Bank.

NorthWest Indiana
BANCORP

2004 ANNUAL REPORT



Friendly People for Today's Banking

Annual Report 2004

Dear Shareholder:

On behalf of your employees and directors, it is my honor to report to you on your company's 2004 performance.

For the year, the NorthWest Indiana Bancorp reported earnings of \$6.3 million, a 6.0% increase over the prior year. Our return on assets (ROA) was 1.17% and our return on equity (ROE) was 14.64%. As a result, income per basic share was \$2.28 and per diluted share was \$2.24.

Improving shareholder value drives our strategic plan. For the year, our price per share rose from \$30.00 to \$36.50 and the Board increased our dividend 3.3% for a total return of 22.1%. Our dividend payout for the year 2004 was 54.6%, a figure in line with our guidelines for rewarding shareholders while managing our capital for future growth.

The leverage of our capital permitted assets to grow 9.6% to \$557.4 million. At year-end, stockholder equity stood at \$44.1 million or 7.9% of total assets, while the book value of shares outstanding stood at \$15.90.

As we look at the last year, the good news of our financial performance is tempered by our commitment to improve. The slow pace of economic activity during the first half of 2004 resulted in lower than anticipated loan demand in the manufacturing, development, and consumer sectors. Sentiment improved during the last six months of the year giving rise to improved performance particularly in the last quarter.



*David A. Bochnowski,
Chairman and Chief Executive Officer*

NorthWest Indiana Bancorp

For today and tomorrow we continue to focus on core account growth, lending in our community, income from banking activities, asset quality, and operating efficiency. Core deposits — checking, savings, and money market accounts — grew \$25.7 million and provided funding for a \$24.0 million increase in loan balances. Our non-interest income was up \$344 thousand or 11.6% while non-performing loans to total assets was a respectable 0.19% at year-end. In addition, at year-end 20.5% of our checking account customers were utilizing on-line banking and another 49.3% had a Peoples ATM or Debit Card.

Operating expenses were up 9.4% over the prior year, a direct result of additional staffing, a full year of expenses associated with our new corporate facility, and investments in technology. The decision to enhance customer service paid off in the fourth quarter with earnings rising 10.8% as Peoples Bank capitalized on the rebound of the local economy.

Change continues to be the one constant of our business. Our mission is to deliver the best possible banking, lending, and investment experience to our customers. To enhance shareholder value, we reviewed the alignment of our business operations with the need to link performance to achieving our mission and strategic goals. As a result, we adopted a Balanced ScoreCard management system and reorganized the company to achieve the next level of asset size and operating performance over the next five years.



Banking and Lending Group

Joel Gorelick, Executive Vice President

The Balanced ScoreCard management system is designed to translate the Bancorp's mission and strategy into a comprehensive set of financial and non-financial targets and performance drivers. Outcomes are measured against expected results and are communicated on a monthly basis to management and directors.

NorthWest Indiana Bancorp

Operating at the next level requires a highly motivated sales force, exceptional support for customers and employees, continued emphasis on asset quality, consistent core account and loan growth, expanded risk management, growing internal and external awareness of our brand, effective communications, and quality training.

Our growth goals demand an organizational structure that clearly defines the responsibilities and expectations of each employee along with the Balanced ScoreCard reporting system that measures and links our financial and non-financial processes to operating results.



Investment and Trust Services Group

Steve Ziemia

Not pictured: Randall H. Walker

The organizational structure includes the Banking and Lending Group, the Investment and Trust Services Group, the Operations and Systems Development Group, the Brand Learning and Communications Group, the Finance and Controls Group, and the Risk Management Group.



Banking and Lending Group

Cathy Gonzalez, Dan Moser, Carla Houck, Rod Grove, Todd Scheub

The Banking and Lending Group, under the direction of Joel Gorelick, has primary responsibility for all customer contact and sales activities for our Banking Center personnel and loan officers. As we move forward, the banking side of the business will expand into new markets, enter into private banking relationships, and increase customer utilization of the Investment and Trust Services Group's capabilities. On the lending side we will continue to offer commercial, retail, and consumer loans. New emphasis has been placed on acquisition, construction, and development lending to meet the demands of our market.



Investment and Trust Services Group
Jon DeGuilio, Executive Vice President

Key personnel in this Group include Rod Grove, Senior Banking Officer; Carla Houck, Director of Banking Center Operations; Cathy Gonzalez, Retail Lending; Dan Moser, Acquisition, Construction, and Development Lending; and, Todd Scheub, Commercial Lending.

The Investment and Trust Services Group, under the direction of Jon DeGuilio, will continue to serve our customer base with traditional products with an emphasis on annuity sales, college savings plans, and employer benefit plans. They will work closely with the Banking and Lending Group in response to growing customer demand for an expanded choice of investment alternatives.



Operations and Systems Development Group
Mary Mulroe, Tanya Buerger, Christopher Grecik, Donna Germek

The Operations and Systems Development Group, under the direction of Tanya Buerger, includes all Loan Administration, Operations, and Information Technology personnel. This Group supports our mission and long-term strategic goals through the secure and reliable delivery of exceptional products and services while providing all employees with the tools, technology, and support needed to perform their duties.



Brand Learning and Communication Group
Shannon Franko, Linda Kollada

The Brand Learning and Communication Group has responsibility for delivering our brand of “friendly people for today’s banking” to our employees and customers. Linda Kollada directs our Human Resources capability and is responsible for hiring, training, and motivating our employees consistent with our mission. Shannon Franko, our Marketing Director, has responsibility for effectively communicating our brand, products, and services to our employees and customers.

The Finance and Controls Group, under the direction of Bob Lowry, has responsibility for financial and regulatory reporting as well as budgeting, capital planning, accounting, and internal controls. This Group also measures short and long-term performance goals and makes timely reports to management and your Board of Directors while facilitating reports to shareholders.



Finance and Controls Group
Bob Lowry, Stacy Januszewski, Peymon Torabi

Not pictured: Arlene Wohadlo

The Risk Management Group, which consists of our Internal Audit, Compliance, and Loan Review functions, enhances corporate governance through the review of bank operations consistent with accounting and banking rules and regulations. This Group reports independently and directly to your Board of Directors on all aspects of bank performance and assists in verifying the integrity of reports to shareholders.



Risk Management Group

Christine Friel, David Homrich, Linda Nemeth

During 2004 the Bancorp made several enhancements to corporate governance to meet strategic objectives and protect the interests of shareholders, customers, and community stakeholders. In addition to the existing management Disclosure Committee that certifies financial information to the Chief Executive Officer and the Chief Financial Officer, the Board chartered a Corporate Governance Committee comprised of Board members who are independent of management. They elected Director Stan Mize as their Chairman and among the committee's duties are the nomination of directors, assignment of Board committees, assessment of director performance, and adherence to the Bancorp's Code of Ethics by management and directors.

The effectiveness of our internal control structure was reviewed for compliance with the strict requirements of Federal Deposit Insurance Corporation Improvement Act (FDICIA) that applies to banks over \$500 million in assets. We were found to be in full compliance, providing assurance that the Bancorp operates in a manner consistent with this high regulatory standard.

NorthWest Indian Bancorp

A significant management change occurred during the year as Ed Furticella, Chief Financial Officer, renewed his academic career with a teaching position at Purdue University Calumet. The transition of his position was coordinated over a three-year period with Bob Lowry taking the reins in November of 2004. Ed has been a source of strength and has made a significant impact on our operating results as well as on the professional and personal development of all his co-workers. We are happy for him as he pursues his dream and at the same time remain grateful that he will continue to guide us as a consultant and director.



The new Munster Banking Center was redesigned in 2004 and will serve as the prototype of future Banking Centers.

In January of 2005, our Chairman Emeritus, Ben A. Bochnowski, left this earth after a lifetime dedicated to his community and building Peoples Bank. When he started in the mid-1950's, Peoples had \$5 million in assets and eight employees. His warm smile and friendly words will be missed, but his legacy of fair dealing, exceptional customer service, community involvement, and responsiveness to changes in the marketplace lives on.

Thank you for the confidence demonstrated with your investment in the NorthWest Indiana Bancorp. The fundamentals that guide the leadership of your company are built on commitment and a passion for excellence. In the years ahead, your management team will continue to work hard to build franchise value and market value, as well as to fulfill our role as a leading community bank.

Sincerely,

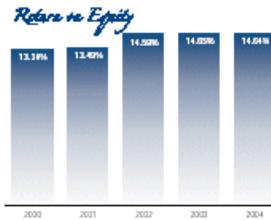
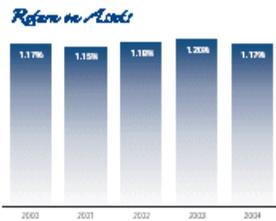
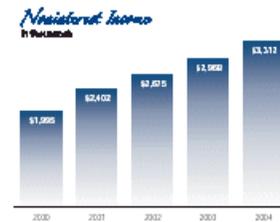
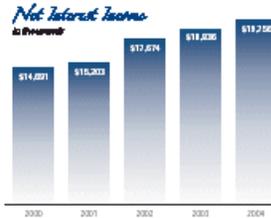
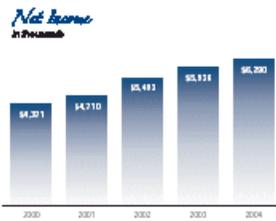
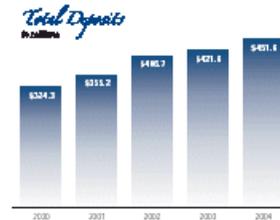
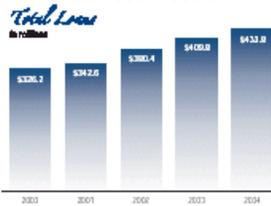
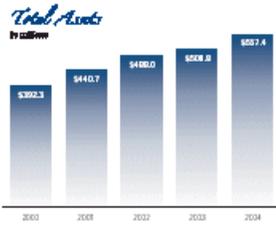
David A. Bochnowski
Chairman and Chief Executive Officer



The redesigned lobby
of the Munster
Banking Center.

Financial Information

Financial Highlights



Selected Consolidated Financial Data

in thousands of dollars, except per share data

<i>Fiscal Year Ended</i>	<i>December 31, 2004</i>	<i>December 31, 2003</i>	<i>December 31, 2002</i>	<i>December 31, 2001</i>	<i>December 31, 2000</i>	<i>December 31, 1999</i>
Statement of Income:						
Total interest income	\$ 26,614	\$ 26,357	\$ 27,781	\$ 28,425	\$ 28,077	\$ 25,607
Total interest expense	6,858	7,521	10,107	13,222	13,386	11,281
Net interest income	19,756	18,836	17,674	15,203	14,691	14,326
Provision for loan losses	385	420	720	230	175	200
Net interest income after provision for loan losses	19,371	18,416	16,954	14,973	14,516	14,126
Noninterest income	3,312	2,968	2,675	2,402	1,995	1,659
Noninterest expense	13,174	12,037	10,859	9,911	9,449	8,774
Net noninterest expense	9,862	9,069	8,184	7,509	7,454	7,115
Income tax expenses	3,219	3,411	3,277	2,754	2,691	2,775
Net income	\$ 6,290	\$ 5,936	\$ 5,493	\$ 4,710	\$ 4,371	\$ 4,236
Basic earnings per common share	\$ 2.28	\$ 2.16	\$ 2.01	\$ 1.73	\$ 1.61	\$ 1.53
Diluted earnings per common share	\$ 2.24	\$ 2.13	\$ 1.99	\$ 1.71	\$ 1.60	\$ 1.52
Cash dividends declared per common share	\$ 1.24	\$ 1.20	\$ 1.12	\$ 1.04	\$ 0.96	\$ 0.84

	<i>December 31, 2004</i>	<i>December 31, 2003</i>	<i>December 31, 2002</i>	<i>December 31, 2001</i>	<i>December 31, 2000</i>	<i>December 31, 1999</i>
Balance Sheet:						
Total assets	\$ 557,393	\$ 508,775	\$ 488,002	\$ 440,710	\$ 392,313	\$ 361,719
Loans receivable	433,790	409,808	380,428	342,642	326,207	295,813
Investment securities	79,979	63,733	56,571	67,260	38,128	41,931
Deposits	451,573	421,640	406,673	355,215	324,310	306,647
Borrowed funds	57,201	40,895	36,065	44,989	30,599	18,607
Total stockholders' equity	44,097	41,554	39,148	35,882	33,529	32,471

<i>Fiscal Year Ended</i>	<i>December 31, 2004</i>	<i>December 31, 2003</i>	<i>December 31, 2002</i>	<i>December 31, 2001</i>	<i>December 31, 2000</i>	<i>December 31, 1999</i>
Interest Rate Spread During Period:						
Average effective yield on loans and investment securities	5.31%	5.65%	6.26%	7.29%	7.88%	7.61%
Average effective cost of deposits and borrowings	1.40%	1.67%	2.38%	3.55%	3.95%	3.54%
Interest rate spread	3.91%	3.98%	3.88%	3.74%	3.93%	4.07%
Net interest margin	3.94%	4.04%	3.99%	3.90%	4.12%	4.26%
Return on average assets	1.17%	1.20%	1.18%	1.15%	1.17%	1.20%
Return on average equity	14.64%	14.65%	14.58%	13.49%	13.30%	13.17%

	<i>December 31, 2004</i>	<i>December 31, 2003</i>	<i>December 31, 2002</i>	<i>December 31, 2001</i>	<i>December 31, 2000</i>	<i>December 31, 1999</i>
Total capital to risk-weighted assets	12.2%	12.5%	13.1%	13.6%	13.6%	14.8%
Tier 1 capital to risk-weighted assets	11.2%	11.5%	11.9%	12.5%	12.3%	13.5%
Tier 1 capital to adjusted average assets	8.0%	8.0%	7.6%	8.3%	8.6%	9.0%
Allowance for loan losses to total loans	0.90%	0.92%	0.96%	0.92%	1.02%	1.12%
Allowance for loan losses to non-performing loans	371.00%	220.31%	152.43%	108.64%	183.54%	412.08%
Non-performing loans to total loans	0.24%	0.42%	0.63%	0.85%	0.55%	0.27%
Total loan accounts	5,370	5,213	5,049	4,964	4,762	4,676
Total deposit accounts	32,866	32,502	31,385	30,433	28,906	27,712
Total Banking Centers (all full service)	8	8	8	8	8	7

(1) Includes the \$1.6 million one-time special assessment on FDIC-assessable deposits to recapitalize SAIF.

December 31, 1998	December 31, 1997	December 31, 1996 (1)	December 31, 1995
\$ 25,235	\$ 23,669	\$ 22,337	\$ 21,123
12,310	11,721	11,287	10,484
12,925	11,948	11,050	10,639
110	221	85	80
12,815	11,727	10,965	10,559
1,347	1,066	682	685
7,938	7,154	8,039	6,117
6,591	6,088	7,357	5,432
2,461	2,223	1,419	2,026
\$ 3,763	\$ 3,416	\$ 2,189	\$ 3,101
\$ 1.36	\$ 1.24	\$ 0.80	\$ 1.13
\$ 1.35	\$ 1.23	\$ 0.79	\$ 1.12
\$ 0.74	\$ 0.64	\$ 0.58	\$ 0.55

December 31, 1998	December 31, 1997	December 31, 1996	December 31, 1995
\$ 345,417	\$ 319,609	\$ 299,419	\$ 280,911
273,433	272,213	244,696	222,293
36,350	29,362	40,024	38,001
293,222	272,090	256,420	247,945
17,320	14,628	12,261	3,139
31,316	29,482	27,815	27,204

December 31, 1998	December 31, 1997	December 31, 1996	December 31, 1995
8.00%	8.16%	7.98%	8.06%
4.16%	4.32%	4.32%	4.33%
3.84%	3.84%	3.66%	3.73%
4.10%	4.12%	3.95%	4.81%
1.14%	1.13%	0.75%	1.14%
12.35%	11.87%	7.90%	11.74%

December 31, 1998	December 31, 1997	December 31, 1996	December 31, 1995
15.3%	15.0%	16.0%	17.1%
14.1%	13.8%	14.7%	15.8%
9.2%	9.2%	9.3%	9.7%
1.14%	1.13%	1.18%	1.27%
213.06%	257.84%	247.40%	268.25%
0.54%	0.44%	0.48%	0.47%
4,625	4,764	4,404	4,606
26,172	25,443	24,666	23,730
7	7	7	6

Business

NorthWest Indiana Bancorp (the Bancorp) is a bank holding company registered with the Board of Governors of the Federal Reserve System. Peoples Bank SB (the Bank), an Indiana savings bank, is a wholly owned subsidiary of the Bancorp. The Bancorp has no other business activity other than being the holding company for Peoples Bank SB.

The Bancorp conducts business from its main office in Munster and its eight full-service offices located in East Chicago, Hammond, Merrillville, Dyer, Schererville and Hobart, Indiana. The Bancorp is primarily engaged in the business of attracting deposits from the general public and the origination of loans secured by single family residences and commercial real estate, as well as, construction loans and various types of consumer loans and commercial business loans. In addition, the Bancorp's Investment and Trust Services department provides estate administration, estate planning, guardianships, land trusts, retirement planning, self-directed IRA and Keogh accounts, investment agency accounts, and serves as personal representative of estates and acts as trustee for revocable and irrevocable trusts.

The Bancorp's common stock is traded in the over-the-counter market and quoted on the OTC Bulletin Board. On February 28, 2005, the Bancorp had 2,777,665 shares of common stock outstanding and 422 stockholders of record. This does not reflect the number of persons or entities who may hold their stock in nominee or "street" name through brokerage firms.

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The Bancorp's earnings are dependent upon the earnings of the Bank. The Bank's earnings are primarily dependent upon net interest margin. The net interest margin is the difference between interest income earned on loans and investments and interest expense paid on deposits and borrowings stated as a percentage of average interest earning assets. The net interest margin is perhaps the clearest indicator of a financial institution's ability to generate core earnings. Fees and service charges, trust department income, gains and losses from the sale of assets, provisions for loan losses, income taxes and operating expenses also affect the Bancorp's profitability.

A summary of our significant accounting policies is detailed in Note 1 to the Bancorp's consolidated financial statements included in this report. The preparation of our financial statements requires management to make estimates and assumptions that affect our financial condition and operating results. Actual results could differ from those estimates. Estimates associated with the allowance for loan losses, fair values of financial instruments and status of contingencies are particularly susceptible to material change in the near term as further information becomes available and future events occur.

At December 31, 2004, the Bancorp had total assets of \$557.4 million and total deposits of \$451.6 million. The Bancorp's deposit accounts are insured up to applicable limits by the Savings Association Insurance Fund (SAIF) that is administered by the Federal Deposit Insurance Corporation (FDIC), an agency of the federal government. At December 31, 2004, stockholders' equity totaled \$44.1 million, with book value per share at \$15.90. Net income for 2004 was \$6.3 million, or \$2.28 basic earnings per common share and \$2.24 diluted earnings per common share. The return on average assets (ROA) was 1.17%, while the return on average stockholders' equity (ROE) was 14.64%.

Asset/Liability Management and Market Risk

Asset/liability management involves the funding and investment strategies necessary to maintain an appropriate balance between interest sensitive assets and liabilities as well as to assure adequate liquidity. These strategies determine the characteristics and mix of the balance sheet. They affect the interest margins, maturity patterns, interest rate sensitivity and risk, as well as resource allocation. For the Bancorp, the key components of asset/liability management are loans, investments, deposits and borrowed funds. Over the years, the Bancorp has directed its lending efforts toward construction loans, adjustable rate residential loans, equity lines of credit, adjustable rate commercial real estate loans and commercial business loans tied to the prime rate of interest. Consumer loans are generally made for terms of five years or less. Fixed rate residential real estate loans are generally made for contractual terms of twenty years or less. The actual cash flows from these loans generally results in a duration which is less than the contractual maturity, providing protection against possible changes in interest rates.

The Bancorp is primarily a portfolio lender. Mortgage banking activities are generally limited to the sale of fixed rate mortgage loans with contractual maturities exceeding fifteen years. These loans are identified as held for sale when originated and sold, on a case-by-case basis, in the secondary market as part of the Bancorp's efforts to manage interest rate risk.

The primary objective of the Bancorp's investment portfolio is to provide for the liquidity needs of the Bancorp and to contribute to profitability by providing a stable flow of dependable earnings. Funds are generally invested in federal funds, interest-bearing balances in financial institutions, U.S. government securities, federal agency securities, and obligations of state and local municipalities. Investments are generally for terms ranging from one day to seven years. Interest-bearing balances in financial institutions include overnight deposits at the Federal Home Loan Bank of Indianapolis (FHLB). Securities are classified as either held-to-maturity or available-for-sale. Held-to-maturity securities are those that the Bancorp has the positive intent and ability to hold to maturity. Available-for-sale securities are those the Bancorp may decide to sell if needed for liquidity, asset-liability management or other reasons. The Bancorp does not have a trading portfolio. During 2004, the Bancorp did not have any derivative instruments and was not involved in hedging activities as defined by SFAS 133.

The Bancorp's cost of funds reacts rapidly to changes in market interest rates due to the relatively short-term nature of its deposit liabilities. Consequently, the levels of short-term interest rates have influenced the Bancorp's results of operations. In order to reduce exposure to interest rate risk, core deposits (checking, NOW accounts, savings and money market accounts) have been aggressively marketed and certificate accounts have been competitively priced. Account activity and maturities are monitored in order to guard against the outflow of funds. Borrowed money is used to compensate for reductions in the availability of other sources of funds and is generally accomplished through repurchase agreements, as well as through a line of credit and advances from the FHLB. FHLB advances with maturities ranging from one to five years are used to fund securities and loans of comparable duration, as well as, to reduce the impact that movements in short-term interest rates have on the Bancorp's overall cost of funds. The Bancorp does not obtain funds through brokers.

The Bancorp's primary market risk exposure is interest rate risk. Interest rate risk is the risk that the Bancorp's earnings and capital will be adversely affected by changes in interest rates. The primary approach to interest rate risk management is one that focuses on adjustments to the Bancorp's asset/liability mix in order to limit the magnitude of interest rate risk. The Board of Directors has delegated the responsibility for measuring, monitoring and controlling interest rate risk to the Bancorp's Asset/Liability Management Committee (ALCO). The ALCO is responsible for developing and implementing interest rate risk management strategies, establishing and maintaining a system of limits and controls, and establishing and utilizing an interest rate risk measurement system. The ALCO, which is made up of members of management, generally meets monthly with Board presentations occurring quarterly.

Performance from an interest rate risk perspective can be measured in many ways. Methodologies used by the Bancorp focus on net interest income and the net economic value of equity. Net interest income is defined as interest income less interest expense. Variability in net interest income arises because its components - interest income and interest expense - do not change equally as rates vary. This mismatch occurs because individual assets and liabilities reprice differently as rates change. Factors which affect net interest income include changes in the level of interest rates, changes in the relationship between Bancorp yield rates and interest costs, changes in the volume of assets and liabilities outstanding, and changes in the composition or mix of assets and liabilities. Management uses rate shock (i.e., instantaneous and sustained parallel shifts in the yield curve in 1% increments up and down 2%) for stress testing the net interest income under several rate change levels. In order to simulate activity, maturing balances are replaced with new balances at the new rate level and repricing balances are adjusted to the new rate shock level. The results are compared to limits set by the Board of Directors and are monitored to identify unfavorable trends.

Net economic value of equity is the net present value of the Bancorp's portfolio of assets and liabilities. By marking-to-market the components of the balance sheet, management can compute the net economic value of equity. As rates change over time, the market values of Bancorp assets and liabilities will change, with longer-term products fluctuating more than short-term products. In most cases, rate-sensitive assets and liabilities will not have the same maturity characteristics. Therefore, as rates vary, the market value of the rate-sensitive assets will not change equally with the market value of rate-sensitive liabilities. This will cause the net economic value of equity to vary. The focus of the net economic value of equity is to determine the percentage decline in the net economic value of equity caused by a 2% increase or decrease in interest rates, whichever produces the larger decline. A large value indicates a large percentage decline in the net economic value of equity due to changes in interest rates and, thus, high interest rate sensitivity. A low value indicates a small percentage decline in the net economic value of equity due to changes in interest rates and, thus, low interest rate sensitivity. As with net interest income, the results are compared to limits set by the Board of Directors and are monitored to identify unfavorable trends.

Presented in the following tables is forward-looking information about the Bancorp's sensitivity to changes in interest rates as of December 31, 2004 and 2003. The tables incorporate the Bancorp's internal system generated data as related to the maturity and repayment/withdrawal of interest-earning assets and interest-bearing liabilities. Prepayment assumptions are based on published data. Present value calculations use current published market interest rates. For core deposits that have no contractual maturity, the table presents principal cash flows and, as applicable, related weighted-average interest rates based on the Bancorp's historical experience, management's judgment, and statistical analysis, as applicable, concerning their most likely withdrawal behaviors, but not as to when they could be repriced.

Interest Rate Risk at December 31, 2004

Change in rates	Net Interest Income			Net Economic Value of Equity		
	Amount	Change	Policy Limit	Amount	Change	Policy Limit
2%	\$ 21,356	- 3.9%	- 20%	\$ 55,060	-13.3%	- 30%
1%	\$ 21,778	- 2.1%	- 10%	\$ 58,980	- 7.2%	- 15%
0%	\$ 22,233	0.0%		\$ 63,526	0.0%	
-1%	\$ 22,484	1.1%	- 10%	\$ 65,412	3.0%	- 15%
-2%	\$ 21,989	1.1%	- 20%	\$ 65,662	3.4%	- 30%

Interest Rate Risk at December 31, 2003

Change in rates	Net Interest Income			Net Economic Value of Equity		
	Amount	Change	Policy Limit	Amount	Change	Policy Limit
2%	\$ 20,528	1.2%	- 20%	\$ 45,949	-18.8%	- 30%
1%	\$ 20,422	0.7%	- 10%	\$ 51,444	- 9.0%	- 15%
0%	\$ 20,277	0.0%		\$ 56,578	0.0%	
-1%	\$ 19,752	- 2.6%	- 10%	\$ 59,167	4.6%	- 15%
-2%	\$ 18,750	- 7.5%	- 20%	\$ 60,276	6.5%	- 30%

The tables show that the Bancorp has managed interest rate risk within the policy limits set by the Board of Directors. At December 31, 2004, an increase in interest rates of 2% would have resulted in a 3.9% decrease in net interest income and a 13.3% decrease in the net economic value of equity, compared to a 1.2% increase in net interest income and a 18.8% decrease in the net economic value of equity at December 31, 2003. During 2004, the Bancorp has managed interest rate risk by generally selling fixed rate loans with contractual maturities exceeding 15 years, maintaining the short duration of the securities portfolio, growing core account balances, implementing net interest income pricing strategies, and extending the maturity of rate-sensitive liabilities through FHLB advances. In addition, during the third quarter the Bancorp sold \$12.2 million in twenty and thirty year fixed rate loans as a part of a balance sheet restructuring strategy to reduce interest rate risk. The restructuring reduced price volatility in the mortgage portfolio, provided for the purchase of bank owned life insurance and funded shorter duration loans.

Financial Condition

During the year ended December 31, 2004, total assets increased by \$48.6 million (9.6%), with interest-earning assets increasing by \$40.1 million (8.4%). At December 31, 2004, interest-earning assets totaled \$516.7 million and represented 92.7% of total assets. Loans totaled \$433.8 million and represented 84.0% of interest-earning assets, 77.8% of total assets and 96.1% of total deposits. The loan portfolio, which is the Bancorp's largest asset, is a significant source of both interest and fee income. The Bancorp's lending strategy stresses quality growth, product diversification, and competitive and profitable pricing. The loan portfolio includes \$228.0 million (52.6%) in residential real estate loans, \$104.1 million (24.0%) in commercial and multifamily real estate loans, \$47.5 million (10.9%) in commercial business loans, \$38.6 million (8.9%) in construction and land development loans, \$11.8 million (2.7%) in government and other loans, and \$4.7 million

(1.1%) in consumer loans. During 2004, loans increased by \$24.0 million (5.9%), with increases taking place in construction and land development loans, commercial business loans and government loans. Adjustable rate loans comprised 52.5% of total loans at year-end. During 2004, loan growth was affected by an increase in commercial loan payoffs and a balance sheet restructuring strategy designed to reduce interest rate risk that included the sale of \$12.2 million in twenty and thirty year fixed rate loans. Management believes that, despite the moderate pace of its local economy, the positive trend in loan growth is likely to continue during 2005. Management expects to fund future loan growth with retail funds.

During 2004, the Bancorp sold \$3.9 million in fixed rate mortgages originated for sale compared to \$19.3 million in 2003 and \$7.5 million in 2002. In addition, the Bancorp sold \$12.2 million in twenty and thirty year fixed rate loans as a part of a balance sheet restructuring strategy to reduce interest rate risk. The restructuring reduced price volatility in the mortgage portfolio, provided for the purchase of bank owned life insurance and funded shorter duration loans. Net gains realized from the sales totaled \$234 thousand, \$495 thousand and \$176 thousand for 2004, 2003 and 2002. The current year decrease in gain on sale of loans is a result of the current interest rate environment and a reduction of loans originated for sale. Net mortgage loan servicing fees totaled \$9 thousand for 2004, compared to net servicing amortization of \$47 thousand for 2003 and net servicing amortization of \$7 thousand for 2002. At December 31, 2004, the Bancorp had \$39 thousand classified as loans held for sale. During 2005, the Bancorp expects to continue selling fixed rate mortgage loans, with contractual maturities exceeding fifteen years, on a case-by-case basis as part of its efforts to manage interest rate risk.

Non-performing loans include those loans that are 90 days or more past due and those loans that have been placed on non-accrual status. Non-performing loans totaled \$1.0 million at December 31, 2004 compared to \$1.7 million at December 31, 2003, a decrease of \$670 thousand or 39.0%. The ratio of non-performing loans to total loans was 0.24% at December 31, 2004 compared to 0.42% at December 31, 2003. The ratio of non-performing loans to total assets was 0.19% at December 31, 2004, compared to 0.34% at December 31, 2003. The December 31, 2004 balance includes \$983 thousand in loans accounted for on a non-accrual basis and \$66 thousand in accruing loans which were contractually past due 90 days or more. Loans internally classified as substandard totaled \$3.2 million at December 31, 2004, an increase of \$535 thousand from the \$2.7 million reported at December 31, 2003. No loans were classified as doubtful or loss. Substandard loans include non-performing loans and potential problem loans, where information about possible credit issues or other conditions causes management to question the ability of such borrowers to comply with loan covenants or repayment terms. In addition to identifying and monitoring non-performing and other classified loans, management maintains a list of watch loans. Watch loans represent loans management is more closely monitoring due to one or more factors that may cause the loan to become classified. Watch loans were \$7.7 million at December 31, 2004, compared to \$8.3 million at December 31, 2003.

At December 31, 2004, one loan totaling \$266 thousand has been classified as impaired, compared to three loans totaling \$611 thousand at December 31, 2003. Impaired loans are loans where full payment under the loan terms is not expected. There were no other loans considered to be impaired loans as of, or for the year ended December 31, 2004.

At December 31, 2004, management is of the opinion that there are no loans, except those discussed above, where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as non-accrual, past due or restructured loans. Also, at December 31, 2004, there were no other interest bearing assets that would be required to be disclosed as non-accrual, past due, restructured or potential problems if such assets were loans. Management does not anticipate that any of the non-performing loans or classified loans would materially impact future operations, liquidity or capital resources.

Because some loans may not be repaid in accordance with contractual agreements, an allowance for loan losses (ALL) has been maintained. While management may periodically allocate portions of the allowance for specific problem loans, the entire allowance is available to absorb probable incurred losses that arise from the loan portfolio and is not segregated for, or allocated to, any particular loan or group of loans. During the year ended December 31, 2004, additions to the ALL account totaled \$385 thousand compared to \$420 thousand for the year ended December 31, 2003. Charge-offs, net of recoveries, totaled \$280 thousand for the current period compared to \$268 thousand for the year ended December 31, 2003. Changes in the provision are directionally consistent with the current level of non-performing and impaired loans, and takes into consideration management's current judgments about the credit quality of the loan portfolio, loan portfolio growth, changes in the portfolio mix and local economic conditions.

The determination of the amounts of the ALL and provisions for loan losses is based on management's current judgments about the credit quality of the loan portfolio with consideration given to all known relevant internal and external factors that affect loan collectibility as of the reporting date. The appropriateness of the current year provision and the overall adequacy of the ALL are determined through a disciplined and consistently applied quarterly process that combines a review of the current position with a risk assessment worksheet. The risk assessment worksheet covers the residential, commercial real estate, commercial business, and consumer loan portfolios. Management uses a risk rating system to assist in determining the appropriate level for the ALL. Management assigns risk factors to non-performing loans; loans that management has internally classified as impaired; loans that management has internally classified as substandard, doubtful, loss, or watch; and performing loans.

Risk factors for non-performing and internally classified loans are based on an analysis of the estimated collateral liquidation value for individual loans defined as substandard or doubtful. Estimated collateral liquidation values are based on established loan underwriting standards and adjusted for current mitigating factors on a loan-by-loan basis. Aggregate substandard loan collateral deficiencies are determined for residential, commercial real estate, commercial business, and consumer loan portfolios. These deficiencies are then stated as a percentage of the total substandard balances to determine the appropriate risk factors.

Risk factors for performing and non-classified loans are based on the average net charge-offs for the most recent five years, which are then stated as a percentage of average loans for the same period. Historical risk factors are calculated for residential, commercial real estate, commercial business, and consumer loans. The historical factors are then adjusted for current subjective risks attributable to: local and national economic factors; loan growth and changes in loan composition; organizational structure; composition of loan staff; loan concentrations; policy changes and out of market lending activity.

The ALL to total loans was 0.90% at December 31, 2004 compared to 0.92% at December 31, 2003, while the ALL to non-performing loans (coverage ratio) was 371.0% compared to 220.3% for the same periods. The December 31, 2004 balance in the ALL account of \$3.9 million is considered adequate by management after evaluation of the loan portfolio, past experience and current economic and market conditions. The allocation of the ALL reflects performance and growth trends within the various loan categories, as well as, consideration of the facts and circumstances that affect the repayment of individual loans, and loans which have been pooled as of the evaluation date, with particular attention given to non-performing loans and loans which have been classified as substandard, doubtful or loss. Management has allocated general reserves to both performing and non-performing loans based on current information available.

At December 31, 2004, the Bancorp's investment portfolio totaled \$82.9 million and was invested as follows: 51.9% in U.S. government agency debt securities, 31.3% in U.S. government agency mortgage-backed securities and collateralized mortgage obligations, and 13.4% in municipal securities. At December 31, 2004, securities available-for-sale totaled \$69.2 million or 83.4% of total securities. Available for sale securities are those the Bancorp may decide to sell if needed for liquidity, asset-liability management or other reasons. In addition, the Bancorp had \$2.9 million in FHLB stock. During 2004, securities increased by \$16.4 million (24.7%), as deposit growth outpaced loan growth.

During 2004, the Bank purchased \$8.0 million in bank owned life insurance. The business purpose of the bank owned life insurance is to offset the cost of Bancorp sponsored employee benefits. The bank owned life insurance is recorded as an asset on the Bancorp's balance sheet. Increases in cash value of the policies are recorded as noninterest income.

Deposits are a fundamental and cost-effective source of funds for lending and other investment purposes. The Bancorp offers a variety of products designed to attract and retain customers, with the primary focus on building and expanding relationships. At December 31, 2004, deposits totaled \$451.6 million. During 2004, deposit growth totaled \$29.9 million (7.1%). Checking accounts increased \$19.9 million (21.4%), money market deposit accounts (MMDA's) increased \$5.4 million (7.9%), savings accounts increased \$415 thousand (0.6%), and certificates of deposit increased by \$4.2 million (2.2%). At December 31, 2004, the deposit base was comprised of 25.0% checking, 16.3% MMDAs, 15.6% savings accounts, and 43.1% certificates of deposit. The growth in deposits was a result of competitive product offerings, an aggressive marketing program, and employee incentive programs rewarding new account openings.

Borrowings are primarily used to fund asset growth not supported by deposit generation. At December 31, 2004, borrowed funds totaled \$57.2 million compared to \$40.9 million at December 31, 2003, an increase of \$16.3 million (39.9%). Repurchase agreements totaled \$11.5 million at December 31, 2004 and 2003. FHLB advances totaled \$39.5 million, increasing \$13.0 million, as the Bancorp extended the maturity structure of interest-bearing liabilities at cost effective interest rates. In addition, the outstanding balance on the FHLB line of credit was \$5.2 million at the end of the current year. Other short-term borrowings totaled \$1.0 million compared to \$1.4 million at December 31, 2003, a decrease of \$404 thousand as the Bancorp paid down short-term funding.

Liquidity and Capital Resources

For the Bancorp, liquidity management refers to the ability to generate sufficient cash to fund current loan demand, meet savings deposit withdrawals, and pay dividends and operating expenses. The Bancorp's primary goal for liquidity management is to ensure that at all times it can meet the cash demands of its depositors and its loan customers. A secondary purpose of liquidity management is profit management. Because profit and liquidity are often conflicting objectives, management attempts to maximize the Bancorp's net interest margin by making adequate, but not excessive, liquidity provisions. Finally, because the Bancorp is subject to legal reserve requirements under Federal Reserve Regulation D, liquidity is managed to ensure that the Bancorp maintains an adequate level of legal reserves.

Changes in the liquidity position result from operating, investing and financing activities. Cash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income. The primary investing activities include loan originations, loan repayments, investments in interest bearing balances in financial institutions, and the purchase and maturity of investment securities. Financing activities focus almost entirely on the generation of customer deposits. In addition, the Bancorp utilizes borrowings (i.e., repurchase agreements and advances from the FHLB) as a source of funds.

During 2004, cash and cash equivalents increased \$328 thousand, compared to a decrease of \$19.1 million for 2003, and an increase of \$18.3 million for 2002. During 2004, the primary sources of cash and cash equivalents were from the maturities and sales of securities, loan sales and prepayments, deposit growth, FHLB advances and cash from operating activities. The primary uses of cash and cash equivalents were loan originations and loan participations purchased, the purchase of securities, the purchase of bank owned life insurance, and the payment of common stock dividends. During 2004, cash from operating activities increased to \$7.9 million, compared to \$7.3 million for 2003 and \$7.2 million for 2002. The 2004 increase in cash provided by operating activities was a result of the sale of loans. Cash outflows from investing activities totaled \$50.8 million during 2004, compared to \$43.2 million during 2003 and \$28.6 million for 2002. The increase during 2004 was due primarily to security purchases, loan originations and the purchase of bank owned life insurance. During 2004, excess liquidity was reinvested into the Bancorp's securities portfolio. The net change in loans receivable and loan participations purchased totaled \$19.0 million during 2004, compared to \$22.7 million during 2003 and \$24.0 million for 2002. Cash flows from financing activities totaled \$43.2 million in 2004, compared to \$16.7 million in 2003 and \$39.7 million during 2002. The change during 2004 was primarily due to deposit growth. Deposit growth during 2004 totaled \$29.9 million, compared to \$15.0 million for 2003 and \$51.5 million for 2002. FHLB advances increased by \$13.0 million during 2004, compared to \$5.0 million during 2003 and \$4.5 million during 2002. During 2004, the Bancorp used low cost advances to extend the maturity structure of interest-bearing liabilities. The Bancorp paid dividends on common stock of \$3.4 million during 2004, compared to \$3.2 million during 2003 and \$3.0 million for 2002.

Management strongly believes that safety and soundness is enhanced by maintaining a high level of capital. During 2004, stockholders' equity increased by \$2.5 million (6.1%). The increase resulted primarily from earnings of \$6.3 million for 2004. In addition, \$406 thousand represents proceeds from the issuance of 18,747 shares of common stock from stock-based compensation plans. The Bancorp declared \$3.4 million in cash dividends. The net unrealized loss on available-for-sale securities, net of tax, was \$720 thousand. At December 31, 2004, book value per share was \$15.90 compared to \$15.09 at December 31, 2003.

The Bancorp is subject to risk-based capital guidelines adopted by the Board of Governors of the Federal Reserve System (the FRB), and the Bank is subject to risk-based capital guidelines adopted by the FDIC. As applied to the Bancorp and the Bank, the FRB and FDIC capital requirements are substantially the same. These regulations divide capital into two tiers. The first tier (Tier 1) includes common equity, certain non-cumulative perpetual preferred stock and minority interests in equity accounts of consolidated subsidiaries, less goodwill and certain other intangible assets. Supplementary (Tier 2) capital includes, among other things, cumulative perpetual and long-term limited-life preferred stock, mandatory convertible securities, certain hybrid capital instruments, term subordinated debt and the allowance for loan losses, subject to certain limitations, less required deductions. The Bancorp and the Bank are required to maintain a total risk-based capital ratio of 8%, of which 4% must be Tier 1 capital. In addition, the FRB and FDIC regulations provide for a minimum Tier 1 leverage ratio (Tier 1 capital to adjusted average assets) of 3% for financial institutions that meet certain specified criteria, including that they have the highest regulatory rating and are not experiencing or anticipating significant growth. All other financial institutions are required to maintain a Tier 1 leverage ratio of 3% plus an additional cushion of at least one to two percent.

The following table shows that, at December 31, 2004, the Bancorp's capital exceeded all regulatory capital requirements. At December 31, 2004, the Bancorp's and the Bank's regulatory capital ratios were substantially the same. The dollar amounts are in millions.

	Actual		Required for adequate capital		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets	\$ 48.1	12.2%	\$ 31.5	8.0%	\$ 39.4	10.0%
Tier 1 capital to risk-weighted assets	\$ 44.2	11.2%	\$ 15.7	4.0%	\$ 23.6	6.0%
Tier 1 capital to adjusted average assets	\$ 44.2	8.0%	\$ 16.6	3.0%	\$ 27.6	5.0%

Contractual Obligations, Commitments, Contingent Liabilities, and Off-balance Sheet Arrangements

The following table presents the Bancorp's consolidated long term, contractual obligations as well as commitments to extend credit to our borrowers, in aggregate and by payment due dates at December 31, 2004. Dollar amounts are in thousands.

	Less than One Year	One through Three Years	Four through Five Years	After Five Years	Total
Long-term contractual obligations:					
Time deposits	\$ 181,019	\$ 12,495	\$ 664	\$ —	\$ 194,178
FHLB advances	12,000	22,500	5,000	—	39,500
Limited partnership obligation	62	124	—	—	186
Total long-term contractual obligations	193,081	35,119	5,664	—	233,864
Commitments to extend credit:					
Performance standby letters of credit	1,208	305	877	—	2,390
Total commitments to extend credit	\$ 194,289	\$ 35,424	\$ 6,541	\$ —	\$ 236,254

At December 31, 2004, outstanding commitments to fund loans totaled \$68.2 million. Approximately 87% of the commitments were at variable rates. Management believes that the Bancorp has sufficient cash flow and borrowing capacity to fund all outstanding commitments and to maintain proper levels of liquidity. Except for the items disclosed in the table above, the Bancorp has no other off-balance sheet arrangements, which will have a current or future effect on results of operations, liquidity, capital expenditures or resources.

At December 31, 2004, management is not aware of any current recommendations by the regulatory authorities, which if they were to be implemented would have a material effect on the Bancorp's liquidity, capital resources or operations.

Results of Operations - Comparison of 2004 to 2003

Net income for 2004 was \$6.3 million, compared to \$5.9 million for 2003, an increase of \$354 thousand (6.0%). The earnings represent a return on average assets of 1.17% for 2004 compared to 1.20% for 2003. The return on average equity was 14.64% for 2004 compared to 14.65% for 2003.

Net interest income for 2004 was \$19.8 million, up \$920 thousand (4.9%) from \$18.8 million for 2003. The increase in net interest income was due to the cost of funds falling more rapidly than the yield on earning assets and the growth in average daily balances for interest earning assets and core deposits. The low interest rate environment during 2004 resulted in lower yields for investments and loans as maturing securities were reinvested at lower rates of return, while loans either repriced or refinanced at lower rates. During 2004, the cost of funds fell faster than yields on earning assets due to the maturity structure of the Bancorp's certificates of deposit and growth in core deposits. The weighted-average yield on interest-earning assets was 5.31% for 2004 compared to 5.65% for 2003. The weighted-average cost of funds was 1.40% for 2004 compared to 1.67% for 2003. The impact of the 5.31% return on interest-earning assets and the 1.40% cost of funds resulted in a net interest spread of 3.91% for 2004 compared to 3.98% for 2003. During 2004, total interest income increased by \$257 thousand (1.0%) while total interest expense decreased by \$663 thousand (8.8%). The net interest margin was 3.94% for 2004 compared to 4.04% for 2003.

During 2004, interest income from loans decreased by \$424 thousand (1.8%) compared to 2003. The decrease was due to lower yields on loans outstanding, as existing variable rate portfolio loans are repricing at lower rates, and commercial real estate loan and commercial business loan prepayment activity. The weighted-average yield on loans outstanding was 5.71% for 2004 compared to 6.11% for 2003. Loan balances averaged \$415.1 million for 2004, up \$20.1 million (5.1%) from \$395.0 million for 2003. During 2004, interest income from securities and other interest earning assets increased by \$681 thousand (30.6%) compared to 2003. The increase was due to higher average balances and an increase in portfolio yields. The weighted-average yield on securities and other interest earning assets was 3.37% for 2004 compared to 3.13% for 2003. Securities and other interest earning assets averaged \$86.1 million for 2004, up \$14.9 million (20.9%) from \$71.2 million for 2003.

Interest expense for deposits decreased by \$871 thousand (14.0%) during 2004 compared to 2003. The decrease was due to a lower cost of funds. The weighted-average rate paid on deposits for 2004 was 1.21% compared to 1.51% for 2003. The lower cost of funds was caused by core account growth and maturing certificates of deposit during a low interest rate environment. Total deposit balances averaged \$440.8 million for 2004, up \$28.6 million (6.9%) from \$412.2 million for 2003. Interest expense on borrowed funds increased by \$208 thousand (15.9%) during 2004 due to an increase in average daily balances. The weighted-average cost of borrowed funds was 3.10% for 2004 compared to 3.48% for 2003. Borrowed funds averaged \$49.0 million during 2004, up \$11.3 million (30.0%) from \$37.7 million for 2003. Borrowed funds have provided a cost-effective supplement to deposits for funding interest-earning asset growth.

Noninterest income was \$3.3 million for 2004, up \$344 thousand (11.6%) from \$3.0 million during 2003. During 2004, fees and service charges increased \$248 thousand (13.2%). The increase was primarily due to loan prepayment penalties and deposit account growth. Fees from trust operations totaled \$498 thousand for 2004, compared to \$444 thousand for 2003, an increase of \$54 thousand (12.2%). During 2004, the Bancorp reported \$234 thousand in gains on sales of loans compared to \$495 thousand for 2003. The decrease in gains on sales of loans was a result of fewer loans sold and lower profits recognized due to the changing interest rate environment. Gains on securities totaled \$284 thousand during 2004 compared to \$132 thousand for 2003, as securities near maturity were sold and reinvested at higher yields. Income from increases in the cash value of bank owned life insurance totaled \$147 thousand during the current year, compared to \$0 in 2003. In addition, the Bancorp reported \$1 thousand in gains on the sale of foreclosed real estate during 2004 compared to losses of \$4 thousand for 2003.

Noninterest expense for 2004 was \$13.2 million, up \$1.1 million (9.4%) from \$12.0 million for 2003. During the current year, compensation and benefits totaled \$6.8 million, an increase of \$653 thousand (10.6%) compared to \$6.2 million for 2003. The increase was primarily due to additional staffing to enhance customer service and standard compensation increases. Occupancy and equipment totaled \$2.2 million for 2004, an increase of \$164 thousand (8.1%) compared to \$2.0 million for 2003. The increase is a result of depreciation expense related to facility, equipment and technology expenditures incurred throughout the year.

In addition, operating expenses were incurred as a result of utilizing the Bancorp's new corporate center for a full year. Marketing expense totaled \$233 thousand for 2004, an increase of \$46 thousand (24.6%), compared to \$187 thousand for 2003. The increased marketing expenses were a result of a focused effort to communicate the Bancorp's brand, while selling its products and services. The change in data processing and other expense was due primarily to account growth, expansion of banking activities and standard increases in operations. The Bancorp's efficiency ratio for 2004 was 58.0% compared to 56.3% for 2003. The ratio is determined by dividing total noninterest expense by the sum of net interest income and total noninterest income for the period.

Income tax expenses for 2004 totaled \$3.2 million compared to \$3.4 million for 2003, a decrease of \$194 thousand (5.9%). The combined effective federal and state tax rates for the Bancorp were 33.9% for 2004 and 36.5% for 2003. The decrease was due to an increased investment in tax-exempt investments, loans and the purchase of bank owned life insurance.

Results of Operations - Comparison of 2003 to 2002

Net income for 2003 was \$5.9 million, compared to \$5.5 million for 2002, an increase of \$443 thousand (8.1%). The earnings represent a return on average assets of 1.20% for 2003 compared to 1.18% for 2002. The return on average equity was 14.65% for 2003 compared to 14.58% for 2002.

Net interest income for 2003 was \$18.8 million, up \$1.2 million (6.6%) from \$17.7 million for 2002. The increase in net interest income was due to the cost of funds falling more rapidly than the yield on earning assets and the growth in average daily balances for interest earning assets. The low interest rate environment of 2003 resulted in lower yields for investments and loans as maturing securities were reinvested at lower rates of return, while loans either repriced or refinanced at lower rates. During 2003, the cost of funds fell faster than yields on earning assets due to the maturity structure of the Bancorp's certificates of deposit and growth in core accounts. The weighted-average yield on interest-earning assets was 5.65% for 2003 compared to 6.26% for 2002. The weighted-average cost of funds was 1.67% for 2003 compared to 2.38% for 2002. The impact of the 5.65% return on interest-earning assets and the 1.67% cost of funds resulted in a net interest spread of 3.98% for 2003 compared to 3.88% for 2002. During 2003, total interest income decreased by \$1.4 million (5.1%) while total interest expense decreased by \$2.6 million (25.6%). The net interest margin was 4.04% for 2003 compared to 3.99% for 2002.

During 2003, interest income from loans decreased by \$458 thousand (1.9%) compared to 2002. The decrease was due to lower yields on loans outstanding, as the current interest rate environment resulted in new originations at low rates, and continued increases in prepayment and refinancing activity. The weighted-average yield on loans outstanding was 6.11% for 2003 compared to 6.73% for 2002. Loan balances averaged \$395.0 million for 2003, up \$29.4 million (8.0%) from \$365.6 million for 2002. During 2003, interest income from securities and other interest earning assets decreased by \$966 thousand (30.3%) compared to 2002. The decrease was due to lower portfolio yields and average daily balances. The weighted-average yield on securities and other interest earning assets was 3.13% for 2003 compared to 4.10% for 2002. Securities and other interest earning assets averaged \$71.2 million for 2003, down \$6.7 million (8.6%) from \$77.9 million for 2002.

Interest expense for deposits decreased by \$2.3 million (27.4%) during 2003 compared to 2002. The decrease was due to a lower cost of funds. The weighted-average rate paid on deposits for 2003 was 1.51% compared to 2.23% for 2002. The lower cost of funds was caused by core account growth and maturing certificates of deposit during a low interest rate environment. Total deposit balances averaged \$412.2 million for 2003, up \$28.9 million (7.5%) from \$383.3 million for 2002. Interest expense on borrowed funds decreased by \$239 thousand (15.4%) during 2003 due to lower borrowing costs and average daily balances. The weighted-average cost of borrowed funds was 3.47% for 2003 compared to 3.71% for 2002. Borrowed funds averaged \$37.7 million during 2003, down \$4.1 million (9.8%) from \$41.8 million for 2002. Borrowed funds have provided a cost-effective supplement to deposits for funding interest-earning asset growth.

Noninterest income was \$3.0 million for 2003, up \$293 thousand (11.0%) from \$2.7 million during 2002. During 2003, fees and service charges increased \$92 thousand (5.2%). The increase was due to account growth and increased activity. Fees from Trust operations totaled \$444 thousand for 2003, compared to \$509 thousand for 2002. During 2003, the Bancorp reported \$495 thousand in gains on sales of loans compared to \$176 thousand for 2002, due to the current low interest rate environment and increase in volume sold. Gains on securities totaled \$132 thousand during 2003 compared to \$143 thousand for 2002, as securities with higher prepayment speeds were sold and reinvested at higher yields. In addition, the Bancorp reported \$4 thousand in losses on the sale of foreclosed real estate during 2003 compared to gains of \$57 thousand for 2002.

Noninterest expense for 2003 was \$12.0 million, up \$1.2 million (10.8%) from \$10.9 million for 2002. The increase in compensation and benefits was due to annual salary increases and additional staffing for current operations. The increase in occupancy expense was due to increased depreciation expense for investment in technology and capital expenditures for the new corporate center. Other expense changes were due to standard increases in operations. The Bancorp's efficiency ratio for 2003 was 55.2% compared to 53.4% for 2002. The ratio is determined by

dividing total noninterest expense by the sum of net interest income and total noninterest income for the period.

Income tax expenses for 2003 totaled \$3.4 million compared to \$3.3 million for 2002, an increase of \$134 thousand (4.1%). The combined effective federal and state tax rates for the Bancorp were 36.5% for 2003 and 37.4% for 2002. The increase was due to increased earnings. The reduction during 2003 was a result of an increase in tax-exempt investments and loans.

Critical Accounting Policies

Critical accounting policies are those accounting policies that management believes are most important to the portrayal of the Bancorp's financial condition and that require management's most difficult, subjective or complex judgments. The Bancorp's critical accounting policies are summarized below:

Allowance for Loan Losses – The Bancorp maintains an Allowance for Loan Losses (ALL) to absorb probable incurred credit losses that arise from the loan portfolio. The ALL is increased by the provision for loan losses, and decreased by charge-offs net of recoveries. The determination of the amounts of the ALL and provisions for loan losses is based upon management's current judgments about the credit quality of the loan portfolio with consideration given to all known relevant internal and external factors that affect loan collectibility. The methodology used to determine the current year provision and the overall adequacy of the ALL includes a disciplined and consistently applied quarterly process that combines a review of the current position with a risk assessment worksheet. Factors that are taken into consideration in the analysis include an assessment of national and local economic trends, a review of current year loan portfolio growth and changes in portfolio mix, and an assessment of trends for loan delinquencies and loan charge-off activity. Particular attention is given to non-accruing loans and accruing loans past due 90 days or more, and loans that have been classified as substandard, doubtful, or loss. Changes in the provision are directionally consistent with changes in observable data.

Commercial and industrial, and commercial real estate loans that exhibit credit weaknesses and loans that have been classified as impaired are subject to an individual review. Where appropriate, ALL allocations are made to these loans based on management's assessment of financial position, current cash flows, collateral values, financial strength of guarantors, industry trends, and economic conditions. ALL allocations for homogeneous loans, such as residential mortgage loans and consumer loans, are based on historical charge-off activity and current delinquency trends. Management has allocated general reserves to both performing and non-performing loans based on historical data and current information available.

Risk factors for non-performing and internally classified loans are based on an analysis of the estimated collateral liquidation value for individual loans defined as substandard or doubtful. Estimated collateral liquidation values are based on established loan underwriting standards and adjusted for current mitigating factors on a loan-by-loan basis. Aggregate substandard loan collateral deficiencies are determined for residential, commercial real estate, commercial business, and consumer loan portfolios. These deficiencies are then stated as a percentage of the total substandard balances to determine the appropriate risk factors.

Risk factors for performing and non-classified loans are based on the average net charge-offs for the most recent five years, which are then stated as a percentage of average loans for the same period. Historical risk factors are calculated for residential, commercial real estate, commercial business, and consumer loans. The historical factors are then adjusted for current subjective risks attributable to: local and national economic factors; loan growth and changes in loan composition; organizational structure; composition of loan staff; loan concentrations; policy changes and out of market lending activity.

The risk factors are applied to these types of loans to determine the appropriate level for the ALL. Adjustments may be made to these allocations that reflect management's judgment on current conditions, delinquency trends, and charge-off activity.

The Bancorp has not made any significant changes to its overall approach in the determination of the ALL for all periods reported. There have been no material changes in assumptions or estimation techniques. Based on the above discussion, management believes that the ALL is currently adequate, but not excessive, given the risk inherent in the loan portfolio.

Impact of Inflation and Changing Prices

The financial statements and related data presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation. The primary assets and liabilities of the Bancorp are monetary in nature. As a result, interest rates have a more significant impact on the Bancorp's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or magnitude as the prices of goods and services.

Statements contained in this report that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words or phrases “would be,” “will allow,” “intends to,” “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” or similar expressions are also intended to identify “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act. The Bancorp cautions readers that forward-looking statements, including without limitation those relating to the Bancorp’s future business prospects, interest income and expense, net income, liquidity, and capital needs are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due to, among other things, factors identified in this report, including the following:

Regulatory Risk. The banking industry is heavily regulated. As discussed above, the Bank and Bancorp are subject to regulation and supervision by the DFI, FDIC, FRB, and SEC (Securities and Exchange Commission). The burden imposed by federal and state regulations puts banks at a competitive disadvantage compared to less regulated competitors such as finance companies, mortgage banking companies and leasing companies. The banking industry continues to lose market share to competitors.

Legislation. Because of concerns relating to the competitiveness and the safety and soundness of the industry, Congress continues to consider a number of wide-ranging proposals for altering the structure, regulation, and competitive relationships of the nation’s financial institutions. Among such bills are proposals to combine banks and thrifts under a unified charter, to combine regulatory agencies, and to further expand the powers of depository institutions, bank holding companies, and competitors of depository institutions. Management cannot predict whether or in what form any of these proposals will be adopted or the extent to which the business of the Bancorp or the Bank may be affected thereby.

Credit Risk. One of the greatest risks facing lenders is credit risk, that is, the risk of losing principal and interest due to a borrower’s failure to perform according to the terms of a loan agreement. While management attempts to provide an allowance for loan losses at a level adequate to cover probable incurred losses based on loan portfolio growth, past loss experience, general economic conditions, information about specific borrower situations, and other factors, future adjustments to reserves may become necessary, and net income could be significantly affected, if circumstances differ substantially from assumptions used with respect to such factors.

Exposure to Local Economic Conditions. The Bank’s primary market area for deposits and loans encompasses Lake County, in northwest Indiana, where all of its offices are located. Ninety-five percent of the Bank’s business activities are within this area. This concentration exposes the Bank to risks resulting from changes in the local economy. A dramatic drop in local real estate values would, for example, adversely affect the quality of the Bank’s loan portfolio.

Interest Rate Risk. The Bancorp’s earnings depend to a great extent upon the level of net interest income, which is the difference between interest income earned on loans and investments and the interest expense paid on deposits and other borrowings. Interest rate risk (IRR) is the risk that the earnings and capital will be adversely affected by changes in interest rates. Further discussion of interest rate risk can be found under the caption “Asset/Liability Management and Market Risk” in the Management’s Discussion and Analysis of Financial Condition and Results of Operations section of this document.

Competition. The activities of the Bancorp and the Bank in the geographic market served involve competition with other banks as well as with other financial institutions and enterprises, many of which have substantially greater resources than those available to the Bancorp. In addition, non-bank competitors are generally not subject to the extensive regulation applicable to the Bancorp and the Bank.



Report of Independent Registered Public Accounting Firm

Board of Directors
North West Indiana Bancorp
Munster, Indiana

We have audited the accompanying consolidated balance sheets of North West Indiana Bancorp ("Company") as of December 31, 2004 and 2003 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NorthWest Indiana Bancorp as of December 31, 2004 and 2003, and the results of their operations and its cash flows for each of the three years in the period ended December 31, 2004 in conformity with U.S. generally accepted accounting principles.

Crowe Chizek and Company LLC
Crowe Chizek and Company LLC

South Bend, Indiana
February 18, 2005

Consolidated Balance Sheets

(Dollars in thousands)

	December 31,	
	2004	2003
ASSETS		
Cash and noninterest bearing balances in financial institutions	\$ 16,398	\$ 15,888
Federal funds sold	—	182
Total cash and cash equivalents	16,398	16,070
Securities available-for-sale	69,161	60,806
Securities held-to-maturity; fair value: December 31, 2004 - \$10,861 December 31, 2003 - \$2,936	10,818	2,927
Loans held for sale	39	75
Loans receivable	433,790	409,808
Less: allowance for loan losses	(3,892)	(3,787)
Net loans receivable	429,898	406,021
Federal Home Loan Bank stock	2,904	2,775
Accrued interest receivable	2,459	2,249
Premises and equipment	14,169	14,419
Foreclosed real estate	280	—
Cash value of bank owned life insurance	8,147	—
Investment in real estate limited partnerships	881	952
Other assets	2,239	2,481
Total assets	<u>\$ 557,393</u>	<u>\$ 508,775</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	\$ 56,861	\$ 41,616
Interest bearing	394,712	380,024
Total	451,573	421,640
Borrowed funds	57,201	40,895
Accrued expenses and other liabilities	4,522	4,686
Total liabilities	513,296	467,221
Stockholders' Equity:		
Preferred stock, no par or stated value; 10,000,000 shares authorized, none outstanding	—	—
Common stock, no par or stated value; 10,000,000 shares authorized; shares issued: December 31, 2004 - 2,840,979 December 31, 2003 - 2,822,232		
shares outstanding: December 31, 2004 - 2,772,815 December 31, 2003 - 2,754,068	355	353
Additional paid-in capital	3,970	3,567
Accumulated other comprehensive income (loss)	(180)	540
Retained earnings	41,392	38,534
Treasury stock, common shares at cost: December 31, 2004 - 68,164, December 31, 2003 - 68,164	(1,440)	(1,440)
Total stockholders' equity	<u>44,097</u>	<u>41,554</u>
Total liabilities and stockholders' equity	<u>\$ 557,393</u>	<u>\$ 508,775</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

(Dollars in thousands, except per share data)

	Year Ended December 31,		
	2004	2003	2002
Interest income:			
Loans receivable			
Real estate loans	\$ 21,007	\$ 21,683	\$ 21,807
Commercial loans	2,371	2,069	2,238
Consumer loans	331	381	546
Total loan interest	23,709	24,133	24,591
Securities	2,822	2,109	2,986
Other interest earning assets	83	115	204
Total interest income	26,614	26,357	27,781
Interest expense:			
Deposits	5,339	6,210	8,557
Borrowed funds	1,519	1,311	1,550
Total interest expense	6,858	7,521	10,107
Net interest income	19,756	18,836	17,674
Provision for loan losses	385	420	720
Net interest income after provision for loan losses	19,371	18,416	16,954
Noninterest income:			
Fees and service charges	2,122	1,874	1,782
Trust operations	498	444	509
Gain on securities, net	284	132	143
Gain on sale of loans, net	234	495	176
Increase in cash value of bank owned life insurance	147	—	—
Gain/(loss) on sale of foreclosed real estate	1	(4)	57
Other	26	27	8
Total noninterest income	3,312	2,968	2,675
Noninterest expense:			
Compensation and benefits	6,837	6,184	5,823
Occupancy and equipment	2,195	2,031	1,719
Data processing	723	689	630
Professional services	298	402	298
Marketing	233	187	173
Other	2,888	2,544	2,216
Total noninterest expense	13,174	12,037	10,859
Income before income tax expenses	9,509	9,347	8,770
Income tax expenses	3,219	3,411	3,277
Net income	\$ 6,290	\$ 5,936	\$ 5,493
Earnings per common share:			
Basic	\$ 2.28	\$ 2.16	\$ 2.01
Diluted	\$ 2.24	\$ 2.13	\$ 1.99
Dividends declared per common share	\$ 1.24	\$ 1.20	\$ 1.12

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

<i>(Dollars in thousands, except per share data)</i>	<i>Common Stock</i>	<i>Additional Paid-in Capital</i>	<i>Accumulated Other Comprehensive Income (Loss)</i>	<i>Retained Earnings</i>	<i>Treasury Stock</i>	<i>Total Equity</i>
Balance at January 1, 2002	\$ 349	\$ 3,249	\$ 255	\$ 33,469	\$ (1,440)	\$ 35,882
Comprehensive income:						
Net income	—	—	—	5,493	—	5,493
Net unrealized gain/(loss) on securities available for sale, net of reclassification and tax effects	—	—	695	—	—	695
Comprehensive income	—	—	—	—	—	6,188
Issuance of 10,857 shares of common stock at \$5.75 - \$22.15 per share, under stock based compensation plans	2	143	—	—	—	145
Cash dividends, \$1.12 per share	—	—	—	(3,067)	—	(3,067)
Balance at December 31, 2002	351	3,392	950	35,895	(1,440)	39,148
Comprehensive income:						
Net income	—	—	—	5,936	—	5,936
Net unrealized gain/(loss) on securities available - for - sale, net of reclassification and tax effects	—	—	(410)	—	—	(410)
Comprehensive income	—	—	—	—	—	5,526
Issuance of 14,939 shares of common stock at \$10.63 - \$25.25 per share, under stock based compensation plans	2	175	—	—	—	177
Cash dividends, \$1.20 per share	—	—	—	(3,297)	—	(3,297)
Balance at December 31, 2003	353	3,567	540	38,534	(1,440)	41,554
Comprehensive income:						
Net income	—	—	—	6,290	—	6,290
Net unrealized gain/(loss) on securities available for sale, net of reclassification and tax effects	—	—	(720)	—	—	(720)
Comprehensive income	—	—	—	—	—	5,570
Issuance of 18,147 shares of common stock at \$10.63 - \$30.00 per share, under stock based compensation plans	2	403	—	—	—	405
Cash dividends, \$1.24 per share	—	—	—	(3,432)	—	(3,432)
Balance at December 31, 2004	<u>\$ 355</u>	<u>\$ 3,970</u>	<u>\$ (180)</u>	<u>\$ 41,392</u>	<u>\$ (1,440)</u>	<u>\$ 44,097</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Dollars in thousands)	Year Ended December 31,		
	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 6,290	\$ 5,936	\$ 5,493
Adjustments to reconcile net income to net cash provided by operating activities:			
Origination of loans held for sale	(3,835)	(18,476)	(7,228)
Sale of loans originated for sale	3,921	19,271	7,523
Depreciation and amortization, net of accretion	1,425	918	1,232
Amortization of mortgage servicing rights	71	102	44
Amortization of investment in real estate limited partnerships	50	50	50
Equity in (gain)/loss of investments in LLC	39	(19)	52
Federal Home Loan Bank stock dividend	(129)	(103)	(448)
Net gains on securities	(284)	(132)	(143)
Net gains on sale of loans	(234)	(495)	(176)
Net (gains)/losses on sale of foreclosed real estate	(1)	4	(57)
Provision for loan losses	385	420	720
Net change in:			
Interest receivable	(210)	114	56
Cash value of bank owned life insurance	(147)	—	—
Other assets	732	53	(1,375)
Accrued expenses and other liabilities	(198)	(343)	1,434
Total adjustments	1,585	1,364	1,684
Net cash from operating activities	7,875	7,300	7,177
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from maturities and paydowns of securities available-for-sale	21,849	28,918	11,233
Proceeds from sales of securities available-for-sale	8,305	12,002	8,886
Purchase of securities available-for-sale	(39,500)	(46,189)	(11,236)
Proceeds from maturities and paydowns of securities held-to-maturity	12	397	2,730
Purchase of securities held-to-maturity	(7,925)	(2,762)	—
Purchase of investment in real estate limited partnerships	—	—	(53)
Sale of loans transferred to held for sale	12,166	—	—
Loan participations purchased	(17,756)	(7,566)	(14,711)
Net change in loans receivable	(18,985)	(22,700)	(24,047)
Purchase of premises and equipment, net	(994)	(6,007)	(2,160)
Proceeds from sale of foreclosed real estate	35	741	775
Purchase of bank owned life insurance	(8,000)	—	—
Net cash from investing activities	(50,793)	(43,166)	(28,583)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Change in deposits	29,933	14,967	51,458
Proceeds from FHLB advances	20,000	7,000	9,000
Repayment of FHLB advances	(7,000)	(2,000)	(4,500)
Change in other borrowed funds	3,306	(170)	(13,424)
Proceeds from issuance of common stock	405	177	145
Dividends paid	(3,398)	(3,238)	(3,009)
Net cash from financing activities	43,246	16,736	39,670
Net change in cash and cash equivalents	328	(19,130)	18,264
Cash and cash equivalents at beginning of period	16,070	35,200	16,936
Cash and cash equivalents at end of period	\$ 16,398	\$ 16,070	\$ 35,200
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest	\$ 6,868	\$ 7,560	\$ 10,141
Income taxes	\$ 2,450	\$ 3,610	\$ 3,710
SUPPLEMENTAL NONCASH INFORMATION:			
Transfers from loans to foreclosed real estate	\$ 314	\$ 932	\$ 638
Transfers from loans to loans held for sale	\$ 12,202	\$ —	\$ —

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2004, 2003 and 2002

NOTE 1 - Summary of Significant Accounting Policies

Principles of Consolidation - The consolidated financial statements include NorthWest Indiana Bancorp (the Bancorp), its wholly owned subsidiary, Peoples Bank SB (the Bank), and the Bank's wholly owned subsidiaries, Peoples Service Corporation and NWIN, LLC. The Bancorp has no other business activity other than being a holding company for the Bank. The Bancorp's earnings are dependent upon the earnings of the Bank. Peoples Service Corporation provides insurance and annuity investments to the Bank's trust customers. NWIN, LLC began operations on July 25, 2003, as an investment subsidiary based in Las Vegas, Nevada. All significant inter-company accounts and transactions have been eliminated in consolidation.

Use of Estimates - Preparing financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period, as well as the disclosures provided. Actual results could differ from those estimates. Estimates associated with the allowance for loan losses, fair values of financial instruments and status of contingencies are particularly susceptible to material change in the near term.

Concentrations of Credit Risk - The Bancorp grants residential, commercial real estate, commercial business and installment loans to customers primarily of Lake County, in northwest Indiana. Substantially all loans are secured by specific items of collateral including residences, commercial real estate, business assets and consumer assets.

Cash Flow Reporting - For purposes of the statement of cash flows, the Bancorp considers cash on hand, noninterest bearing balances in financial institutions, all interest-bearing balances in financial institutions with original maturities of ninety days or less and federal funds sold to be cash and cash equivalents. The Bancorp reports net cash flows for customer loan and deposit transactions and short-term borrowings with maturities of 90 days or less.

Interest-bearing Deposits in Other Financial Institutions - Interest-bearing deposits in other financial institutions mature within one year and are carried at cost.

Securities - The Bancorp classifies securities into held-to-maturity, available-for-sale, or trading categories. Held-to-maturity securities are those, which the Bancorp has the positive intent and ability to hold to maturity, and are reported at amortized cost. Available-for-sale securities are those the Bancorp may decide to sell if needed for liquidity, asset-liability management or other reasons. Available for sale securities are reported at fair value, with unrealized gains and losses reported in other comprehensive income. The Bancorp does not have a trading portfolio. Realized gains and losses resulting from the sale of securities are computed by the specific identification method. Interest and dividend income, adjusted by amortization of premium or discount, are included in earnings. Securities are written down to fair value when a decline in fair value is not temporary.

Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. In estimating other than temporary losses, management considers: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, and (3) the Bancorp's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

Loans Held for Sale - Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value as determined by outstanding commitments from investors in the aggregate. Net unrealized losses are recognized in a valuation allowance by charges to income.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the cost allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans and Loan Income - Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated net of loans in process, deferred loan fees and costs, and unearned income. Discounts on consumer loans are recognized over the lives of the loans using the interest method. Interest income on other loans is accrued over the term of the loans based upon the principal outstanding except where serious doubt exists as to the collectibility of a loan, in which case the accrual of interest is discontinued. Income is subsequently recognized only to the extent that cash payments are received until, in management's judgment, the borrower has the ability to make contractual interest and principal payments, in which case the loan is returned to accrual status. Net deferred loan fees and costs are amortized on the interest method over the loan term.

Allowance for Loan Losses - The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses, and decreased by charge-offs less recoveries. Estimating the risk of loss and the amount of loss on any loan is necessarily subjective. Accordingly, the allowance is maintained by management at a level considered adequate based on past loss experience, general economic conditions, information about specific borrower situations including their financial position and collateral values, and other factors and estimates which are subject to change over time. While management may periodically allocate portions of the allowance for specific problem loans, the whole allowance is available for any loan charge-offs that occur. Loan losses are charged against the allowance when management determines that a loan is uncollectible.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when full payment under the loan terms is not expected. Loans considered to be impaired are reduced to the present value of expected future cash flows or to the fair value of collateral, by allocating a portion of the allowance for loan losses to such loans. If these allocations cause the allowance for loan losses to require increase, such increase is reported in the provision for loan losses. Smaller-balance homogeneous loans are evaluated for impairment in total. Such loans include residential first mortgage loans secured by one-to-four family residences, residential construction loans, automobile, home equity and second mortgage loans. Commercial loans and mortgage loans secured by other properties are evaluated individually for impairment. When analysis of borrower operating results and financial condition indicates that underlying cash flows of the borrower's business are not adequate to meet its debt service requirements, the loan is evaluated for impairment.

Federal Home Loan Bank Stock - The Bank is a member of the Federal Home Loan Bank system and is required to invest in capital stock of the Federal Home Loan Bank (FHLB). The amount of the required investment is based upon the balance of the Bank's outstanding home mortgage loans and advances from the FHLB and is carried at cost.

Premises and Equipment - Premises and equipment are stated at cost less accumulated depreciation. Premises and related components are depreciated using the straight-line method with useful lives ranging from 26 to 39 years. Furniture and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 10 years. Maintenance and repairs are charged to expense and improvements are capitalized. The cost and accumulated depreciation applicable to assets retired or otherwise disposed of are eliminated from the accounts and the gain or loss on disposition is credited or charged to operations.

Foreclosed Real Estate - Real estate properties acquired through, or in lieu of, loan foreclosure are recorded at fair value at the date of foreclosure. Costs relating to improvement of property are capitalized, whereas holding costs are expensed. Valuations are periodically performed by management, and an allowance for losses is established by a charge to operations if the carrying value of a property exceeds its estimated fair value less selling costs.

Mortgage Servicing Rights - Mortgage servicing rights are recognized as assets for the allocated value of retained servicing rights on loans sold. Mortgage servicing rights are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the rights, using groupings of the underlying loans as to interest rates and then, secondly as to prepayment characteristics. Any impairment of a grouping is reported as a valuation allowance.

Investment in Real Estate Limited Partnerships - Investment in real estate limited partnerships represent the Bancorp's investments in affordable housing projects for the primary purpose of available tax benefits. The method of accounting used for each investment is based on ownership percentage in the investment. One investment is accounted for using the cost method of accounting. The excess of the carrying amount of the investment over its estimated residual value is amortized during the periods in which associated tax credits are allocated to the investor. The annual amortization of the investment is based on the proportion of tax credits received in the current year to total estimated tax credits to be allocated to the Bancorp. The other investment is accounted for using the equity method of accounting. Under the equity method of accounting, the Bancorp records its share of the partnership's earnings or losses in its income statement and adjusts the carrying amount of the investments on the balance sheet. These investments are reviewed for impairment when events indicate their carrying amounts may not be recoverable from future undiscounted cash flows. If impaired, the investments are reported at fair value. The Bancorp's involvement in these types of investments is for tax planning purposes only and as such, the Bancorp is not involved in the management or operation of such investments.

Long-term Assets - These assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Bank Owned Life Insurance - The Bank has purchased life insurance policies on certain key management personnel. Bank owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

Repurchase Agreements - Substantially all repurchase agreement liabilities represent amounts advanced by various customers that are not covered by federal deposit insurance and are secured by securities owned by the Bancorp.

Postretirement Benefits Other Than Pensions - The Bancorp sponsors a defined benefit postretirement plan that provides comprehensive major medical benefits to all eligible retirees. Postretirement benefits are accrued based on the expected cost of providing postretirement benefits to employees during the years the employees have rendered service to the Bancorp.

Stock Compensation - Employee compensation expense under stock options is reported using the intrinsic value method. No stock-based compensation cost is reflected in net income, as all options granted had an exercise price equal to or greater than the market price of the underlying common stock at date of grant. The following table illustrates the effect on net income and earnings per common share if expense was measured using the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*.

(Dollars in thousands except per share data)

	2004	2003	2002
Net income as reported	\$ 6,290	\$ 5,936	\$ 5,493
Deduct: Stock-based compensation expense determined under fair value based method	(51)	(44)	(39)
Pro forma net income	<u>\$ 6,239</u>	<u>\$ 5,892</u>	<u>\$ 5,454</u>
Basic earnings per common share as reported	\$ 2.28	\$ 2.16	\$ 2.01
Pro forma basic earnings per common share	2.26	2.15	1.99
Diluted earnings per common share, as reported	2.24	2.13	1.99
Pro forma diluted earnings per common share	2.22	2.12	1.98

The pro forma effects are computed using option pricing models, using the following weighted-average assumptions as of grant date.

	2004	2003	2002
Risk-free interest rate	3.28%	3.46%	4.69%
Expected option life	6-7 years	6-7 years	6-7 years
Expected stock price volatility	16.50%	10.00%	10.87%
Dividend yield	4.13%	4.44%	4.70%

Income Taxes - The Bancorp records income tax expense based on the amount of taxes due on its tax return, plus deferred taxes computed based on the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

Off-Balance Sheet Financial Instruments - Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Loss Contingencies - Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Earnings Per Common Share - Basic earnings per common share is net income divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options.

Comprehensive Income - Comprehensive income consists of net income and other comprehensive income. Other comprehensive income for the Bancorp includes unrealized gains and losses on securities available-for-sale, which is also recognized as a separate component of equity.

Restrictions on Cash - Cash on hand or on deposit with the Federal Reserve Bank of \$3,532,000 and \$2,399,000 was required to meet regulatory reserve and clearing requirements at year end 2004 and 2003. These balances do not earn interest.

Newly Issued Accounting Guidance - During 2004, the Financial Accounting Standards Board (FASB) issued a revision to the Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." This statement, FAS 123(R) requires all public companies to record compensation expense for stock options provided to employees in return for employee service. The expense is measured at the fair value of the options when granted, and expensed over the employee service period, which is normally the vesting period of the options. This will apply to awards granted or modified after the first quarter or year beginning after June 15, 2005. Compensation expense will also be recorded for prior option grants that vest after the date of adoption. The effect on results of operations will depend on the level of future option grants and the calculation of the fair value of the options granted at such future date, as well as the vesting periods provided, and so cannot currently be predicted. Additional compensation expense for outstanding options will be approximately \$44,667 during 2005, \$37,282 in 2006 and \$21,675 in 2007 and will continue as needed. There will be no significant effect on the Bancorp's operating results or financial condition as total equity will not change.

Fair Value of Financial Instruments - Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Industry Segments - While the Bancorp's chief decision-maker monitors the revenue streams of the various products and services, the identifiable segments are not material and operations are managed and financial performance is evaluated on a company-wide basis. Accordingly, all of the Bancorp's financial service operations are considered by management to be aggregated in one reportable operating segment.

Reclassification - Certain amounts appearing in the consolidated financial statements and notes thereto for the years ended December 31, 2002 and December 31, 2003, may have been reclassified to conform to the December 31, 2004 presentation.

NOTE 2 - Securities

Year end securities available-for-sale were as follows:

	(Dollars in thousands)		
	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
2004			
U.S. government and federal agencies	\$ 42,947	\$ 114	\$ (328)
CMOs and mortgage-backed securities	25,369	66	(142)
Municipal securities	845	5	(5)
Total debt securities	<u>\$ 69,161</u>	<u>\$ 185</u>	<u>\$ (475)</u>
2003			
U.S. government and federal agencies	\$ 44,955	\$ 923	\$ (28)
CMOs and mortgage-backed securities	14,996	49	(123)
Municipal securities	855	9	(4)
Total debt securities	<u>\$ 60,806</u>	<u>\$ 981</u>	<u>\$ (155)</u>

Year end securities held-to-maturity were as follows:

	(Dollars in thousands)			
	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
2004				
Municipal securities	\$ 10,254	\$ 66	\$ (36)	\$ 10,284
Mortgage-backed securities	564	13	—	577
Total debt securities	<u>\$ 10,818</u>	<u>\$ 79</u>	<u>\$ (36)</u>	<u>\$ 10,861</u>
2003				
Municipal securities	\$ 2,352	\$ 5	\$ (8)	\$ 2,349
Mortgage-backed securities	575	12	—	587
Total debt securities	<u>\$ 2,927</u>	<u>\$ 17</u>	<u>\$ (8)</u>	<u>\$ 2,936</u>

The carrying amount and fair value, if different, of debt securities by contractual maturity at December 31, 2004, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	(Dollars in thousands)		
	Available-for-sale Fair Value	Held-to-maturity Carrying Amount	Fair Value
Due in one year or less	\$ 3,454	\$ —	\$ —
Due from one to five years	40,338	—	—
Due over five years	—	10,254	10,284
CMOs and mortgage-backed securities	25,369	564	577
Total	<u>\$ 69,161</u>	<u>\$ 10,818</u>	<u>\$ 10,861</u>

Security sales information is summarized as follows:

	(Dollars in thousands)		
	2004	2003	2002
Proceeds from sales	<u>\$ 8,305</u>	<u>\$ 12,002</u>	<u>\$ 8,886</u>
Gross gains	\$ 284	\$ 143	\$ 143
Gross losses	—	(11)	—
Net gains	<u>\$ 284</u>	<u>\$ 132</u>	<u>\$ 143</u>

The tax benefit (provision) related to these net gains and losses was \$111,000, \$51,000 and \$56,000 respectively.

Securities with carrying values of \$20,108,000 and \$18,526,000 were pledged as of December 31, 2004 and 2003 as collateral for repurchase agreements and public funds and for other purposes as permitted or required by law.

Securities with unrealized losses at year-end 2004 not recognized in income are as follows:

Description of Securities:	(Dollars in thousands)					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government and federal agencies	\$ 30,735	\$ (328)	\$ —	\$ —	\$ 30,735	\$ (328)
CMOs and mortgage-backed securities	13,782	(142)	—	—	13,782	(142)
Municipal securities	4,792	(41)	—	—	4,792	(41)
Total temporarily impaired	<u>\$ 49,309</u>	<u>\$ (511)</u>	<u>—</u>	<u>—</u>	<u>\$ 49,309</u>	<u>\$ (511)</u>

Securities with unrealized losses at year-end 2003 not recognized in income are as follows:

(Dollars in thousands)

Description of Securities:	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government and federal agencies	\$ 5,970	\$ (28)	\$ —	\$ —	\$ 5,970	\$ (28)
CMOs and mortgage-backed securities	7,885	(123)	—	—	7,885	(123)
Municipal securities	2,048	(12)	—	—	2,048	(12)
Total temporarily impaired	\$ 15,903	\$ (163)	\$ —	\$ —	\$ 15,903	\$ (163)

Unrealized losses on securities have not been recognized into income because the decline in fair value is considered temporary. Management has the intent and ability to hold for the foreseeable future, and the decline in fair value is largely due to increases in market interest rates. The fair value is expected to recover as the securities approach their maturity date and/or market rates decline.

The Bancorp evaluates securities for other-than-temporary impairment, at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Bancorp to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, the Bancorp may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

NOTE 3 - Loans Receivable

Year end loans are summarized below:

	(Dollars in thousands)	
	2004	2003
Loans secured by real estate:		
Construction and land development	\$ 38,619	\$ 23,674
Residential, including home equity	228,028	233,295
Commercial real estate and other dwelling	104,086	107,011
Total loans secured by real estate	<u>370,733</u>	<u>363,980</u>
Consumer loans	4,668	5,084
Commercial business	47,462	35,930
Government and other	11,838	5,806
Subtotal	<u>434,701</u>	<u>410,800</u>
Less:		
Net deferred loan origination fees	(752)	(777)
Undisbursed loan funds	(159)	(215)
Loans receivable	<u>\$ 433,790</u>	<u>\$ 409,808</u>

Activity in the allowance for loan losses is summarized below for the years indicated:

	(Dollars in thousands)		
	2004	2003	2002
Balance at beginning of period	\$ 3,787	\$ 3,635	\$ 3,156
Provision charged to income	385	420	720
Loans charged-off	(341)	(277)	(336)
Recoveries	61	9	95
Balance at end of period	<u>\$ 3,892</u>	<u>\$ 3,787</u>	<u>\$ 3,635</u>

Nonperforming loans at year end were as follows:

	(Dollars in thousands)	
	2004	2003
Loans past due over 90 days still on accrual	\$ 66	\$ 370
Nonaccrual loans (including impaired loans)	983	1,349

Impaired loans at year end were as follows:

	(Dollars in thousands)		
	2004	2003	2002
Year end loans with no allocated allowances for loan losses	\$ —	\$ —	\$ —
Year end loans with allocated allowances for loan losses	266	611	1,271
Total	<u>\$ 266</u>	<u>\$ 611</u>	<u>\$ 1,271</u>
Amount of the allowance for loan losses allocated	\$ 116	\$ 367	\$ 475
Average of impaired loans during the year	462	855	1,320
Interest income recognized during impairment	—	—	—
Cash-basis interest income recognized	—	—	—

NOTE 4 - Secondary Market Mortgage Activities

Mortgage loans serviced for the Federal Home Loan Mortgage Corporation (FHLMC) are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans at year end are summarized below:

	(Dollars in thousands)	
	2004	2003
Mortgage loan portfolio serviced for FHLMC	<u>\$ 40,368</u>	<u>\$ 27,111</u>

Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately \$1,042,000 and \$368,000 at December 31, 2004 and 2003.

Activity for capitalized mortgage servicing rights was as follows:

	(Dollars in thousands)		
	2004	2003	2002
Servicing rights:			
Beginning of year	\$ 252	\$ 151	\$ 112
Additions	184	203	83
Amortized to expense	(71)	(102)	(44)
Total	<u>\$ 365</u>	<u>\$ 252</u>	<u>\$ 151</u>

At year end 2004, 2003 and 2002, there was no valuation allowance required.

NOTE 5 - Premises and Equipment, Net

At year end, premises and equipment are summarized below:

	<i>(Dollars in thousands)</i>	
	<u>2004</u>	<u>2003</u>
Cost:		
Land	\$ 1,665	\$ 1,663
Buildings and improvements	13,387	13,158
Furniture and equipment	7,349	6,604
Total cost	<u>22,401</u>	<u>21,425</u>
Less accumulated depreciation and amortization	<u>(8,232)</u>	<u>(7,006)</u>
Premises and equipment, net	<u>\$ 14,169</u>	<u>\$ 14,419</u>

Depreciation expense was \$1,242,000, \$1,048,000 and \$854,000 for 2004, 2003 and 2002.

NOTE 6 - Income Taxes

Components of the income tax expenses consist of the following:

	<i>(Dollars in thousands)</i>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Federal:			
Current	\$ 2,531	\$ 2,462	\$ 2,898
Deferred	160	329	(240)
State:			
Current	503	575	668
Deferred	25	45	(49)
Income tax expenses	<u>\$ 3,219</u>	<u>\$ 3,411</u>	<u>\$ 3,277</u>

The differences between the income tax expenses shown on the statement of income and amounts computed by applying the statutory federal income tax rate to income before tax expenses consist of the following:

	<i>(Dollars in thousands)</i>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Federal statutory rate	34%	34%	34%
Tax expense at statutory rate	\$ 3,233	\$ 3,178	\$ 2,982
State tax, net of federal effect	348	409	408
Other	(362)	(176)	(113)
Total income tax expenses	<u>\$ 3,219</u>	<u>\$ 3,411</u>	<u>\$ 3,277</u>

The components of the net deferred tax asset recorded in the consolidated balance sheets are as follows:

	(Dollars in thousands)	
	2004	2003
Deferred tax assets:		
Bad debts	\$ 1,519	\$ 1,471
Deferred loan fees	293	308
Deferred compensation	570	566
Unrealized appreciation on securities available-for-sale	110	—
Other	131	97
Total deferred tax assets	<u>2,623</u>	<u>2,442</u>
Deferred tax liabilities:		
Depreciation	(845)	(712)
Unrealized appreciation on securities available-for-sale	—	(286)
Other	(502)	(378)
Total deferred tax liabilities	<u>(1,347)</u>	<u>(1,376)</u>
Valuation allowance	—	—
Net deferred tax assets	<u>\$ 1,276</u>	<u>\$ 1,066</u>

The Bancorp had qualified under provisions of the Internal Revenue Code to deduct from taxable income a provision for bad debts in excess of the provision for such losses charged to income in the financial statements, if any. Accordingly, retained earnings at December 31, 2004 and 2003 includes, approximately \$5,982,000 for which no provision for federal income taxes has been made. If, in the future, this portion of retained earnings is used for any purpose other than to absorb bad debt losses, federal income taxes would be imposed at the then applicable rates. The unrecorded deferred income tax liability on the above amounts was approximately \$2,034,000 at December 31, 2004 and 2003.

NOTE 7 - Deposits

The aggregate amount of certificates of deposit with a balance of \$100,000 or more was \$74,000,000 at December 31, 2004 and \$66,500,000 at December 31, 2003.

At December 31, 2004, scheduled maturities of certificates of deposit were as follows:

	(Dollars in thousands)
2005	\$ 181,019
2006	11,207
2007	1,288
2008	646
2009	18
Total	<u>\$ 194,178</u>

NOTE 8 - Borrowed Funds

At year end, borrowed funds are summarized below:

	(Dollars in thousands)	
	2004	2003
Repurchase agreements	\$ 11,458	\$ 11,451
Fixed rate advances from the FHLB	29,000	17,000
Putable advances from the FHLB	7,500	9,500
Variable advances from the FHLB	3,000	—
Line of credit from the FHLB	5,242	1,536
Limited partnership obligation	186	248
Other	815	1,160
Total	<u>\$ 57,201</u>	<u>\$ 40,895</u>

Repurchase agreements generally mature within one year and are secured by U.S. government and U.S agency securities, under the Bancorp's control. At year end, information concerning these retail repurchase agreements is summarized below:

	(Dollars in thousands)	
	2004	2003
Ending balance	\$ 11,458	\$ 11,451
Average balance during the year	13,439	12,111
Maximum month-end balance during the year	15,233	12,653
Securities underlying the agreements at year end:		
Carrying value	20,108	17,240
Fair value	20,108	17,240
Average interest rate during the year	1.80%	2.17%

At year end, advances from the Federal Home Loan Bank were as follows:

	(Dollars in thousands)	
	2004	2003
Fixed rate advances, maturing January 2005 through October 2009, at rates from 2.17% to 4.19% average rate: 2004 - 3.07%; 2003 - 3.28%	\$ 29,000	\$ 17,000
Putable advances, maturing November 2005 through July 2008, at rates from 5.05% to 6.05%, average rate: 2004 - 5.46%; 2003 - 5.58%	\$ 7,500	\$ 9,500
Variable advances, maturing January 2005 at a rate of 2.39%, average rate: 2004 - 2.39%; 2003 - 0%	\$ 3,000	\$ —

Fixed rate advances are payable at maturity, with a prepayment penalty. Putable advances are fixed for a period of one to three years and then may adjust quarterly to the

three-month London Interbank Offered Rate until maturity. Once the putable advance interest rate adjusts, the Bancorp has the option to prepay the advance on specified quarterly interest rate reset dates. The advances were collateralized by mortgage loans totaling \$226,387,000 and \$185,940,000 under a blanket lien arrangement at December 31, 2004 and 2003. In addition to the fixed rate and putable advances, the Bancorp maintains a \$10.0 million line of credit with the Federal Home Loan Bank of Indianapolis. The outstanding balance on the line of credit was \$5.2 million and \$1.5 million at December 31, 2004 and 2003.

The limited partnership obligation represents an investment interest in a partnership formed for the construction, ownership and management of affordable housing projects. The original amount of the note was \$500,000. Funding began during 2001 and will continue over a nine year period. Payments are required within ten days of written demand. The obligation to make payment is absolute and unconditional. The note requires no payment of interest.

Other borrowings at December 31, 2004 and 2003 include Treasury, Tax and Loan and reclassified bank balances.

At December 31, 2004, scheduled maturities of borrowed funds were as follows:

	<i>(Dollars in thousands)</i>
2005	\$ 29,345
2006	11,799
2007	11,057
2008	3,000
2009	2,000
Total	<u>\$ 57,201</u>

NOTE 9 - Employees' Benefit Plans

The Bancorp maintains an Employees' Savings and Profit Sharing Plan and Trust for all employees who meet the plan qualifications. Employees are eligible to participate in the Employees' Savings and Profit Sharing Plan and Trust on the first day of the month coincident with or next following the date upon completion of one year of employment, age 18, and completion of at least 1,000 hours of employment. The Employees' Savings Plan feature allows employees to make pre-tax contributions to the Employees' Savings Plan of 1% to 50% of Plan Salary, subject to limitations imposed by Internal Revenue Code section 401(k). The Profit Sharing Plan and Trust feature is noncontributory on the part of the employee. Contributions to the Employees' Profit Sharing Plan and Trust are made at the discretion of the Bancorp's Board of Directors. Contributions for the year ended December 31, 2004, were based on 11% of the participants' total compensation excluding incentives. Contributions during the years ended December 31, 2003 and 2002 were based on 12% and 11% of the participants' total compensation excluding incentives. Participants in the plan become 100% vested upon completion of five years of service. The benefit plan expense amounted to \$530,000, \$498,000 and \$447,000 for 2004, 2003 and 2002.

The Bancorp maintains an Unqualified Deferred Compensation Plan (the Plan). The purpose of the Plan is to provide deferred compensation to key senior management employees of the Bancorp in order to recognize their substantial contributions to the Bank and provide them with additional financial security as inducement to remain with the Bank. The Compensation Committee selects which persons shall be participants in the Plan. Participants' accounts are credited each year with an amount based on a formula involving the participant's employer funded contributions under all qualified plans and the limitations imposed by Internal Revenue Code subsection 401(a)(17) and Code section 415. The unqualified deferred compensation plan liability at December 31, 2004 and 2003 was \$54,396 and \$0. The Plan expense amounted to \$8,000, \$7,000 and \$5,000 for 2004, 2003 and 2002.

The Bancorp maintains a Supplemental Executive Retirement Plan (the Plan). The Plan is established as an unfunded, non-qualified deferred compensation plan. The Plan provides a means for the payment of supplemental retirement benefits to a select group of key senior management employees, in recognition of their substantial contributions to the operation of the Bancorp, and to provide those individuals with additional financial security. The Board of Directors determines plan participants and contributions. There was no plan expense for 2004, 2003 and 2002.

Directors have deferred some of their fees in consideration of future payments. Fee deferrals, including interest totaled \$63,000, \$63,000 and \$78,000 for 2004, 2003 and 2002. The deferred fee liability at December 31, 2004 and 2003 was \$1,460,000 and \$1,456,000.

During 2004, the Bank purchased \$8.0 million in bank owned life insurance. The business purpose of the bank owned life insurance is to offset the cost of Bancorp sponsored employee benefits. The bank owned life insurance is recorded as an asset on the Bancorp's balance sheet. Increases in cash value of the policies are recorded as noninterest income.

NOTE 10 - Defined Benefit Postretirement Plan

The Bancorp sponsors a defined benefit postretirement plan that provides comprehensive major medical benefits to all eligible retirees. Eligible retirees are those who have attained age 65, have completed at least 18 years of service and are eligible for coverage under the employee group medical plan as of the date of their retirement. Spouses of eligible retirees are covered if they were covered as of the employee's date of retirement. Surviving spouses are covered if they were covered at the time of the retiree's death. Dependent children of eligible retirees are generally covered to the later of age 19 or until the child ceases being a full-time student. Surviving dependent children are subject to the same eligibility restrictions if they were covered at the time of the retiree's death. Currently, the Bancorp pays \$142.97 of the retiree monthly medical coverage premium. This amount will remain fixed over the benefit period. Retirees pay 100% of the premiums for all dependent medical coverage. The unrecognized net actuarial gain of \$160,000 at December 31, 2004, is a result of a decrease in the plan participation assumptions.

The following tables sets forth a reconciliation of the Bancorp's postretirement benefit plan funding status and expense for the periods indicated:

	<i>(Dollars in thousands)</i>	
	2004	2003
Change in postretirement benefit obligation:		
Beginning postretirement benefit obligation	\$ 291	\$ 239
Unrecognized net actuarial (gain)/loss	(228)	43
Service cost	14	12
Interest cost	17	9
Plan participants' contributions	-	-
Benefits paid	(7)	(12)
Other	(12)	-
Ending postretirement benefit obligation	75	291
Change in plan assets		
Funded status	(75)	(291)
Unrecognized net actuarial (gain)/loss	(160)	70
Accrued benefit cost	<u>\$ (235)</u>	<u>\$ (221)</u>

	(Dollars in thousands)		
	2004	2003	2002
Components of net periodic postretirement benefit cost:			
Adjustment for prior year expected net benefit cost	\$ (12)	\$ —	\$ —
Service cost	14	12	6
Interest cost	17	9	9
Unrecognized net actuarial gain	3	(1)	(3)
Net periodic postretirement benefit cost	<u>\$ 22</u>	<u>\$ 20</u>	<u>\$ 12</u>

	(Dollars in thousands)		
	2004	2003	2002
Assumptions used:			
Discount rate	6.0%	6.0%	6.75%
Annual increase in health care cost trend rate:			
Year one	8.0%	8.0%	8.0%
Year two	7.0%	7.0%	7.0%
Year three	6.0%	6.0%	6.0%
Thereafter	5.0%	5.0%	5.0%

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	(Dollars in thousands)	
	One Percentage Point Increase	One Percentage Point Decrease
Effect on total of service and interest cost	\$ —	\$ —
Effect on postretirement benefit obligation	—	—

The Bancorp expects to contribute \$7,000 to its defined benefit postretirement plan in 2005.

Expected future payments

The following benefit payments, which reflect expected future service, are expected:

2005	\$ 7,314
2006	6,860
2007	6,113
2008	5,433
2009	4,820

NOTE 11 - Regulatory Capital

The Bancorp and Bank are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings, and other factors, and the regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the financial statements. The prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition.

At year end, capital levels (in millions) for the Bancorp and the Bank were substantially the same. Actual capital levels, minimum required levels and levels needed to be classified as well capitalized for the Bancorp are summarized below:

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2004						
Total capital to risk-weighted assets	\$ 48.0	12.2%	\$ 31.5	8.0%	\$ 39.4	10.0%
Tier 1 capital to risk-weighted assets	\$ 44.2	11.2%	\$ 15.7	4.0%	\$ 23.6	6.0%
Tier 1 capital to adjusted average assets	\$ 44.2	8.0%	\$ 16.6	3.0%	\$ 27.6	5.0%
2003						
Total capital to risk-weighted assets	\$ 44.8	12.5%	\$ 28.6	8.0%	\$ 35.7	10.0%
Tier 1 capital to risk-weighted assets	\$ 41.0	11.5%	\$ 14.3	4.0%	\$ 21.4	6.0%
Tier 1 capital to adjusted average assets	\$ 41.0	8.0%	\$ 15.4	3.0%	\$ 25.7	5.0%

The Bancorp and the Bank were categorized as well capitalized at December 31, 2004 and 2003. There are no conditions or events since December 31, 2004 that management believes have changed the Bancorp's or Bank's category.

The Bancorp's ability to pay dividends is entirely dependent upon the Bank's ability to pay dividends to the Bancorp. Under Indiana law, the Bank may pay dividends of so much of its undivided profits (generally, earnings less losses, bad debts, taxes and other operating expenses) as is considered expedient by the Bank's Board of Directors. However, the Bank must obtain the approval of the Indiana Department of Financial Institutions for the payment of a dividend if the total of all dividends declared by the Bank during the current year, including the proposed dividend, would exceed the sum of retained net income for the year to date plus its retained net income for the previous two years. For this purpose, "retained net income" means net income as calculated for call report purposes, less all dividends declared for the applicable period. Moreover, the FDIC and the Federal Reserve Board may prohibit the payment of dividends if it determines that the payment of dividends would constitute an unsafe or unsound practice in the light of the financial condition of the Bank. The aggregate amount of dividends which may be declared by the Bank in 2005, without prior regulatory approval, approximates \$5,196,000 plus current 2005 net profits.

NOTE 12 - Stock Options and Awards

Pursuant to a stock option plan (the Plan), an aggregate of 250,000 shares of the Bancorp's common stock were reserved for issuance in respect of incentive awards granted to officers and other employees of the Bancorp and the Bank. Awards granted under the Plan may be in the form of incentive stock options within the meaning of Section 422 of the Internal Revenue Code, or non-incentive stock options or restricted stock. The purposes of the Plan are to attract and retain the best available personnel, to provide additional incentives for all employees and to encourage their continued employment by facilitating employees' purchases of an equity interest in the Bancorp.

Options granted prior to 1995 were immediately exercisable. Options granted since 1995 generally are exercisable upon completion of five years of service after the date of grant. Information about option grants is provided in the following schedule:

	Number of options	Weighted-average exercise price	Weighted-average fair value of grants
Outstanding January 1, 2002	109,825	\$ 18.68	
Granted	17,850	22.15	\$ 1.82
Exercised	(10,857)	13.28	
Forfeited	—	—	
Expired	—	—	
Outstanding, December 31, 2002	116,818	19.71	
Granted	20,475	25.25	1.42
Exercised	(12,389)	13.98	
Forfeited	(3,000)	21.36	
Expired	—	—	
Outstanding, December 31, 2003	121,904	21.15	
Granted	11,450	30.00	3.48
Exercised	(16,697)	19.47	
Forfeited	(500)	22.45	
Expired	—	—	
Outstanding December 31, 2004	<u>116,157</u>	<u>\$ 22.26</u>	

At December 31, 2004, options outstanding were as follows:

Range of Exercise Prices	Outstanding			Exercisable	
	Number	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
\$10.00 - \$16.50	5,270	1.6	\$ 15.31	5,270	\$ 15.31
\$16.51 - \$23.00	79,662	7.1	20.86	29,555	20.45
\$23.01 - \$30.00	31,225	8.5	26.99	—	—
Outstanding at year end	<u>116,157</u>	<u>5.4</u>	<u>\$ 22.26</u>	<u>34,825</u>	<u>\$ 19.67</u>

Stock options that were fully vested and available for exercise totaled 34,825, 31,722, and 29,911, for the years ended December 2004, 2003, and 2002 with weighted average prices of \$19.67, \$19.00 and \$16.31, respectively.

During 2004, restricted stock awards totaled 2,050 shares during the year. The fair value of the restricted shares issued was \$30.00. Restricted shares become fully vested and not subject to forfeiture after five years of service from the date of grant.

NOTE 13 - Earnings Per Share

A reconciliation of the numerators and denominators of the basic earnings per common share and diluted earnings per common share computations for 2004, 2003 and 2002 is presented below.

	2004	2003	2002
Basic earnings per common share:			
Net income available to common stockholders	<u>\$ 6,290,000</u>	<u>\$ 5,936,000</u>	<u>\$ 5,493,000</u>
Weighted-average common shares outstanding	<u>2,764,657</u>	<u>2,745,092</u>	<u>2,735,388</u>
Basic earnings per common share	<u>\$ 2.28</u>	<u>\$ 2.16</u>	<u>\$ 2.01</u>
Diluted earnings per common share:			
Net income available to common stockholders	<u>\$ 6,290,000</u>	<u>\$ 5,936,000</u>	<u>\$ 5,493,000</u>
Weighted-average common shares outstanding	<u>2,764,657</u>	<u>2,745,092</u>	<u>2,735,388</u>
Add: dilutive effect of assumed stock option exercises	<u>44,044</u>	<u>37,029</u>	<u>21,172</u>
Weighted-average common and dilutive potential common shares outstanding	<u>2,808,701</u>	<u>2,782,121</u>	<u>2,756,560</u>
Diluted earnings per common share	<u>\$ 2.24</u>	<u>\$ 2.13</u>	<u>\$ 1.99</u>

There were no antidilutive stock options outstanding at December 31, 2004, 2003 and 2002.

NOTE 14 - Related Party Transactions

The Bancorp had aggregate loans outstanding to directors and executive officers (with individual balances exceeding \$60,000) of \$5,700,000 at December 31, 2004 and \$4,185,000 at December 31, 2003. For the year ended December 31, 2004, the following activity occurred on these loans:

Aggregate balance - January 1, 2004	(Dollars in thousands) \$ 4,185
-------------------------------------	------------------------------------

New loans	1,663
Repayments	(148)
Aggregate balance - December 31, 2004	<u>\$ 5,700</u>

Deposits from directors and executive officers were \$2.4 million and \$2.3 million at December 31, 2004 and 2003.

NOTE 15 - Commitments and Contingencies

The Bancorp is a party to financial instruments in the normal course of business to meet financing needs of its customers. These financial instruments, which include commitments to make loans and standby letters of credit are not reflected in the accompanying consolidated financial statements. Such financial instruments are recorded when they are funded.

The Bancorp's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to originate loans and standby letters of credit is represented by the contractual amount of those instruments. Commitments generally have fixed expiration dates or other termination clauses and may require the

payment of a fee. The Bancorp uses the same credit policy to make such commitments as it uses for on-balance sheet items. Since commitments to make loans may expire without being used, the amount does not necessarily represent future cash commitments.

The Bancorp had outstanding commitments to originate loans as follows:

	(Dollars in thousands)		
	Fixed Rate	Variable Rate	Total
December 31, 2004:			
Real estate	\$ 9,025	\$ 25,965	\$ 34,990
Consumer loans	—	49	49
Commercial business	—	33,116	33,116
Total	\$ 9,025	\$ 59,130	\$ 68,155
December 31, 2003:			
Real estate	\$ 10,237	\$ 26,643	\$ 36,880
Consumer loans	—	47	47
Commercial business	—	39,268	39,268
Total	\$ 10,237	\$ 65,958	\$ 76,195

The \$9,025 in fixed rate commitments outstanding at December 31, 2004 had interest rates ranging 3.75% to 6.50%, for a period not to exceed forty-five days.

Standby letters of credit are conditional commitments issued by the Bancorp to guarantee the performance of a customer to a third party. At December 31, 2004 and 2003, the Bancorp had standby letters of credit totaling \$2,390,000 and \$2,609,000. The Bancorp evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bancorp upon extension of credit, is based on management's credit evaluation of the borrower. Collateral obtained may include accounts receivable, inventory, property, land or other assets.

NOTE 16 - Fair Values of Financial Instruments

The following table shows fair values and the related carrying values of financial instruments as of the dates indicated. Items that are not financial instruments are not included.

	(Dollars in thousands)	
	December 31, 2004	
	Carrying Value	Estimated Fair Value
Financial assets		
Cash and cash equivalents	\$ 16,398	\$ 16,398
Securities available-for-sale	69,161	69,161
Securities held-to-maturity	10,818	10,861
Loans held for sale	39	39
Loans receivable, net	429,898	430,378
Federal Home Loan Bank stock	2,904	2,904
Accrued interest receivable	2,459	2,459
Financial liabilities		
Demand and savings deposits	257,395	243,146
Certificates of deposit	194,178	193,605
Borrowed funds	57,201	56,634
Accrued interest payable	66	66

	(Dollars in thousands)	
	December 31, 2003	
	Carrying Value	Estimated Fair Value
Financial assets		
Cash and cash equivalents	\$ 16,070	\$ 16,070
Securities available-for-sale	60,806	60,806
Securities held-to-maturity	2,927	2,937
Loans held for sale	75	75
Loans receivable, net	406,021	411,337
Federal Home Loan Bank stock	2,775	2,775
Accrued interest receivable	2,249	2,249
Financial liabilities		
Demand and savings deposits	(231,659)	(224,475)
Certificates of deposit	(189,981)	(191,001)
Borrowed funds	(40,895)	(41,382)
Accrued interest payable	(86)	(86)

For purposes of the above disclosures of estimated fair value, the following assumptions were used as of December 31, 2004 and 2003. The estimated fair value for cash and cash equivalents, Federal Home Loan Bank stock and investments in real estate limited partnerships are considered to approximate cost. The estimated fair value for securities is based on quoted market values for the individual securities or equivalent securities. The estimated fair value for loans is based on estimates of the rate the Bancorp would charge for similar such loans at December 31, 2004 and 2003, applied for the time period until estimated repayment. The estimated fair value for demand and savings deposits is based on their carrying value. The estimated fair value for certificates of deposits is based on estimates of the rate the Bancorp would pay on such deposits at December 31, 2004 and 2003, applied for the time period until maturity. The estimated fair value for borrowed funds is based on current rates for similar financing. The estimated fair value of other financial instruments, and off-balance sheet loan commitments approximate cost and are not considered significant to this presentation.

NOTE 17 - Other Comprehensive Income/(Loss)

Other comprehensive income/(loss) components and related taxes were as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net change in net unrealized gains and losses on securities available for sale:			
Unrealized gains/(losses) arising during the year	\$ (832)	\$ (626)	\$ 1,302
Reclassification adjustment for gains included in net income	<u>(284)</u>	<u>(132)</u>	<u>(143)</u>
Net change in net unrealized gains and losses on securities available for sale	(1,116)	(758)	1,159
Tax effects, net	<u>396</u>	<u>348</u>	<u>(464)</u>
Total other comprehensive income/(loss)	<u>\$ (720)</u>	<u>\$ (410)</u>	<u>\$ 695</u>

NOTE 18 - Selected Quarterly Financial Data (Unaudited)

Selected quarterly financial data are summarized as follows:

Year ended December 31, 2004:

	(Dollars in thousands, except per share data)			
	March 31, 2004	June 30, 2004	September 30, 2004	December 31, 2004
Total interest income	\$ 6,550	\$ 6,581	\$ 6,682	\$ 6,801
Total interest expense	1,711	1,643	1,722	1,782
Net interest income	4,839	4,938	4,960	5,019
Provision for loan losses	60	75	110	140
Net interest income after provision for loan losses	4,779	4,863	4,850	4,879
Total noninterest income	774	747	968	823
Total noninterest expense	3,289	3,252	3,368	3,265
Income before income taxes	2,264	2,358	2,450	2,437
Income tax expenses	792	815	818	794
Net income	\$ 1,472	\$ 1,543	\$ 1,632	\$ 1,643
Basic earnings per share	\$ 0.53	\$ 0.56	\$ 0.59	\$ 0.60
Diluted earnings per share.	\$ 0.53	\$ 0.55	\$ 0.58	\$ 0.58

Year ended December 31, 2003:

	(Dollars in thousands, except per share data)			
	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003
Total interest income	\$ 6,637	\$ 6,555	\$ 6,582	\$ 6,583
Total interest expense	2,034	1,936	1,782	1,769
Net interest income	4,603	4,619	4,800	4,814
Provision for loan losses	120	140	100	60
Net interest income after provision for loan losses	4,483	4,479	4,700	4,754
Total noninterest income	744	806	685	733
Total noninterest expense	2,923	2,947	2,958	3,209
Income before income taxes	2,304	2,338	2,427	2,278
Income tax expenses	861	872	883	795
Net income	\$ 1,443	\$ 1,466	\$ 1,544	\$ 1,483
Basic earnings per share	\$ 0.53	\$ 0.53	\$ 0.56	\$ 0.54
Diluted earnings per share.	\$ 0.52	\$ 0.53	\$ 0.55	\$ 0.53

NOTE 19 - Parent Company Only Statements

	(Dollars in thousands)	
	NorthWest Indiana Bancorp Condensed Balance Sheets December 31,	
	2004	2003
Assets		
Cash on deposit with Peoples Bank	\$ 205	\$ 358
Investment in Peoples Bank	43,956	41,719
Dividends receivable from Peoples Bank	856	825
Other assets	1,110	660
Total assets	\$ 46,127	\$ 43,562
Liabilities and stockholders' equity		
Dividends payable	\$ 860	\$ 826
Other liabilities	1,170	1,182
Total liabilities	2,030	2,008
Common stock	355	353
Additional paid in capital	3,970	3,567
Accumulated other comprehensive income	(180)	540
Retained earnings	41,392	38,534
Treasury stock	(1,440)	(1,440)
Total stockholders' equity	44,097	41,554
Total liabilities and stockholders' equity	\$ 46,127	\$ 43,562

	(Dollars in thousands)		
	NorthWest Indiana Bancorp Condensed Statements of Income Year Ended December 31,		
	2004	2003	2002
Dividends from Peoples Bank	\$ 3,425	\$ 3,770	\$ 2,861
Operating expenses	153	121	118
Income before income taxes and equity in undistributed income of Peoples Bank	3,272	3,649	2,743
Provision (benefit) for income taxes	(61)	(48)	(47)
Income before equity in undistributed income of Peoples Bank	3,333	3,697	2,790

Equity in undistributed income of Peoples Bank	2,957	2,239	2,703
Net income	<u>\$ 6,290</u>	<u>\$ 5,936</u>	<u>\$ 5,493</u>

(Dollars in thousands)

NorthWest Indiana Bancorp
Condensed Statements of Cash Flows
Year Ended December 31,

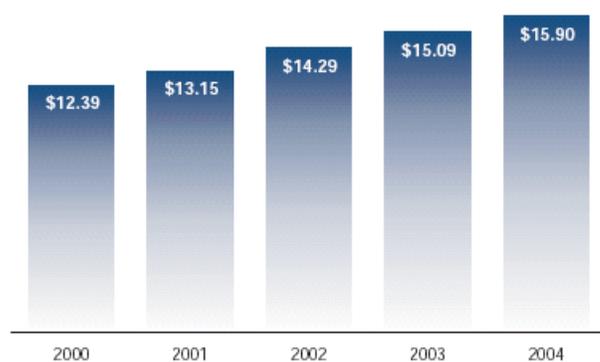
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:			
Net income	\$ 6,290	\$ 5,936	\$ 5,493
Adjustments to reconcile net income to net cash from operating activities			
Equity in undistributed net income of Peoples Bank	(2,957)	(2,717)	(2,703)
Change in other assets	(481)	105	(1,183)
Change in other liabilities	(12)	(532)	1,066
Total adjustments	<u>(3,450)</u>	<u>(3,144)</u>	<u>(2,820)</u>
Net cash from operating activities	2,840	2,792	2,673
Cash flows from investing activities	—	—	—
Cash flows from financing activities:			
Dividends paid	(3,398)	(3,238)	(3,009)
Treasury stock purchased	—	—	—
Proceeds from issuance of common stock	405	177	145
Net cash from financing activities	<u>(2,993)</u>	<u>(3,061)</u>	<u>(2,864)</u>
Net change in cash	(153)	(269)	(191)
Cash at beginning of year	358	627	818
Cash at end of year	<u>\$ 205</u>	<u>\$ 358</u>	<u>\$ 627</u>

Market Information

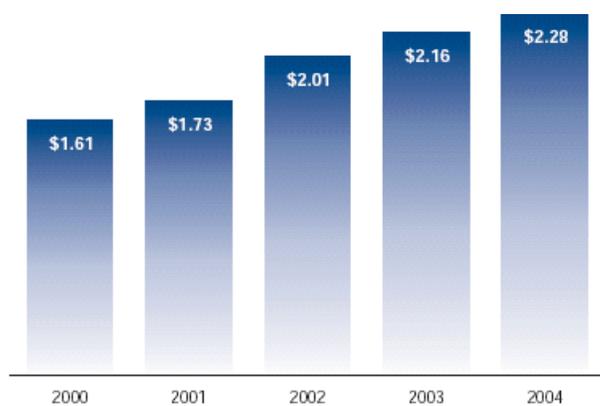
The Bancorp's Common Stock is traded in the over-the-counter market and quoted on the OTC Bulletin Board. The Bancorp's stock is not actively traded. As of February 28, 2005, the Bancorp had 2,777,665 shares of common stock outstanding and 422 stockholders of record. This does not reflect the number of persons or entities who may hold their stock in nominee or "street" name through brokerage firms. Set forth below are the high and low bid prices during each quarter for the years ended December 31, 2004 and December 31, 2003. The bid prices reflect inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions. Also set forth is information concerning the dividends declared by the Bancorp during the periods reported. Note 11 to the Financial Statements describes regulatory limits on the Bancorp's ability to pay dividends.

		Per Share Prices		Dividends Declared Per Common Share
		High	Low	
Year Ended December 31, 2004	1st Quarter	\$ 31.50	\$ 30.00	\$.31
	2nd Quarter	33.75	31.00	.31
	3rd Quarter	35.50	32.90	.31
	4th Quarter	38.00	35.25	.31
Year Ended December 31, 2003	1st Quarter	\$ 25.50	\$ 24.40	\$.30
	2nd Quarter	29.75	25.65	.30
	3rd Quarter	29.00	26.60	.30
	4th Quarter	32.00	28.30	.30

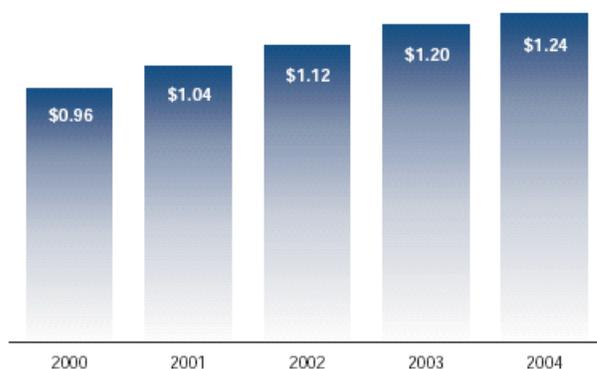
Book Value per Share



Basic Earnings per Share



Dividends per Share



2004 Board of Directors

Frank J. Bochnowski
*Chairman, Asset, Liability,
 Capital & Technology;
 Corporate Governance;
 Executive*

Kenneth V. Krupinski
*Asset, Liability,
 Capital & Technology;
 Audit;
 Corporate Governance;
 Compensation & Benefits*

Anthony M. Puntillo
*Asset, Liability,
 Capital & Technology;
 Corporate Governance*

James L. Wieser
*Chairman, Audit;
 Corporate Governance*

Edward J. Furticella
*Asset, Liability,
 Capital & Technology*

Gloria C. Gray-Weissman
*Corporate Governance;
 Compensation & Benefits;
 Investment & Trust*

David A. Bochnowski
*Chairman of the Board
 Chairman, Executive*

Lourdes M. Dennison
*Corporate Governance;
 Compensation & Benefits;
 Executive;
 Investment & Trust*

Leroy F. Cataldi
*Chairman, Investment & Trust;
 Corporate Governance;
 Executive*

Stanley E. Mize
*Chairman, Corporate Governance;
 Chairman, Compensation & Benefits;
 Audit, Executive*

Board Committees
*Asset, Liability, Capital & Technology
 Audit
 Compensation & Benefits
 Corporate Governance
 Executive
 Investment & Trust*

Joel Gorelick
*Asset, Liability,
 Capital & Technology*

Harold G. Rueth
Director Emeritus

Officers of NorthWest Indiana Bancorp and Peoples Bank

David A. Bochnowski
Chairman and Chief Executive Officer
Joel Gorelick
Executive Vice President
Banking and Lending Group
Jon E. DeGuilio
Executive Vice President
General Counsel, Senior Trust Officer and Corporate Secretary
Robert T. Lowry
Senior Vice President,
Chief Financial Officer and Treasurer

Officers of Peoples Bank

Tanya A. Buerger
Senior Vice President, Operations and Systems Development Group
Rodney L. Grove
Senior Vice President,
Senior Banking Officer
Daniel W. Moser
Senior Vice President, Construction and Development Lending
Todd M. Scheub
Senior Vice President,
Commercial Lending

Management Personnel of Peoples Bank

Banking and Lending Group

Commercial Lending

Brian Rusin
Vice President
Ronald P. Knestrict
Assistant Vice President
Sharon M. Nawrocki

Retail Lending

Catherine L. Gonzalez
Vice President, Retail Lending Manager
Leslie J. Bernacki
Assistant Vice President
Elena Maldonado
Assistant Vice President
Sharon V. Vacendak
Assistant Vice President
John R. Wren
Assistant Vice President
Rachel C. Lentz
Austin P. Logue
Nancy L. Weckler

Loan Collections

Clovese R. Robinson
Assistant Vice President

Banking Centers

Carla Houck
Assistant Vice President
Director of Banking Center Operations
Meredith L. Bielak
Assistant Vice President
Banking Center Operations
Michael J. McIntyre
Vice President, Munster
Marilyn K. Repp
Vice President, Hobart
Alicia Q. McMahon
Assistant Vice President, East Chicago
Michael J. Shimala
Assistant Vice President, Dyer
Sandra L. Sigler
Assistant Vice President, Hammond
Kelly A. Stoming
Assistant Vice President, Schererville
Colleen A. Wigmore
Assistant Vice President,
Merrillville-Broadway
Charman F. Williamson
Assistant Vice President, Merrillville-Taft
Donna M. Vurva

Munster

Private Banking

Jill M. Knight, Vice President

Investment and Trust Services Group

Randall H. Walker, Vice President

Stephan A. Ziemba, Vice President

Operations and Systems

Development Group

Christopher A. Grecnik

Vice President, Operations

Mary D. Mulroe

Vice President, Loan Administration

Charlotte Conn

Assistant Vice President, Operations

Donna M. Germek

Assistant Vice President,

Information Technology Manager

Cynthia D. Jones

Assistant Vice President

Loan System Administrator

Matthew S. Manoski

Assistant Vice President,

Information Technology

Karen M. Sulek

Assistant Vice President,

Loan Administration

Brand Learning and

Communications Group

Shannon E. Franko

Vice President, Marketing

Linda L. Kollada

Vice President, Human Resources

Finance and Controls Group

Stacy A. Januszewski

Vice President, Controller

Arlene M. Wohadlo

Vice President, Accounting Manager

Michaelene M. Smith

Assistant Vice President, Accounting

Peymon Torabi

Financial Analyst

Risk Management and

Stakeholders Services Group

Christine M. Friel

Vice President, Credit Administration

David W. Homrich

Vice President, Compliance

Linda C. Nemeth

Internal Auditor

Management Development

Bryan L. Bierman

Jeremy A. Gorelick

Margaret M. Haas

Corporate Headquarters

9204 Columbia Avenue

Munster, Indiana 46321

219/836-4400

Stock Transfer Agent

The Bank acts as the transfer agent for the Bancorp's common stock.

Independent Auditors

Crowe Chizek and Company LLC

330 East Jefferson Boulevard

P. O. Box 7

South Bend, Indiana 46624

Special Legal Counsel

Baker & Daniels

600 East 96th Street, Suite 600

Indianapolis, Indiana 46240

Annual Stockholders Meeting

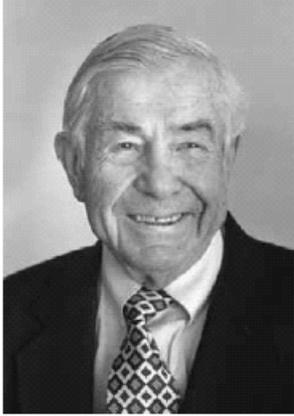
The Annual Meeting of Stockholders of NorthWest Indiana Bancorp will be held at the Peoples Bank Corporate Center 9204 Columbia Avenue, Munster, Indiana, on

April 20, 2005 at 8:30 a.m.

A copy of the Bancorp's Form 10-K, including financial statement schedules as filed with the Securities and Exchange Commission, will be furnished without charge to stockholders as of the record date upon written request to the Corporate Secretary, NorthWest Indiana Bancorp, 9204 Columbia Avenue, Munster, Indiana 46321.

www.ibankpeoples.com

In Memory of Ben Bochnowski



1911- 2005

Ben Bochnowski and what would eventually become Peoples Bank were both infants in 1911 as Ben's father, John Bochnowski, founded the Bank only a year before Ben's birth. Together, Ben and the Bank grew and prospered over the next ninety plus years. Ben's relationship with the Bank and the community would become a tale of friendship, leadership, and success.

Ben's memories of the Bank started at a young age. He would often share his childhood sales experiences including distributing the Bank's calendars door to door while trying to sell whatever product his Dad told him to promote!

After a successful career in public and private accounting, Ben joined the Bank in 1953 and eventually became President and Chairman until 1976. At the start of his tenure, the Bank had assets of \$5 million and a total of only eight employees. After his retirement, Mr. Bochnowski was an Advisory Director and Chairman Emeritus of the Board of Directors.

Ben Bochnowski recognized the importance of service and laid the groundwork for a tradition of providing friendly service to customers. His commitment to the local community included serving on numerous boards and charitable organizations as well as serving 22 years on the Lake County Board of Tax Review. In 1996, then Indiana Governor Evan Bayh named Mr. Bochnowski a Sagamore of the Wabash, the highest honor a citizen of Indiana can receive.

Ben Bochnowski was a true friend and leader to us all.

"He always had time for customers, for employees or anyone else who came in the office."

Barb Zura, Compliance

Hired by Ben Bochnowski in February, 1971

"Ben gave you a good feeling in your heart and soul. He made you feel that being at work was being with family. He was a very good person."

Mickey Smith, Accounting

Hired by Ben Bochnowski in April, 1971

"Ben was an inspiration to all of us and was always willing to lend a helping hand no matter what the situation was. He was a very loving, caring, and gentle person and will be greatly missed by all."

Arlene Wohadlo, Accounting

Hired by Ben Bochnowski in August, 1959

Leader . Friend . Advisor



CORPORATE HEADQUARTERS,
9204 Columbia Avenue
Munster, Indiana 46321

219/836-4400



SUBSIDIARY OF NORTHWEST INDIANA BANCORP

DYER, 1300 Sheffield Avenue, 322-2530
EAST CHICAGO, 4901 Indianapolis Blvd., 378-1000
HAMMOND, 7120 Indianapolis Blvd., 844-4500
HOBART, 1501 Lake Park Avenue, 945-1305
MERRILLVILLE, 7915 Taft Street, 796-9000
8600 Broadway, 685-8600
MUNSTER, 9204 Columbia Avenue, 836-4400
SCHERERVILLE, 141 W. Lincoln Highway, 865-4300

Member FDIC

www.ibankpeoples.com

Subsidiaries of the Bancorp

Peoples Bank SB
Peoples Service Corporation
NWIN, LLC

State of Incorporation
Indiana
Indiana
Nevada

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement on Form S-8 (Registration No. 333-115666) of NorthWest Indiana Bancorp of our report dated February 18, 2005, which is incorporated by reference in this Annual Report on Form 10-K of NorthWest Indiana Bancorp for the year ended December 31, 2004.

/s/ Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

South Bend, Indiana
March 25, 2005

CERTIFICATION PURSUANT TO
RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David A. Bochnowski, certify that:

1. I have reviewed this annual report on Form 10-K of NorthWest Indiana Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 25, 2005

/s/ David A. Bochnowski
David A. Bochnowski
Chairman of the Board and Chief Executive Officer

CERTIFICATION PURSUANT TO
RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert T. Lowry, certify that:

1. I have reviewed this annual report on Form 10-K of NorthWest Indiana Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 25, 2005

/s/ Robert T. Lowry

Robert T. Lowry
Senior Vice President, Chief Financial
Officer and Treasurer

CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of NorthWest Indiana Bancorp (the "Company") for the year ended December 31, 2004, as filed with the Securities and Exchange Commission (the "Report"), each of David A. Bochnowski, Chairman of the Board and Chief Executive Officer of the Company, and Robert T. Lowry, Senior Vice President, Chief Financial Officer and Treasurer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 25, 2005

/s/ David A. Bochnowski
David A. Bochnowski
Chairman of the Board and Chief Executive Officer

/s/ Robert T. Lowry
Robert T. Lowry
Senior Vice President, Chief Financial
Officer and Treasurer