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, 2008

OR

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

For the transition 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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes☐ No ☑

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. ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes☐ No ☑

Based on the average bid and ask prices for the registrant's Common Stock at June 30, 2008, 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 $56,961,428.

There were 2,809,285 shares of the registrant's Common Stock, without par value, outstanding at February 23, 2009.

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

1. 2008 Annual Report to Shareholders. (Part II)
2. Definitive Proxy Statement for the 2009 Annual Meeting of Shareholders. (Part III)

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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 Wealth Management Group provides estate and retirement planning, guardianships, land trusts, profit sharing and 401(k) retirement plans, IRA and Keogh accounts, investment agency accounts, and serves as the 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 Deposit Insurance Fund ("DIF"), 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 nine branch locations. For further information, see "Properties."

Recent Developments

The Current Economic Environment. We are operating in a challenging and uncertain economic environment, including generally uncertain national conditions and local conditions in our markets. The capital and credit markets have been experiencing volatility and disruption for more than 12 months. In recent months, the volatility and disruption has reached unprecedented levels. The risks associated with our business become more acute in periods of a slowing economy or slow growth. Financial institutions continue to be affected by sharp declines in the real estate market and constrained financial markets. While we are taking steps to decrease and limit our exposure to problem loans, we nonetheless retain direct exposure to the residential and commercial real estate markets, and we are affected by these events.

Our loan portfolio includes residential mortgage loans, construction loans, and commercial real estate loans. Continued declines in real estate values, home sales volumes and financial stress on borrowers as a result of the uncertain economic environment, including job losses, could have an adverse effect on our borrowers or their customers, which could adversely affect our financial condition and results of operations. In addition, the national economic recession or further deterioration in local economic conditions in our markets could drive losses beyond that which is provided for in our allowance for loan losses and result in the following other consequences: increases in loan delinquencies; problem assets and foreclosures may increase; demand for our products and services may decline; deposits may decrease, which would adversely impact our liquidity position; and collateral for our loans, especially real estate, may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral associated with our existing loans.

Impact of Recent and Future Legislation. Congress and the U.S. Department of the Treasury ("Treasury") have recently adopted legislation and taken actions to address the disruptions in the financial system and declines in the housing market. See "Regulation and Supervisions — Recent Legislative Developments." It is not clear at this time what impact the Emergency Economic Stabilization Act of 2008 ("EESA"), the Troubled Asset Relief Program, the American Recovery and Reinvestment Act of 2009, other liquidity and funding initiatives of the Treasury and other bank regulatory agencies that have been previously announced, and any additional programs that may be initiated in the future, will have on the financial markets and the financial services industry. The actual impact that EESA and such related measures undertaken to alleviate the credit crisis will have generally on the financial markets, including the extreme levels of volatility and limited credit availability currently being experienced, is unknown. The failure of such measures to help stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our common stock. Finally, there can be no assurance regarding the specific impact that such measures may have on us, or whether (or to what extent) we will be able to benefit from such programs. In addition to the legislation mentioned above, federal and state governments could pass additional legislation responsive to current credit conditions. For example, the Bancorp could experience higher credit losses because of federal or state legislation or regulatory action that reduces the amount the Bancorp's borrowers are otherwise contractually required to pay under existing loan contracts. Also, the Bancorp could experience higher credit losses because of federal or state legislation or regulatory action that limits its ability to foreclose on property or other collateral or makes foreclosure less economically feasible.

Difficult Market Conditions Have Adversely Affected Our Industry. We are particularly exposed to downturns in the U.S. housing market. Dramatic declines in the housing market over the past year, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of mortgage loans and securities and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities, major commercial and investment banks, and regional financial institutions. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including to other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. We do not expect that the difficult conditions in the financial markets are likely to improve in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry. In particular, we may face the following risks in connection with these events:

- We expect to face increased regulation of our industry. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.
- Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage and underwrite our customers become less predictive of future behaviors.
- The process we use to estimate losses inherent in our credit exposure requires difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of our borrowers to repay their loans, which may no longer be capable of accurate estimation which may, in turn, impact the reliability of the process.
- Our ability to borrow from other financial institutions on favorable terms or at all could be adversely affected by further disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations.
- Competition in our industry could intensify as a result of the increasing consolidation of financial services companies in connection with current market conditions.
- We may be required to pay significantly higher deposit insurance premiums because market developments have significantly depleted the insurance fund of the Federal Deposit Insurance Corporation and reduced the ratio of reserves to insured deposits.

In addition, the Federal Reserve Bank has been injecting vast amounts of liquidity into the banking system to compensate for weaknesses in short-term borrowing markets and other capital markets. A reduction in the Federal Reserve's activities or capacity could reduce liquidity in the markets, thereby increasing funding costs to the Bancorp or reducing the availability of funds to the Bancorp to finance its existing operations.

Concentrations of Real Estate Loans Could Subject the Bancorp to Increased Risks in the Event of a Protracted Real Estate Recession. A significant portion of the Bancorp's loan portfolio is secured by real estate. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. A further weakening of the real estate market in our primary market area could result in an increase in the number of borrowers who default on their loans and a reduction in the value of the collateral securing their loans, which in turn could have an adverse effect on our profitability and asset quality. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected.

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, 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 a number of factors, including those set forth above in “Recent Developments” and below in “Regulation and Supervision — Federal Home Loan Bank System” and “— Federal Deposit Insurance” of this Form 10-K.

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 effectively to our primary market area.

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. 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, 2008, under the 15% of capital and surplus limitation was approximately $8,582,000. At December 31, 2008, the Bank had no loans that exceeded the regulatory limitations.

At December 31, 2008, 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).

	2008	2007	2006	2005	2004
Type of loan:					
Conventional real estate loans:					
Construction and development loans	$ 54,975	$ 46,289	$ 48,688	$ 47,957	$ 38,619
Loans on existing properties (1)	368,476	361,154	361,011	347,542	331,378
Consumer loans	1,966	2,399	3,012	3,983	4,685
Commercial business	49,309	46,953	46,751	50,069	47,270
Government and other (2)	14,783	11,664	12,254	19,492	11,838
Loans receivable (3)	$ 489,509	$ 468,459	$ 471,716	$ 469,043	$ 433,790
Type of collateral:					
Real estate:					
1-to-4 family	$ 225,936	$ 229,012	$ 232,271	$ 228,475	$ 226,695
Other dwelling units, land and commercial real estate	197,514	178,431	177,427	167,023	143,302
Consumer loans	1,879	2,290	2,904	3,966	4,559
Commercial business	47,523	45,441	45,671	49,044	44,923
Government	14,688	11,551	12,254	19,492	11,838
Loans receivable (4)	$ 487,540	$ 466,725	$ 470,527	$ 468,000	$ 431,317
Average loans outstanding during the period (3)	$ 484,854	$ 472,212	$ 443,523	$ 415,098	$ 394,955

(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.

Loan Originations, Purchases and Sales. Set forth on the following table loan originations, purchases and sales activity for each of the last three years are shown. The amounts are stated in thousands (000's).

	2008	2007	2006
Loans originated:			
Conventional real estate loans:			
Construction and development loans	$ 1,960	$ 4,982	$ 11,212
Loans on existing property	41,847	43,371	46,713
Loans refinanced	9,620	11,382	9,853
Total conventional real estate loans originated	53,427	59,735	67,778
Commercial business loans	152,577	155,649	123,829
Consumer loans	1,199	1,821	3,197
Total loans originated	$ 207,203	$ 217,205	$ 194,804
Loan participations purchased	$ 957	$ 12,465	$ 12,354
Whole loans and participations sold	$ 10,463	$ 12,246	$ 9,142

Loan Maturity Schedule. The following table sets forth certain information at December 31, 2008 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	$ 82,668	$ 42,926	$ 297,857	$ 423,451
Consumer loans	537	1,383	46	1,966
Commercial business, other loans	28,650	26,353	9,089	64,092
Total loans receivable	$ 111,856	$ 70,662	$ 306,992	$ 489,509

The table below sets forth the dollar amount of all loans due after one year from December 31, 2008 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	$ 119,949	$ 220,832	$ 340,781
Consumer loans	1,429	—	1,429
Commercial business, other loans	30,298	5,145	35,443
Total	$ 151,676	$ 225,977	$ 377,653

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 County, and to a lesser extent, LaPorte, Newton and Jasper counties in Indiana, and Lake, Cook and Will counties in Illinois. The communities of Munster, Crown Point, Dyer, St. John, Merrillville, Schererville and Cedar Lake have experienced rapid growth and, therefore, have provided the greatest lending opportunities.

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 and retail 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 up 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.) The maximum in-house legal lending limit as set by the Board of Directors is $7,000,000.00. Requests that exceed this amount will be considered on a case-by-case basis, after taking into consideration the legal lending limit, by specific Board action. 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 mortgage insurance companies can be made for up to 95% of value. During 2008, 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. Generally, 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 offerings. 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 one, three, five or seven year period. ARM originations totaled $21.9 million for 2008 and $20.5 million for 2007. During 2008, ARMs represented 63.1% 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 if the loans are not owner occupied, these types of loans require proof of intent to lease and a confirmed end-loan takeout. In general, loans made do not exceed 80% 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 80% 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 by commercial rental units, apartments, condominium developments, small shopping centers, owner occupied commercial/industrial properties, hospitality units, 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, or projects that are underwritten according to the Bank's underwriting standards.

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 fixed and variable rate revolving line of credit secured by the equity in the borrower's home. Both products offer an interest only option where the borrower pays interest only on the 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 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.

Government Loans. The Bancorp is permitted to purchase non-rated municipal securities, tax anticipation notes and warrants within the local market area.

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 his, her or its 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. 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).

	2008	2007	2006	2005	2004
Loans accounted for on a non-accrual basis:					
Real estate:					
Residential	$ 2,316	$ 1,383	$ 1,128	$ 784	$ 574
Commercial	7,902	6,065	1,467	62	136
Commercial business	712	328	301	266	266
Consumer	7	—	—	1	7
Total	$ 10,937	$ 7,776	$ 2,896	$ 1,113	$ 983
Accruing loans which are contractually past due 90 days or more:					
Real estate:					
Residential	$ 1,198	$ 819	$ 156	$ 53	$ 61
Commercial	278	—	—	815	5
Commercial business	—	—	—	130	—
Consumer	—	23	26	—	—
Total	$ 1,476	$ 842	$ 182	$ 998	$ 66
Total of non-accrual and 90 days past due	$ 12,413	$ 8,618	$ 3,078	$ 2,111	$ 1,049
Ratio of non-performing loans to total assets	1.87%	1.37%	0.50%	0.34%	0.19%
Ratio of non-performing loans to total loans	2.54%	1.84%	0.65%	0.45%	0.24%
Foreclosed real estate	$ 527	$ 136	$ 323	$ 260	$ 280
Ratio of foreclosed real estate to total assets	0.08%	0.02%	0.05%	0.04%	0.05%

During 2008, gross interest income of $1,169,000 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 $83,000.

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. Loans internally classified as substandard totaled $11.4 million at December 31, 2008, compared to $10.9 million at December 31, 2007. Loans internally classified as doubtful totaled $2.0 million at December 31, 2008, compared to $0.0 at December 31, 2007. The increase in doubtful loan balances was related to two commercial real estate participation loans. No loans were classified as 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 closely monitoring due to one or more factors that may cause the loan to become classified. Watch loans totaled $22.7 million at December 31, 2008, compared to $10.8 million at December 31, 2007. The increase in watch loans is primarily related to a construction development participation loan in the amount of $4.2 million and two commercial real estate participation loans in the amount of $5.7 million.

A loan is considered impaired when, based on current information and events, it is probable that a borrower will be unable to pay all amounts due according to the contractual terms of the loan agreement. At December 31, 2008, impaired loans totaled $8.6 million, compared to $6.0 million at December 31, 2007. The December 31, 2008, impaired loan balances consist of eighteen loans to ten commercial borrowers that are secured by business assets and real estate, and are personally guaranteed by the owners of the businesses. The December 31, 2008 ALL contained $1.7 million in specific allowances for collateral deficiencies, compared to $824 thousand in specific allowances at December 31, 2007. During the fourth quarter of 2008, four additional commercial real estate loans and one commercial business loan totaling $2.2 million were classified as impaired. Management's current estimate indicates that specific allowances of $295 thousand are required for these loans. In addition, during the current quarter one commercial business loan in the amount of $191 thousand was repaid and removed from impaired status. The December 31, 2008, impaired loan balances were also included in the previously discussed non-performing and substandard loan balances. There were no other loans considered to be impaired loans for the quarter ended, December 31, 2008.

At December 31, 2008, 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, 2008, no other interest bearing assets were required to be disclosed as non-accrual, past due or restructured. Management does not presently anticipate that any of the non-performing loans or classified loans would materially impact future operations, liquidity or capital resources.

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 has a $1.1 million participation in a $6.4 million letter of credit, which acts as payment support to bondholders. Cash flows from the security collateralizing the letter of credit have been negatively impacted as the property is vacant. Our portion of the letter of credit is also secured by a cash collateral account and a collateralized guarantee in the amount of $1.0 million. During July 2008, a new forbearance agreement was executed, which expired on December 31, 2008. Currently, the letter of credit participants are reviewing the credit worthiness of a prospective tenant. Management will continue to monitor the letter of credit and bond repayments.

For the twelve months ended December 31, 2008, $2.4 million in additions to the ALL account were required, compared to $552 thousand for the twelve months ended December 31, 2007. The increase in the 2008 ALL provisions was related to the need for additional specific allowances for the collateral deficiency associated with the previously mentioned impaired loans, and an increase in non-performing and classified loans. Charge-offs, net of recoveries, totaled $1.1 million for the twelve months ended December 31, 2008, compared to $238 thousand for the twelve months ended December 31, 2007. The ALL provisions take into consideration management's current judgments about the credit quality of the loan portfolio, loan portfolio balances, changes in the portfolio mix and local economic conditions. In determining the provision for loan loss for the current period, management has given consideration to increased risks associated within the local economy, changes in loan balances and mix, and asset quality.

The ALL to total loans was 1.19% at December 31, 2008, compared to 0.98% at December 31, 2007. The ALL to non-performing loans (coverage ratio) was 47.0% at December 31, 2008, compared to 53.2% at December 31, 2007. The December 31, 2008 balance in the ALL account of $5.8 million is considered adequate by management after evaluation of the loan portfolio, past experience and current economic and market conditions. 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. 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.

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).

	2008	2007	2006	2005	2004
Balance at beginning of period	$ 4,581	$ 4,267	$ 4,181	$ 3,892	$ 3,787
Loans charged-off:					
Real estate — residential	(27)	—	—	(37)	(14)
Commercial real estate	(1,090)	—	—	—	—
Commercial business	(1)	—	—	—	(297)
Consumer	(109)	(268)	(7)	—	(30)
Total charge-offs	(1,227)	(268)	(7)	(37)	(341)
Recoveries:					
Residential real estate	2	3	20	18	41
Commercial real estate	7	—	33	—	—
Commercial business	—	24	21	60	14
Consumer	79	3	4	3	6
Total recoveries	88	30	78	81	61
Net (charge-offs) / recoveries	(1,139)	(238)	71	44	(280)
Provision for loan losses	2,388	552	15	245	385
Balance at end of period	$ 5,830	$ 4,581	$ 4,267	$ 4,181	$ 3,892
ALL to loans outstanding	1.19%	0.98%	0.90%	0.89%	0.90%
ALL to nonperforming loans	46.97%	53.16%	138.60%	198.10%	371.00%
Net charge-offs / recoveries to average loans out — standing during the period	-0.24%	-0.05%	0.02%	0.01%	0.07%

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.

	2008		2007		2006		2005		2004	
	$	%	$	%	$	%	$	%	$	%
Real estate loans:										
Residential	394	46.2	808	47.8	761	60.0	644	55.1	550	57.2
Commercial and other dwelling	3,934	40.3	2,353	39.2	1,472	26.9	1,089	24.0	950	24.0
Consumer loans	69	0.4	53	0.5	87	0.6	99	6.1	150	5.2
Commercial business and other	1,433	13.1	1,367	12.5	1,947	12.5	2,349	14.8	2,242	13.6
Total	5,830	100.0	4,581	100.0	4,267	100.0	4,181	100.0	3,892	100.0

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, 2008, AFS securities totaled $108.2 million or 85.4% of total securities. AFS securities are those the Bancorp may decide to sell if needed for liquidity, asset-liability management or other reasons. During 2008, 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 agency securities, mortgage-backed securities, collateralized mortgage obligations and municipal securities. In addition, short-term funds are generally invested as interest-bearing balances in financial institutions and federal funds. At December 31, 2008, the Bancorp's investment portfolio totaled $126.7 million. In addition, the Bancorp had $1.3 million federal funds sold, and $3.7 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).

	2008	2007	2006
U.S. government agencies:			
Available-for-sale	5,621	26,220	40,504
Mortgage-backed securities (1):			
Available-for-sale	32,745	24,381	15,955
Held-to-maturity	388	461	538
Collateralized Mortgage Obligations (1):			
Available-for-sale	36,476	27,532	22,347
Municipal Securities:			
Available-for-sale	26,679	14,104	4,959
Held-to-maturity	18,127	17,897	14,709
Corporate Securities:			
Available-for-sale	4,813	—	—
Trust Preferred Securities:			
Available-for-sale	1,873	4,049	—
Totals	$ 126,722	$ 114,644	$ 99,012

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

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, 2008, 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	—	0.00%	—	0.00%	—	0.00%	—	0.00%
U.S. government Agencies:								
AFS	—	0.00%	2,524	4.59%	3,097	5.37%	—	0.00%
HTM	—	0.00%	—	0.00%	—	0.00%	—	0.00%
Municipal Securities:								
AFS	—	0.00%	1,091	4.43%	6,012	4.16%	19,576	4.27%
HTM	—	0.00%	—	0.00%	8,860	4.00%	9,267	4.00%
Mortgage-backed Securities:								
AFS	—	0.00%	2,665	4.09%	9,295	4.98%	20,785	5.48%
HTM	—	0.00%	—	0.00%	—	0.00%	388	5.66%
Collateralized Mortgage Obligations:								
AFS	—	0.00%	—	0.00%	1,746	4.32%	34,730	6.24%
Corporate Securities:								
AFS	—	0.00%	4,813	4.95%	—	0.00%	—	0.00%
Trust Preferred Securities:								
AFS	—	0.00%	—	0.00%	—	0.00%	1,873	3.44%
Totals	$ —	0.00%	$ 11,093	4.61%	$ 29,010	4.51%	$ 86,619	5.31%

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, 2008, the Bancorp had $25.8 million in repurchase agreements. Other borrowings totaled $49.0 million, of which $48.0 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 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 bearing interest and average rates paid on such deposits for the years indicated. The amounts are stated in thousands (000's).

	2008		2007		2006	
	Amount	Rate %	Amount	Rate %	Amount	Rate %
Demand deposits	$ 43,753	—	$ 50,913	—	$ 45,862	—
NOW accounts	92,198	0.89	59,113	1.26	56,412	1.06
MMDA accounts	113,266	1.94	110,943	3.54	133,558	3.06
Savings accounts	52,830	0.40	54,210	0.40	58,586	0.43
Certificates of deposit	215,327	3.44	219,052	4.59	213,419	3.99
Total deposits	$ 517,374	2.06	$ 494,231	3.02	$ 507,837	2.65

Maturities of time certificates of deposit and other time deposits of $100,000 or more at December 31, 2008 are summarized as follows. The amounts are stated in thousands (000's).

3 months or less	$ 37,817
Over 3 months through 6 months	26,419
Over 6 months through 12 months	29,071
Over 12 months	6,243
Total	$ 99,550

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 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. Fixed rate advances are payable at maturity, with a prepayment penalty. Putable advances are fixed for a period of one to five 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 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,		
	2008	2007	2006
Repurchase agreements:	$ 25,773	$ 14,186	$ 14,717
Fixed rate advances from the FHLB	41,000	31,000	30,000
Putable advances from the FHLB	5,000	2,000	2,000
Variable advances from the FHLB	—	26,000	—
FHLB line-of-credit	2,044	2,846	3,089
Limited partnership obligation	—	—	60
Overdrawn due from & Treasury Tax & Loan	978	898	1,635
Total borrowings	$ 74,795	$ 76,930	$ 51,501

	At December 31,		
	2008	2007	2006
Repurchase agreements:			
Balance	$25,773	$14,186	$14,717
Securities underlying the agreements:			
Ending carrying amount	37,414	21,421	20,329
Ending fair value	37,414	21,421	20,329
Weighted average rate paid (1)	1.46%	3.71%	4.20%

	For year ended December 31,		
	2008	2007	2006
Highest month-end balance	$25,773	$15,746	$21,715
Approximate average outstanding balance	16,301	14,581	14,186
Approximate weighted average rate paid on securities sold under agreements to repurchase (2)	2.65%	3.79%	3.42%

(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 Bancorp's Wealth Management Group provides estate and retirement planning, guardianships, land trusts, profit sharing and 401(k) retirement plans, IRA and Keogh accounts, investment agency accounts, and serves as personal representative of estates and acts as trustee for revocable and irrevocable trusts. At December 31, 2008, the market value of the Wealth Management Group's assets totaled $192.4 million, a decrease of $17.2 million, compared to December 31, 2007.

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 for the year ended December 31, 2008.

Weighted average yield:	
Securities	4.68
Loans receivable	5.66
Federal Home Loan Bank stock	4.75
Total interest-earning assets	5.46
Weighted average cost:	
Deposit accounts	1.71
Borrowed funds	3.19
Total interest-bearing liabilities	1.83
Interest rate spread:	
Weighted average yield on interest-earning assets minus the weighted average cost of interest-bearing funds	3.63

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,		
	2008	2007	2006
Return on average assets	0.91%	0.91%	1.04%
Return on average equity	10.96	10.78	13.42
Average equity-to-average assets ratio	8.32	8.41	7.76
Dividend payout ratio	68.2	71.85	60.41

	At December 31,		
	2008	2007	2006
Total stockholders' equity to total assets	7.94%	8.39%	8.08%

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, 2008			Year ended December 31, 2007			Year ended December 31, 2006		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
Assets:								370	
Interest bearing balances in financial institutions	$ 802	$ 10	1.25%	$ 229	$ 14	6.11%	$ 8,080	$ 401	4.97%
Federal funds sold	2,448	55	2.25	1,891	97	5.12	1,965	95	4.85
Securities	120,782	5,833	4.83	107,845	4,862	4.51	98,759	4,057	4.11
Total investments	124,032	5,898	4.76	109,966	4,973	4.52	108,804	4,553	4.19
Loans:*									
Real estate mortgage loans	417,819	25,274	6.05	410,795	26,637	6.48	405,062	25,819	6.37
Commercial business loans	64,912	3,843	5.92	52,840	3,963	7.50	63,457	4,356	6.86
Consumer loans	2,123	152	7.16	2,718	195	7.17	3,692	250	6.78
Total loans	484,854	29,269	6.04	466,353	30,795	6.60	472,211	30,425	6.44
Total interest-earning assets	608,886	35,167	5.78	576,319	35,767	6.21	581,015	34,978	6.02
Allowance for loan losses	(5,160)			(4,203)			(4,227)		
Cash and due from banks	9,393			11,600			13,491		
Premises and equipment	17,542			14,757			14,490		
Other assets	19,735			17,999			16,927		
Total assets	$ 650,396			$ 616,473			$ 621,696		
Liabilities:									
Demand deposit	$ 43,754	—	0.00%	$ 50,913	—	0.00%	$ 45,862	—	0.00%
NOW accounts	92,198	824	0.89	59,113	742	1.26	56,412	599	1.06
Money market demand accounts	113,266	2,200	1.94	110,943	3,924	3.54	133,558	4,091	3.06
Savings accounts	52,829	209	0.40	54,210	217	0.40	58,586	249	0.43
Certificates of deposit	215,327	7,414	3.44	219,052	10,059	4.59	213,419	8,520	3.99
Total interest-bearing deposits	517,374	10,647	2.06	494,231	14,943	3.02	507,837	13,459	2.65
Borrowed funds	74,266	2,286	3.08	68,002	2,938	4.32	60,224	2,278	3.78
Total interest-bearing liabilities	591,640	12,933	2.19	562,233	17,882	3.18	568,061	15,737	2.77
Other liabilities	4,663			2,374			5,381		
Total liabilities	596,303			564,607			573,442		
Stockholders' equity	54,093			51,865			48,254		
Total liabilities and stockholders' equity	$ 650,396			$ 616,473			$ 621,696		
Net interest income		$ 22,234			$ 17,886			$ 19,241	
Net interest spread			3.59%			3.03%			3.25%
Net interest margin**			3.65%			3.10%			3.31%

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

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

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, 2008 vs. 2007 Increase / (Decrease) Due To			Year Ended December 31, 2007 vs. 2006 Increase / (Decrease) Due To		
	Volume	Rate	Total	Volume	Rate	Total
Interest income:						
Loans receivable	$ 1,189	$ (2,715)	$ (1,526)	$ (380)	$ 750	$ 370
Securities	609	362	971	391	414	805
Other interest-earning assets	42	(87)	(45)	(413)	28	(385)
Total interest-earning assets	1,840	(2,440)	(600)	(402)	1,192	790
Interest Expense:						
Deposits	672	(4,968)	(4,296)	(369)	1,854	1,485
Borrowed Funds	252	(904)	(652)	314	346	660
Total interest-bearing liabilities	924	(5,872)	(4,948)	(55)	2,200	2,145
Net change in net interest income/(expense)	$ 916	$ 3,432	$ 4,348	$ (347)	$ (1,008)	$ (1,355)

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 wealth management customers. At December 31, 2008, the Bank had an investment balance of $93 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 investment subsidiary currently holds Bank security investments, which are managed by a professional portfolio manager. In addition, the investment subsidiary is the parent of a real estate investment trust, NWIN Funding, Inc., that invests in real estate loans originated by the Bank. At December 31, 2008, the Bank had an investment balance of $216.1 million in NWIN, LLC. The investment balance represents a decrease of $18.2 million, as a result of return of capital to the Bank during 2008.

NWIN Funding, Inc. is a subsidiary of NWIN, LLC, and was formed as an Indiana Real Estate Investment Trust (REIT). The formation of NWIN Funding, Inc. provides the Bancorp with a vehicle that may be used to raise capital utilizing portfolio mortgages as collateral, without diluting stock ownership. In addition, NWIN Funding, Inc. will receive favorable state tax treatment for income generated by its operations. At December 31, 2008, the REIT held assets of $84.6 million in real estate loans.

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, loans and financial services 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, savings associations and credit unions 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 and land developers. It competes for deposits by offering depositors a wide variety of savings accounts, checking accounts, competitive interest rates, convenient banking center 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.

Personnel

As of December 31, 2008, the Bank had 163 full-time and 36 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 Item 4.5 "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 DIF, 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.

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 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, 2008, the Bancorp's capital exceeded all regulatory capital requirements. At December 31, 2008, the Bancorp's and the Bank's regulatory capital ratios were substantially the same. At December 31, 2008, 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	$ 59.9	12.0%	$ 39.9	8.0%	$ 50.0	10.0%
Tier 1 capital to risk weighted assets	$ 54.1	10.8%	$ 20.0	4.0%	$ 29.9	6.0%
Tier 1 capital to adjusted average assets	$ 54.1	8.2%	$ 19.9	3.0%	$ 33.1	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 2009, without prior regulatory approval, approximates $3,650,000 plus current 2008 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.

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. Due to the recent difficult economic conditions, deposit insurance per depositor has been raised to $250,000 for all types of accounts until January 1, 2010. The FDIC administers the DIF, which generally insures commercial bank, savings association and state savings bank deposits. The DIF was created as a result of the merger of the Bank Insurance Fund ("BIF") and the Savings Association Insurance Fund ("SAIF"), pursuant to the Federal Deposit Insurance Reform Act of 2005 (the "Reform Act"). The Bank is a member of the DIF and its deposit accounts are insured by the FDIC up to prescribed limits.

The FDIC is authorized to establish annual deposit insurance assessment rates for members of the DIF, and to increase assessment rates if it determines such increases are appropriate to maintain the reserves of the insurance fund. In addition, the FDIC is authorized to levy emergency special assessments on DIF members. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank, and management cannot predict what insurance assessment rates will be in the future.

Pursuant to the final regulations adopted under the Reform Act, the FDIC's deposit insurance premiums are now assessed through a risk-based system under which all insured depository institutions are placed into one of four categories and assessed insurance premiums based upon their level of capital and risk profile. An institution's assessment rate depends upon the category to which it is assigned. The Bank paid deposit insurance assessments of $175 thousand during the year ended December 31, 2008. For 2008, the deposit insurance assessment rate before applying one time credits was approximately 0.062% of insured deposits. Due to losses incurred by the DIF in 2008 from failed institutions and anticipated future losses, the FDIC has adopted an across the board seven basis point increase in the assessment range for the first quarter of 2009. The FDIC has proposed further refinements to its risk-based assessment that would be effective April 1, 2009 and would effectively make the range between eight to 77.5 basis points. The FDIC may adjust the scale uniformly from one quarter to the next, except that no adjustment can exceed three basis points from the base scale without notice and comment rulemaking. No institution may pay a dividend if in default of the federal deposit insurance assessment. Future increases in deposit insurance premiums or changes in risk classification would increase the Bank's deposit related costs.

The FDIC is authorized to set the reserve ratio for the DIF at between 1.15% and 1.5% of estimated insured deposits. The designated reserve ratio is currently 1.25% and as a result of the deterioration in banking and economic conditions and recent failures of banks, the reserve ratio was 1.01% as of June 30, 2008, which was 18 basis points below the reserve ratio as of March 31, 2008. The FDIC expects a higher ratio of insured institution failures in the next few years, which may result in a continued decline in the reserve ratio. On February 27, 2009, the FDIC announced the imposition of a special assessment and changes to assessment rates and to the risk-based assessment system that will take effect beginning April 1, 2009. The FDIC adopted an interim rule that imposes a special assessment of 20 basis points as of June 30, 2009, which is to be collected on September 30, 2009. The FDIC's interim rule also provides for the imposition of additional special assessments of up to 10 basis points if necessary. Under the new assessment system, banks in the best risk category will pay from 12 cents to 16 cents per $100 of insured deposits on an annual basis. On March 5, 2009, FDIC Chairman Sheila Bair announced that if Congress adopts legislation expanding the FDIC’s line of credit with the Treasury from $30 billion to $100 billion, the FDIC might have the flexibility to reduce the special emergency assessment, possibly from 20 to 10 basis points. Assuming the legislation passes and the FDIC reduces the special assessment to 10 basis points, we anticipate that the special assessment for the Bank would total approximately $538 thousand based on current deposit levels.

Federal law also provides for the possibility that the FDIC may pay dividends to insured institutions once the DIF reserve ratio equals or exceeds 1.35% of estimated insured deposits.

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 Bank paid interest payment assessments of $58 thousand during the year ended December 31, 2008. The interest payment assessment rate for 2008 was approximately 0.011% of insured deposits. These assessments will continue until the Financing Corporation bonds mature in 2017.

Due to the anticipated continued failures of unaffiliated FDIC-insured depository institutions and the increased premiums noted above, we anticipate that our FDIC deposit insurance premiums will be higher in 2009 than in 2008 and could increase significantly in the future, which would adversely impact our future earnings.

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 advances from the Federal Home Loan Bank. At December 31, 2008, the Bank was in compliance with this requirement.

At December 31, 2008, the Bancorp owned $3.65 million of stock of the Federal Home Loan Bank of Indianapolis (“FHLBI”) and had outstanding borrowings of approximately $56 million from the FHLBI. The FHLBI stock entitles us to dividends from the FHLBI. The Bancorp recognized dividend income of approximately $182 thousand in 2008. Due to various financial difficulties in the financial institution industry in 2008, including the write-down of various mortgage-backed securities held by the FHLBI (which lowered its regulatory capital levels), the FHLBI temporarily suspended dividends during the 1st quarter of 2009. When the dividends were finally paid, they were reduced by 75 basis points from the dividend rate paid for the previous quarter. Continued and additional financial difficulties at the FHLBI could further reduce or eliminate the dividends we receive from the FHLBI.

At December 31, 2008, the Bancorp's excess borrowing capacity from the FHLBI was $82 million. Generally, the loan terms from the FHLBI are better than the terms the Bancorp can receive from other sources making it cheaper to borrow money from the FHLBI. Continued and additional financial difficulties at the FHLBI could reduce or eliminate our additional borrowing capacity with the FHLBI which could force us to borrow money from other sources. Such other monies may not be available when we need them or, more likely, will be available at higher interest rates and on less advantageous terms, which will impact our net income and could impact our ability to grow.

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 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 consumers 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 confidentially provisions which restrict the release and use of such information.

Recent Legislative Developments. The USA PATRIOT Act of 2001 (the "PATRIOT Act") is intended to strengthen the ability of U.S. Law Enforcement to combat terrorism on a variety of fronts. The PATRIOT Act contains sweeping anti-money laundering and financial transparency laws and requires financial institutions to implement additional policies and procedures with respect to, or additional measures designed to address, any or all the following matters, among others: money laundering, suspicious activities and currency transaction reporting, and currency crimes. In addition, financial institutions are required under this statute to adopt reasonable procedures to verify the identity of any person seeking to open an account and maintain records to verify such person's identity. Many of the provisions in the PATRIOT Act were to have expired December 31, 2005, but the U.S. Congress authorized renewals that extended the provisions until March 10, 2006. In early March 2006, the U.S. Congress approved the USA PATRIOT Improvement and Reauthorization Act of 2005 (the "Reauthorization Act") and the USA PATRIOT Act Additional Reauthorizing Amendments Act of 2006 (the "PATRIOT Act Amendments"), and they were signed into law by President Bush on March 9, 2006. The Reauthorization Act makes permanent all but two of the provisions that had been set to expire and provides that the remaining two provisions, which relate to surveillance and the production of business records under the Foreign Intelligence Surveillance Act, will expire in four years. The PATRIOT Act Amendments include provisions allowing recipients of certain subpoenas to obtain judicial review of nondisclosure orders and clarifying the use of certain subpoenas to obtain information from libraries. The Company does not anticipate that these requirements will materially affect its operations.

On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"). The Sarbanes-Oxley Act represents a comprehensive revision of laws affecting corporate governance, accounting obligations and corporate reportings. The Sarbanes-Oxley Act is applicable to all companies with equity or debt securities registered under the Securities Exchange Act of 1934. In particular, the Sarbanes-Oxley Act establishes: (i) new requirements for audit committees, including independence, expertise, and responsibilities; (ii) additional responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer of the reporting company; (iii) new standards for auditors and regulation of audits; (iv) increased disclosure and reporting obligations for the reporting company and their directors and executive officers; and (v) new and increased civil and criminal penalties for violation of the securities laws.

The Securities and Exchange Commission has adopted final rules implementing Section 404 of the Sarbanes-Oxley Act. In each Form 10-K it files, the Bancorp will be required to include a report of management on the Bancorp's internal control over financial reporting. The internal control report must include a statement of management's responsibility for establishing and maintaining adequate control over financial reporting of the Bancorp, identify the framework used by management to evaluate the effectiveness of the Bancorp's internal control over financial reporting and provide management's assessment of the effectiveness of the Bancorp's internal control over financial reporting. In addition, beginning with the Bancorp's 10-K for the fiscal year ended December 31, 2009, the internal control report must state that the Bancorp's independent accounting firm has issued an attestation report on management's assessment of the Bancorp's internal control over financial reporting. Significant efforts were required to comply with Section 404 in 2008 and the Bancorp anticipates additional efforts will be required in future years. In addition, the Securities and Exchange Commission in 2006 adopted significant changes to its proxy statement disclosure rules relating to executive compensation. Among other things, several tables, more detailed narrative disclosures and a new compensation discussion and analysis section are required in proxy statements. These changes have required and will require a significant commitment of managerial resources and will result in increased costs to the Bancorp, which would adversely affect results of operations, or cause fluctuations in results of operations, in the future.

In response to the financial crises affecting the banking system and financial markets, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the “EESA”) was signed into law creating the Troubled Asset Relief Program (“TARP”). Pursuant to the EESA, the U.S. Department of the Treasury (the “Treasury”) has the authority to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities, and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

On October 14, 2008, the Treasury also announced it would offer to qualifying U.S. banking organizations the opportunity to sell preferred stock, along with warrants to purchase common stock, to the Treasury on what may be considered attractive terms under the TARP Capital Purchase Program (the “CPP”). The CPP allows financial institutions to issue non-voting preferred stock to the Treasury in an amount ranging between 1% and 3% of its total risk-weighted assets. After a careful review of the terms of participation in the CPP, along with consideration of the capital requirements applicable to the Bancorp and the Bank, both of which have remained above the “well-capitalized” regulatory guidelines, the Bancorp’s board of directors decided it was not in the best interests of the Bancorp and its shareholders to participate in the CPP.

On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (the “ARRA”), which contains a comprehensive set of government spending initiatives and tax incentives aimed at stimulating the U.S. economy. The ARRA also amends, among other things, the TARP program legislation by directing the Treasury to issue regulations implementing strict limitations on compensation paid or accrued by financial institutions participating in the TARP, which regulations do not apply to the Bancorp.

The EESA and ARRA followed, and have been followed by, numerous actions by the Federal Reserve, Congress, Treasury, the SEC and others to address the current liquidity and credit crisis that has followed the sub-prime meltdown that commenced in 2007. These measures include homeowner relief that encourage loan restructuring and modification; the establishment of significant liquidity and credit facilities for financial institutions and investment banks; the lowering of the federal funds rate, including two 50 basis point decreases in October of 2008; emergency action against short selling practices; a temporary guaranty program for money market funds; the establishment of a commercial paper funding facility to provide back-stop liquidity to commercial paper issuers; and coordinated international efforts to address illiquidity and other weaknesses in the banking sector. It is not clear at this time what impact the EESA, ARRA, CPP, TARP, other liquidity and funding initiatives of the Federal Reserve and other agencies that have been previously announced, and any additional programs that may be initiated in the future will have on the financial markets, including the extreme levels of volatility and limited credit availability currently being experienced, or on the U.S. banking and financial industries and the broader U.S. and global economies. Further adverse effects could have an adverse effect on the Bancorp and its business.

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 recapture occurred 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.

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. During 2008, the Bank's 2006 federal income tax return was subject to an examination by the Internal Revenue Service. No improper tax positions were identified during the examination. In the last five years, the Bank's federal income returns have not been subject to any other examination by a taxing authority.

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.

During 2007, the Bank's state income tax returns were subject to an examination by the Indiana Department of Revenue. No improper tax positions were identified during the examination. In the last five years, the Bank's state income returns have not been subject to any other examination by a taxing authority.

Accounting for Income Taxes

At December 31, 2008, the Bancorp's consolidated total deferred tax assets were $4.3 million and the consolidated total deferred tax liabilities were $1.4 million, resulting in a consolidated net deferred tax asset of $2.7 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.

Item 1A. Risk Factors

Not applicable.

Item 1B. Unresolved Staff Comments

Not applicable.

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 ten banking locations. The Bancorp owns all of its office properties.

The following table sets forth additional information with respect to the Bank's offices as of December 31, 2008. 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 46321-3517	1985	$ 1,087,016	11,640	$ 3,107,222
141 W. Lincoln Highway Schererville, IN 46375-1851	1990	902,805	9,444	2,659,394
7120 Indianapolis Blvd. Hammond, IN 46324-2221	1978	194,956	2,600	920,660
1300 Sheffield Dyer, IN 46311-1548	1976	187,941	2,100	874,653
7915 Taft Merrillville, IN 46410-5242	1968	95,992	2,750	638,526
8600 Broadway Merrillville, IN 46410-7034	1996	1,322,068	4,400	2,556,839
4901 Indianapolis Blvd. East Chicago, IN 46312-3604	1995	866,809	4,300	1,540,913
1501 Lake Park Avenue Hobart, IN 46342-6637	2000	1,778,370	6,992	2,627,469
9204 Columbia Avenue Corporate Center Building Munster, IN 46321-3517	2003	6,173,322	36,685	9,630,109
855 Stillwater Parkway Crown Point, IN 46307-5361	2007	2,227,489	3,945	2,428,803
1801 W. 25th Avenue Gary, IN 46404	2008	1,858,969	2,790	1,897,801

At December 31, 2008, the Bank had investments totaling $2.4 million in three locations, which have been acquired for future development. The Bank outsources its core processing activities to Metavante Corporation located in Brown Deer, Wisconsin. Metavante provides real time services for loans, deposits, retail delivery systems, card solutions, and electronic banking. Additionally, the Bank utilizes Accutech in Muncie, Indiana for its Wealth Management operations.

The net book value of the Bank's property, premises and equipment totaled $19.1 million at December 31, 2008.

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 2008.

Item 4.5 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 2009 Annual Meeting of Shareholders:

The executive officers of the Bancorp are as follows:

	Age at December 31, 2008	Position
David A. Bochnowski	63	Chairman and Chief Executive Officer
Joel Gorelick	61	President and Chief Administrative Officer
Jon E. DeGuilio	53	Executive Vice President and Secretary
Robert T. Lowry	47	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, and is accountable to the Board of Directors, customers, shareholders, employees and stakeholders for the operation of the company. 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), now known as the new American Bankers Association (ABA) a national bank trade association where he serves on the Government Affairs Committee, Corporate Governance Committee, and Task Force on Financial Services Regulatory Reform. He is a trustee and treasurer of the Munster Community Hospital, a director of the Community Healthcare System, a former chairman and current board member of the Legacy Foundation of Lake County, a Director of the Quality of Life Council, a trustee of the Purdue Technology Center Northwest Indiana, and Vice-Chairman of the Peace and Justice Foundation of Lake County, Indiana. He is a former Chairman of the Indiana Department of Financial Institutions; former chairman of the Indiana League of Savings Institutions, now known as the Indiana Bankers Association; 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. He served as an officer in the United States Army and is a Vietnam veteran.

Joel Gorelick is President and Chief Administrative Officer of the Bancorp and the Bank. Mr. Gorelick has responsibility for coordinating the daily activities of retail banking, consumer and commercial lending, private banking, and wealth management activities. 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, president of the Merrillville, IN, Rotary Club, chairman of the board of the Northwest Indiana Regional Development Corporation, president of the

Lake Central High School Athletics Booster Club. Mr. Gorelick is an instructor for the Indiana Banker's Commercial Lending School. 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. The Indiana District Office of the U. S. Small Business Administration named Mr. Gorelick the year 2000 Financial Services Advocate. Mr. Gorelick has been appointed as a board member for the United States Selective Service System and currently serves as board member of the Lake County Economic Development Corporation, N.W. Indiana Regional Development Corporation and N.W. Indiana Boys & Girls Club. He holds a Masters of Science in Business Administration 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, Stakeholders Services Group and General Counsel, 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, serving on the boards of the "Friends of the Lake County CASA", the Lake County Drug Free Alliance, Our Lady of Grace School Board, the Carnegie Performing Arts Association Board and the Juvenile Diabetes Research Foundation Advisory Board.

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 an instructor for the American Bankers Association online banking courses. Mr. Lowry is a member of the Indiana CPA Society and Financial Managers Society. Mr. Lowry is actively involved in the Crown Point, IN. youth sports programs, and is involved in the Crown Point Chamber of Commerce.

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 caption “Market Information” in the 2008 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 2008 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 2008 Annual Report to Shareholders is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 8. Financial Statements

The financial statements contained in the 2008 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(T). Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

NorthWest Indiana Bancorp (the “Bancorp”) conducted an evaluation under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of December 31, 2008. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer determined that the disclosure controls and procedures were effective to ensure that material information required to be disclosed by the Bancorp in the reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported as and when required. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United

States of America and include amounts based on management's best estimates and judgments.

The Risk Management Committee of the Board of Directors meets regularly with the independent registered public accounting firm, Crowe Horwath LLP, and representatives of management to review accounting, financial reporting, internal control and audit matters, as well as the nature and extent of the audit effort. The Risk Management Committee is responsible for the engagement of the independent auditors. The independent auditors have free access to the Risk Management Committee.

(b) Report on Management's Assessment of Internal Control Over Financial Reporting.

(i) Management's Responsibility for Financial Statements

The Bancorp's management is responsible for the integrity and objectivity of all information presented in this report including the financial statements contained in the Annual Report to shareholders which are incorporated by reference into Item 8 of this Form 10-K. Management believes the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements fairly represent the Bancorp's financial position and results of operations for the periods and as of the dates stated therein.

(ii) Management's Assessment of Internal Control Over Financial Reporting

The management of the Bancorp is responsible for establishing and maintaining adequate internal control over financial reporting for the Bancorp as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. This system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Bancorp's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bancorp; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Bancorp are being made only in accordance with authorizations of management and the directors of the Bancorp; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Bancorp's assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal controls over financial reporting may vary over time.

With the participation of the Bancorp's Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the framework in Internal Control-Integrated Framework*,* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management determined that the Bancorp's system of internal control over financial reporting was effective as of December 31, 2008.

This annual report does not include an attestation report of the Bancorp's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Bancorp's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Bancorp to provide only management's report in this annual report.

c. Evaluation of Changes in Internal Control Over Financial Reporting.

There were no changes in the Bancorp's internal control over financial reporting in the fourth quarter of 2008 that have materially affected, or are 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” and “Meetings of the Board of Directors,” “Board Committees,” “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 2009 Annual Meeting of Shareholders is incorporated herein by reference. Information regarding the Bancorp’s executive officers is included under Item 4.5 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 “Executive Compensation” in the Bancorp’s definitive Proxy Statement for its 2009 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 contained within the Bancorp’s definitive Proxy Statement for the 2009 Annual Meeting of Shareholders, under the sections captioned “Security Ownership by Certain Beneficial Owners and Management”, on page 2, “Outstanding Equity Awards at December 31, 2008”, under the section captioned “Executive Compensation”, on page 11 and on pages 4-5 of the section captioned “Election of Directors” is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information contained on page 7 in the “Summary Compensation Table for 2008”, contained under the section titled “Executive Compensation,” on pages 14-15 under the section titled “Transactions with Related Persons, and on page 5 under the section titled “Corporate Governance-Director Independence” in the Bancorp’s definitive Proxy Statement for its 2009 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 2009 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 2008 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, 2008 and 2007

(c) Consolidated Statements of Income for the years ended December 31, 2008 and 2007

(d) Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2008 and 2007

(e) Consolidated Statements of Cash Flows for the years ended December 31, 2008 and 2007

(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 4.2 to the Bancorp's Registration Statement on Form S-3 filed July 19, 2007 (File No. 333-144699)).
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. *	Amended and Restated Employment Agreement, dated December 29, 2008, between Peoples Bank SB, NorthWest Indiana Bancorp and David A. Bochnowski (incorporated herein by reference to Exhibit 10.1 of the Bancorp's Form 8-K dated December 30, 2008).
10.3. *	Amended and Restated Employment Agreement, dated December 29, 2008, between Peoples Bank SB, NorthWest Indiana Bancorp and

Table of Contents

Exhibit Number	Description
	Joel Gorelick (incorporated herein by reference to Exhibit 10.2 of the Bancorp’s Form 8-K dated December 30, 2008).
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 for the Directors of Peoples Bank effective January 1, 2005(incorporated herein by reference to Exhibit 10.5 to the Bancorp’s Annual Report on Form 10-K for the year ended December 31, 2006).
10.6. *	Amended and Restated 2004 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 99.1 of the Bancorp’s Form 8-K dated April 20, 2005).
10.7 *	Amended and Restated 2004 Stock Option and Incentive Plan (incorporated herein by reference to Appendix A to the Bancorp’s Definitive Proxy Statement for its 2005 Annual Meeting of Shareholders, filed on March 25, 2005).
10.8 *	Post 2004 Unfunded Deferred Compensation Plan for the Directors of Peoples Bank SB effective January 1, 2005 (incorporated herein by reference to Exhibit 10.8 to the Bancorp’s Annual Report on Form 10-K for the year ended December 31, 2006).
10.9 *	Form of Incentive Stock Option Agreement (incorporated by reference to Exhibit 99.2 of the Bancorp’s Form 8-K dated April 20, 2005).
10.10 *	Form of Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 99.3 of the Bancorp’s Form 8-K dated April 20, 2005).
10.11 *	Form of Agreement for Restricted Stock (incorporated by referenced to Exhibit 99.4 of the Bancorp’s form 8-K dated April 20, 2005).
13.	2008 Annual Report to Shareholders
21.	Subsidiaries of the Bancorp (incorporated herein by reference to Exhibit 21. to the Bancorp’s Annual Report on Form 10-K for the year ended December 31, 2006).
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) of 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 11, 2009

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 11, 2009:

Signature	Title
Principal Executive Officer:	
/s/ David A. Bochnowski David A. Bochnowski	Chairman of the Board and Chief Executive Officer
Principal Financial Officer and Principal Accounting Officer:	
/s/ Robert T. Lowry Robert T. Lowry	Senior Vice President, Chief Financial Officer and Treasurer
The Board of Directors:	
/s/ Frank J. Bochnowski Frank J. Bochnowski	Director
/s/ Lourdes M. Dennison Lourdes M. Dennison	Director
/s/ Edward J. Furticella Edward J. Furticella	Director
/s/ Joel Gorelick Joel Gorelick	Director
/s/ Kenneth V. Krupinski Kenneth V. Krupinski	Director

Signature	Title
/s/ Stanley E. Mize Stanley E. Mize	Director
/s/ Anthony M. Puntillo Anthony M. Puntillo	Director
/s/ James L. Wieser James L. Wieser	Director
/s/ Donald P. Fesko Donald P. Fesko	Director
/s/ Amy W. Han Amy W. Han	Director

EXHIBIT INDEX

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NorthWest Indiana
BANCORP

"...our team has the plan, personnel, and technology in place to continue to earn your confidence and trust."

David A. Bochnowski
Chairman & CEO

2008 Annual Report

2008 > Gary, Indiana

A ribbon-cutting ceremony marked the opening of Peoples' 10th Banking Center in Gary.

2008 > Community First

Through internal fundraising events and with matching funds from the Bank, employees raised $25,000 which they distributed to the Boys and Girls Club of Northwest Indiana, Habitat for Humanity and the Legacy Foundation. The money donated to the Boys and Girls Clubs alone provided clothing to 87 children in need.

2008 > You First Banking Staff

By responding quickly and effectively with the service and solutiions to meet the customer's financial goals, Peoples Bank employees demonstrate their commitment to putting the needs of customers first. That's ***You First Banking!***

David A. Bochnowski
Chairman and
Chief Executive Officer

Dear Shareholder,

At a time when our nation is facing its worst economic crisis in four generations, your company, the NorthWest Indiana Bancorp, bucked the national trend as we reported income of $5.9 million in 2008.

This 6.1% earnings increase for the year was an achievement nothing short of remarkable against the backdrop of a national recession, and in the midst of efforts by the government to shore up the balance sheets of financial services companies.

Federal Assistance Declined

In November, your Board of Directors diligently reviewed the Capital Purchase Program of the Treasury Department. This program provided the opportunity for banks to receive financial assistance from the federal government in the form of capital infusions subject to certain rules and regulations, including the payment of interest as well as the repayment of principal. After careful consideration of all factors including our capital position, income, asset quality, reserves for potential loan portfolio stress, core earnings, and the details of the program, the Board of Directors unanimously decided not to apply for the funds.

As the leader of the Bancorp and our operating subsidiary, Peoples Bank, I am confident that our team has the plan, personnel, and technology in place to continue to earn your confidence and trust. We have faced uncertain times before, including the recession that devastated our community in the early 1980s, the follow up recession later that same decade, and the bursting of the technology bubble at the beginning of this century. The Peoples team successfully met each of those challenges and has the experience, talent, and motivation to do so again in the current environment.

Stability

The stability of the Bancorp's performance can be measured by the consistency of our commitment to our core business: utilizing retail deposits to serve the credit needs of consumers and small business. Because of our focus on the creation of value for our customers, community and shareholders, the Bancorp avoided high-flying disastrous practices. Your company has no exposure to subprime lending, credit default swaps, brokered deposits, or Fannie Mae or Freddie Mac stock.

Statistically, the Bancorp outperformed the industry based upon two key measures. Our return on assets (ROA) was 0.91% and our return on equity (ROE) was 10.96%. Both ratios more than doubled national averages for the banking sector.

Operating Results

The Peoples team took care of business during the year: income was up, assets grew, loan balances increased, and core accounts funded our growth.

At year-end our assets totaled $664.7 million, an increase of $36.0 million over the prior year. Contrary to the national reports of a credit crisis, our loan portfolio increased $21.1 million with growth in consumer loans, commercial loans, and loans to local government units. Deposits increased $34.8 million with core accounts, checking, money market, and savings representing 56.3 % of total deposits.

Our position as a core account funded bank drove a significant increase in our net interest income, the difference between interest income from loans and investments and interest expense paid on deposits and borrowed funds. For the year, our net interest margin, or core income, increased $4.3 million or 24.3%. Core income as measured by our net interest margin was 3.99% at the end of December, a healthy position that will help insulate the Bank should economic conditions deteriorate.

Performance Strategy

Your company has adopted "You First Banking" as the brand that describes our unique position as a community bank in our market. The clarity of our message—putting customers first—stands in stark contrast to the products and services of our regional and national banking competitors. We offer traditional deposit and loan products, as well as wealth management services, private banking, and electronic banking with a customer-centered approach to every individual and transaction. In addition, we have stayed focused on fundamental banking principals in our effort to create value for all our stakeholders.

Core Funding

The Bank relies on retail deposits from our consumer and small business customers as the mainstay of our funding needs. Our emphasis has been on checking, money market, and savings accounts, a strategy that fulfills a fundamental need in our market while driving down our cost of funds. We have stayed away from hot money and brokered deposits.

Loan Quality

The Bank's loan underwriting standards are designed to encourage the offering of sound credit facilities to our borrowers while protecting the quality of our asset base. The uncertainty of the economy has impacted the quality of our loan portfolio, particularly with regard to loan participations originally intended to avoid concentrations in our local market. As a result of management's assessment of current credit quality, provisions to the allowance for loan losses totaled $2.4 million for the year. Our due diligence process will continue to take into account the risks of the current recession.

Efficiency

The Bank continues to believe that low cost providers of high quality products and services will lead our industry, a concept that is consistently reinforced with the Peoples team. Our efficiency ratio, a key indicator of a bank's cost consciousness, was a respectable 63.5% for the year. Management is confident that we not only have well qualified talent in place, but that we also provide the salary, benefits, education, and training necessary for their continued professional development.

Growth

Our strategic plan calls for increasing our market value through improved market share. Professional studies suggest that opportunities exist in numerous segments of our market to capture more wallet share of existing customers as well as extend our brand through new locations in Lake and Porter counties. One new product introduced in 2008, You First Checking, garnered $3.5 million in deposits by year-end. Our new Crown Point Banking Center had growth exceeding $10.4 million after its first full year of operation, and our new Gary location also exceeded expectations during the two months it was on line in 2008.

Balance Sheet Strategies

During economic stress, sound management requires a bank to balance the need to nimbly react to changing circumstances with prudent banking practices. In these times, a common sense approach to investing requires a stronger cash position as liquidity takes on increasing importance in preserving operating alternatives.

The Bank will continue to review opportunities to reposition the duration of our assets and, during 2008, will originate for sale all fixed rate mortgage loans with a term of fifteen years or more. Our investment portfolio will continue to be positioned to avoid high risk returns in the current low rate environment.

Capital

In the current crisis, a healthy capital position is central to weathering the storm of the economy. Capital resources permit growth but also provide the cushion to withstand shocks that might stem from deterioration in asset quality. As a shareholder, you should be pleased to know that your company continues to exceed all the federal government's "well capitalized" standards.

Dividend Policy

Bank investors across the country have experienced decreases in dividends as bank earnings have fallen resulting in pressure on bank capital. Shareholders have expressed interest in the outlook for the Bancorp's dividend in the current economic environment.

During the year, the Bancorp's dividend held steady consistent with the parameters of our dividend policy. Your Board of Directors determines our dividend each quarter and formulates a decision based upon a review of several interrelated factors.

The Board's evaluation embraces operating dynamics and issues that influence our capital position including income, current economic conditions, capital usage for technology and banking center expansion, provisions for potential loan portfolio deterioration, and the capital guidance of state and federal banking regulators.

In February of 2009, the Board applied these factors to the dividend to be paid in April of 2009 and authorized the payment of $0.36 dividend per share, an amount unchanged from the October 2008 quarterly dividend payment and the quarterly dividends paid in January, April, and July of last year.

Directors

At last year's annual meeting, Lee Cataldi retired from the Board after thirty years of service to the Bancorp. Lee served with distinction as a director and consistently advocated for our customers, community, and shareholders. He provided valuable insight on product and service delivery, and for many years devoted extra time to our cause as chairman of our Wealth Management Committee. We continue to benefit from his counsel and experience in his role as a director emeritus.

Following Lee's retirement, Amy W. Han, Ph.D., joined the Board of Directors. Amy is the Director of Clinical Affairs and Clinical Professor of Psychology at Indiana University School of Medicine-Northwest, as well as actively engaged in numerous community activities. Her background brings additional expertise to the skill sets of the Board with respect to employee training and development as well as the target marketing of our products and services.

In the fall of last year, Harold Rueth, a friend of the Bancorp who had served the Bank since the 1960s as a Board member and subsequently a director emeritus, passed away. Renowned as a businessman and developer, Harold was also a true humanitarian who helped many people in numerous ways. His insights made a difference in the success of the Bancorp and he shall always be remembered for his dedication to our cause.

The Coming Year

These are unprecedented times in the American economy as uncertainty grips the nation. Restoring confidence is our top priority and banks need to take a leadership role in making that happen. Our capitalist system is built upon trust and the Peoples team has a track record that has earned the trust of our customers, community, and shareholders.

The Peoples team promises our shareholders and stakeholders that we will continue to provide leadership and stability while remaining close to the needs of our customers and community. The ability to work in the banking business is a privilege not a right, and the one hundred ninety eight men and women who work at Peoples Bank every day will honor that privilege through their hard work, values-based principles, and commitment to delivering exceptional operating results to our customers, community and shareholders.

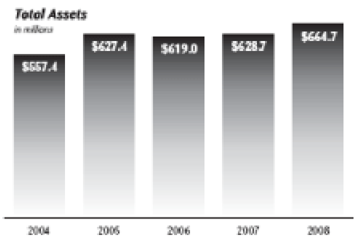
Sincerely,

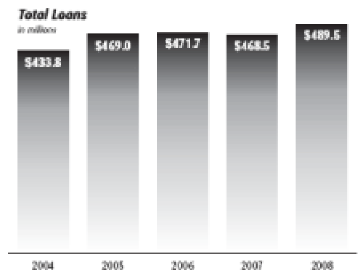
David A. Bochnowski
Chairman and Chief Executive Officer

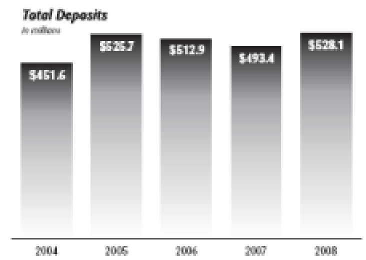
Financial Information

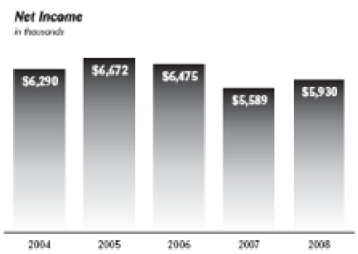
Peoples Bank

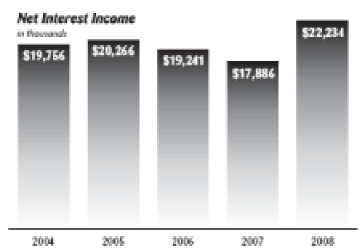
Financial Highlights

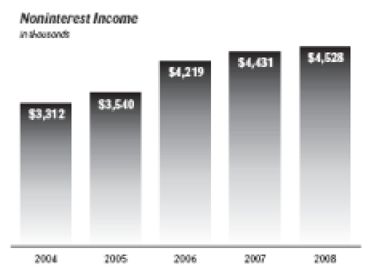


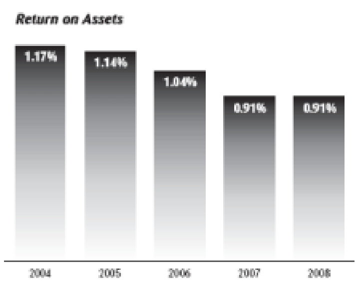


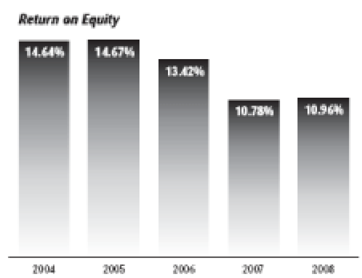


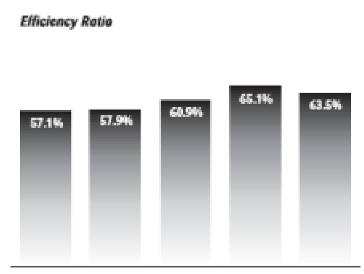












Selected Consolidated Financial Data

in thousands of dollars, except per share data

Fiscal Year Ended	*December 31, 2008*	*December 31, 2007*	*December 31, 2006*	*December 31, 2005*	*December 31, 2004*	*December 31, 2003*
Statement of Income:						
Total interest income	$ 35,167	$ 35,768	$ 34,979	$ 30,024	$ 26,614	$ 26,357
Total interest expense	12,933	17,882	15,737	9,758	6,858	7,521
Net interest income	22,234	17,886	19,241	20,266	19,756	18,836
Provision for loan losses	2,388	552	15	245	385	420
Net interest income after provision for loan losses	19,846	17,334	19,226	20,021	19,371	18,416
Noninterest income	4,528	4,431	4,219	3,540	3,312	2,968
Noninterest expense	16,999	14,525	14,296	13,771	13,174	12,037
Net noninterest expense	12,471	10,094	10,077	10,231	9,862	9,069
Income tax expenses	1,445	1,651	2,674	3,118	3,219	3,411
Net income	$ 5,930	$ 5,589	$ 6,475	$ 6,672	$ 6,290	$ 5,936
Basic earnings per common share	$ 2.11	$ 1.99	$ 2.32	$ 2.40	$ 2.28	$ 2.16
Diluted earnings per common share	$ 2.10	$ 1.98	$ 2.30	$ 2.37	$ 2.24	$ 2.13
Cash dividends declared per common share	$ 1.44	$ 1.44	$ 1.40	$ 1.32	$ 1.24	$ 1.20

	December 31, 2008	*December 31, 2007*	*December 31, 2006*	*December 31, 2005*	*December 31, 2004*	*December 31, 2003*
Balance Sheet:						
Total assets	$ 664,732	$ 628,718	$ 618,982	$ 627,439	$ 557,393	$ 508,775
Loans receivable	489,509	468,459	471,716	469,043	433,790	409,808
Investment securities	126,722	114,644	99,012	90,093	79,979	63,733
Deposits	528,148	493,384	512,931	525,731	451,573	421,640
Borrowed funds	74,795	76,930	51,501	51,152	57,201	40,895
Total stockholders' equity	52,773	52,733	50,010	46,433	44,097	41,554

Fiscal Year Ended	*December 31, 2008*	*December 31, 2007*	*December 31, 2006*	*December 31, 2005*	*December 31, 2004*	*December 31, 2003*
Interest Rate Spread During Period:						
Average effective yield on loans and investment securities	5.78%	6.21%	6.02%	5.50%	5.31%	5.65%
Average effective cost of deposits and borrowings	2.19%	3.18%	2.77%	1.82%	1.40%	1.67%
Interest rate spread	3.59%	3.03%	3.25%	3.68%	3.91%	3.98%
Net interest margin	3.65%	3.10%	3.31%	3.71%	3.94%	4.04%
Return on average assets	0.91%	0.91%	1.04%	1.14%	1.17%	1.20%
Return on average equity	10.96%	10.78%	13.42%	14.67%	14.64%	14.65%

	December 31, 2008	*December 31, 2007*	*December 31, 2006*	*December 31, 2005*	*December 31, 2004*	*December 31, 2003*
Total capital to risk-weighted assets	12.0%	12.0%	12.0%	11.6%	12.2%	12.5%
Tier 1 capital to risk-weighted assets	10.8%	11.0%	11.1%	10.7%	11.2%	11.5%
Tier 1 capital to adjusted average assets	8.2%	8.3%	8.0%	7.9%	8.0%	8.0%
Allowance for loan losses to total loans	1.19%	0.98%	0.90%	0.89%	0.90%	0.92%
Allowance for loan losses to non-performing loans	46.97%	53.16%	153.95%	198.00%	371.00%	220.31%
Non-performing loans to total loans	2.54%	1.84%	0.58%	0.45%	0.24%	0.42%
Total loan accounts	5,193	5,268	5,392	5,422	5,370	5,213
Total deposit accounts	33,692	30,760	32,435	33,963	32,866	32,502
Total Banking Centers (all full service)	10	9	8	8	8	8

December 31, 2002		December 31, 2001		December 31, 2000		December 31, 1999	
$	27,781	$	28,425	$	28,077	$	25,607
	10,107		13,222		13,386		11,281
	17,674		15,203		14,691		14,326
	720		230		175		200
	16,954		14,973		14,516		14,126
	2,675		2,402		1,995		1,659
	10,859		9,911		9,449		8,774
	8,184		7,509		7,454		7,115
	3,277		2,754		2,691		2,775
$	5,493	$	4,710	$	4,371	$	4,236
$	2.01	$	1.73	$	1.61	$	1.53
$	1.99	$	1.71	$	1.60	$	1.52
$	1.12	$	1.04	$	0.96	$	0.84

December 31, 2002	December 31, 2001	December 31, 2000	December 31, 1999
$ 488,002	$ 440,710	$ 392,313	$ 361,719
380,428	342,642	326,207	295,813
56,571	67,260	38,128	41,931
406,673	355,215	324,310	306,647
36,065	44,989	30,599	18,607
39,148	35,882	33,529	32,471

	December 31, 2002	December 31, 2001	December 31, 2000	December 31, 1999
$	6.26%	7.29%	7.88%	7.61%
	2.38%	3.55%	3.95%	3.54%
	3.88%	3.74%	3.93%	4.07%
	3.99%	3.90%	4.12%	4.26%
	1.18%	1.15%	1.17%	1.20%
	14.58%	13.49%	13.30%	13.17%

	December 31, 2002	December 31, 2001	December 31, 2000	December 31, 1999
	13.1%	13.6%	13.6%	14.8%
$	11.9%	12.5%	12.3%	13.5%
	7.6%	8.3%	8.6%	9.0%
	0.96%	0.92%	1.02%	1.12%
	152.43%	108.64%	183.54%	412.08%
	0.63%	0.85%	0.55%	0.27%
	5,049	4,964	4,762	4,676
	31,385	30,433	28,906	27,712
	8	8	8	7

Business

NorthWest Indiana Bancorp (the Bancorp) is a bank holding company registered with the Board of Governors of the Federal Reserve System. Peoples Bank (the Bank), an Indiana 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.

The Bancorp conducts business from its Corporate Center in Munster and its ten full-service offices located in Crown Point, Dyer, East Chicago, Gary, Hammond, Hobart, Merrillville, Munster and Schererville, 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, various types of consumer loans and commercial business loans. In addition, the Bancorp's Wealth Management Group provides estate and retirement planning, guardianships, land trusts, profit sharing and 401(k) retirement plans, IRA and Keogh accounts, and investment agency accounts. The Wealth Management Group may also serve as the personal representative of estates and act as trustee for revocable and irrevocable trusts.

The Bancorp's common stock is traded in the over-the-counter market and is quoted on the OTC Bulletin Board. On February 23, 2009, the Bancorp had 2,809,285 shares of common stock outstanding and 410 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, wealth management operations 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 the Bancorp's 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, 2008, the Bancorp had total assets of $664.7 million and total deposits of $528.1 million. The Bancorp's deposit accounts are insured up to applicable limits by the Deposit Insurance Fund (DIF) that is administered by the Federal Deposit Insurance Corporation (FDIC), an agency of the federal government. At December 31, 2008, stockholders' equity totaled $52.8 million, with book value per share at $18.79. Net income for 2008 was $5.9 million, or $2.11 basic earnings per common share and $2.10 diluted earnings per common share. The return on average assets was 0.91%, while the return on average stockholders' equity was 10.96%.

Recent Developments

In response to the financial crises affecting the banking system and financial markets, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the "EESA") was signed into law creating the Troubled Asset Relief Program ("TARP"). Pursuant to the EESA, the U.S. Department of Treasury (the "Treasury") has the authority to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

On October 14, 2008, the Treasury also announced it would offer to qualifying U.S. banking organizations the opportunity to sell preferred stock, along with warrants to purchase common stock, to the Treasury on what may be considered attractive terms under the TARP Capital Purchase Program (the "CPP"). The CPP allows financial institutions to issue nonvoting preferred stock to the Treasury in an amount ranging between 1% and 3% of its total risk weighted assets. After a careful review of the terms of participation in the CPP, along with consideration of the capital requirements applicable to the Bancorp and the Bank, both of which have remained above the "well-capitalized" regulatory guidelines, the Bancorp's board of directors decided it is not in the best interests of the Bancorp and its shareholders to participate in the CPP.

On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (the "ARRA"), which contains a comprehensive set of government spending initiatives and tax incentives aimed at stimulating the U.S. economy. The ARRA also amends, among other things, the TARP program legislation by directing the Treasury to issue regulations implementing strict limitations on compensation paid or accrued by financial institutions participating in the TARP, which regulations do not apply to the Bancorp.

EESA and ARRA followed, and have been followed by, numerous actions by the FederalReserve, Congress, Treasury, the SEC and others to address the current liquidity and credit crisis that has followed the sub-prime meltdown that commenced in 2007. These measures include homeowner relief that encourage loan restructuring and modification; the establishment of significant liquidity and credit facilities for financial institutions and investment banks; the lowering of the federal funds rate, including two 50 basis point decreases in October of 2008; emergency action against short selling practices; a temporary guaranty program for money market funds; the establishment of a commercial paper funding facility to provide back-stop liquidity to commercial paper issuers; and coordinated international efforts to address illiquidity and other weaknesses in the banking sector. It is not clear at this time what impact the EESA, ARRA, the CPP, the TARP, other liquidity and funding initiatives of the Federal Reserve and other agencies that have been previously announced, and any additional programs that may be initiated in the future will have on the financial markets, including the extreme levels of volatility and limited credit availability currently being experienced, or on the U.S. banking and financial industries and the broader U.S. and global economies. Further adverse effects could have an adverse effect on the Bancorp and its business.

Financial Condition

During the year ended December 31, 2008, total assets increased by $36.0 million (5.7%), to $664.7 million, with interest-earning assets increasing by $32.7 million (5.6%). At December 31, 2008, interest-earning assets totaled $621.2 million and represented 93.4% of total assets.

Loans totaled $489.5 million and represented 78.8% of interest-earning assets, 73.6% of total assets and 92.7% 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 emphasizes quality growth, product diversification, and competitive and profitable pricing. The loan portfolio includes $225.8 million (46.2%) in residential real estate loans, $130.3 million (26.6%) in commercial real estate loans, $55.0 million (11.2%) in construction and land development loans, $49.3 million (10.1%) in commercial business loans, $14.8 million (3.0%) in government and other loans, $12.3 million (2.5%) in multifamily loans, and $2.0 million (0.4%) in consumer loans. Adjustable rate loans comprised 53.4% of total loans at year-end. During 2008, loan balances increased by $21.1 million (4.5%), with commercial real estate, construction and development, government and commercial business loan balances increasing, while residential real estate, multifamily, and consumer loan balances decreased. Management believes that the current economic slowdown in the national and local economies may result in a continued softening in loan demand in all categories.

During 2008, the Bancorp sold $4.3 million in fixed rate mortgages originated for sale compared to $12.3 million in 2007. Net gains realized from the sales totaled $108 thousand and $221 thousand for 2008 and 2007. The current year decrease in gains on sale of loans is a result of lower customer demand for mortgage loans due to a decline in economic conditions. Net mortgage loan servicing fees totaled $13 thousand for 2008 and $23 thousand for 2007. At December 31, 2008, the Bancorp had no loans that were originated for sale. During 2009, the Bancorp expects to continue selling current year fixed rate mortgage loans originated for sale, with contractual maturities of fifteen years or greater, on a case-by-case basis, as part of its efforts to manage interest rate risk. Consistent with the Bancorp's Strategic Plan and in an ongoing effort to reduce interest rate risk, management may implement strategies to increase asset sensitivity on its balance sheet. Such strategies may include reducing the percentage of fixed rate loans on the balance sheet, while originating commercial and consumer loans tied to short-term interest rates or loans having shorter durations. During January 2009, the Bancorp's management implemented a strategy with a one-time sale of fixed rate mortgage loans from its loan portfolio by selling $10.5 million in fixed rate mortgage loans, while funding newly originated construction and land development, commercial and government loan originations. Implementing the balance sheet restructuring strategy had a positive impact on interest rate risk by replacing longer duration fixed rate mortgage loans with shorter duration non-mortgage loans that will reprice more frequently. The gain realized from the loan sale totaled approximately $230 thousand.

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 $12.4 million at December 31, 2008, compared to $8.6 million at December 31, 2007, an increase of $3.8 million or 44.2%. The increase in non-performing loans is concentrated with one commercial borrower with three cross collateralized loans in the amount of $1.5 million, and two borrowers, with eight cross collateralized construction loans totaling $921 thousand. As previously reported, the Bank's December 31, 2008 and December 31, 2007 non-performing and impaired loan balances have been negatively impacted by two past due commercial real estate participation loans. The first commercial real estate participation loan carries a balance of $3.8 million, of which $2.2 million has been classified as substandard and $1.6 million is classified as doubtful. The second commercial real estate participation loan carried a balance of $956 thousand, of which $569 thousand was charged-off during the fourth quarter of 2008, leaving a balance of $387 thousand classified as doubtful at December 31, 2008. The $569 thousand charge-off was based on an updated appraisal obtained by the lead lender and a shared national credit report received from the Federal Deposit Insurance Corporation. For both loans, management is in contact with the lead lenders and continues to take the appropriate steps for protection of the Bank's interest in the collateral. Based on the current information provided by the lead lenders, management has had to make certain estimates regarding both projects' cash flows, collateral values and strength of personal guarantees. At December 31, 2008, for the $3.8 million commercial real estate participation, a condominium conversion project in Ann Arbor, Michigan, management's current estimates indicate a collateral deficiency of $1.0 million, which has been reserved for as a specific allocation in the allowance for loan losses. Management has retained legal counsel to actively pursue potential material violations of the participation agreement and the underlying loan documentation by the lead lender. During the first quarter of 2008, management filed a law suit against the lead lender. To the extent that actual cash flows, collateral values and strength of personal guarantees differ from current estimates, additional provisions to the allowance for loan losses may be required for both commercial real estate participation loans.

The ratio of non-performing loans to total loans was 2.54% at December 31, 2008, compared to 1.84% at December 31, 2007. The ratio of non-performing loans to total assets was 1.87% at December 31, 2008, compared to 1.37% at December 31, 2007. The December 31, 2008, non-performing loan balances include $10.9 million in loans accounted for on a non-accrual basis and $1.5 million in accruing loans, which were contractually past due 90 days or more. Loans internally classified as substandard totaled $11.4 million at December 31, 2008, compared to $10.9 million at December 31, 2007. Loans internally classified as doubtful totaled $2.0 million at December 31, 2008, compared to $0.0 at December 31, 2007. The increase in doubtful loans at December 31, 2008, is related to two commercial real estate participation loans that had balances transferred from substandard to doubtful during the fourth quarter of 2008. No loans were classified as 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 closely monitoring due to one or more factors that may cause the loan to become classified. Watch loans totaled $22.7 million at December 31, 2008, compared to $10.8 million at December 31, 2007. The increase in watch loans is primarily related to a construction development participation loan in the amount of $4.2 million and a two commercial real estate participation loans in the amount of $5.7 million.

A loan is considered impaired when, based on current information and events, it is probable that a borrower will be unable to pay all amounts due according to the contractual terms of the loan agreement. At December 31, 2008, impaired loans totaled $8.6 million, compared to $6.0 million at December 31, 2007. The December 31, 2008, impaired loan balances consist of eighteen loans to ten commercial borrowers that are secured by business assets and real estate, and are personally guaranteed by the owners of the businesses. The December 31, 2008 ALL contained $1.7 million in specific allowances for collateral deficiencies, compared to $824 thousand in specific allowances at December 31, 2007. During the fourth quarter of 2008, four additional commercial real estate loans and one commercial business loan totaling $2.2 million were classified as impaired. Management's current estimate indicates that specific allowances of $295 thousand are required for these loans. In addition, during the current quarter, one commercial business loan in the amount of $191 thousand was repaid and removed from impaired status. The December 31, 2008, impaired loan balances were also included in the previously discussed non-performing and substandard loan balances. There were no other loans considered to be impaired loans as of, or for, the quarter ended, December 31, 2008.

At December 31, 2008, 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, 2008, no other interest bearing assets were required to be disclosed as non-accrual, past due or restructured. Management does not presently anticipate that any of the non-performing loans or classified loans would materially impact future operations, liquidity or capital resources.

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 has a $1.1 million participation in a $6.4 million letter of credit, which acts as payment support to bondholders. Cash flows from the security collateralizing the letter of credit have been negatively impacted as the property is vacant. Our portion of the letter of credit is also secured by a cash collateral account and a collateralized guarantee in the amount of $1.0 million. During July 2008, a new forbearance agreement was executed, which expired on December 31, 2008. Currently, the letter of credit participants are reviewing the credit worthiness of a prospective tenant. Management will continue to monitor the letter of credit and bond repayments.

Because some loans may not be repaid in accordance with contractual agreements, an 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. For the twelve months ended December 31, 2008, $2.4 million in additions to the ALL account were required, compared to $552 thousand for the twelve months ended December 31, 2007. The increase in the 2008 ALL provisions was related to the need for additional specific allowances for the collateral deficiency associated with the previously mentioned impaired loans, and an increase in non-performing and classified loans. Charge-offs, net of recoveries, totaled $1.1 million for the twelve months ended December 31, 2008, compared to $238 thousand for the twelve months ended December 31, 2007. The ALL provisions take into consideration management's current judgments about the credit quality of the loan portfolio, loan portfolio balances, changes in the portfolio mix and local and national economic conditions. In determining the provision for loan loss for the current period, management has given consideration to increased risks associated within the local and national economy, changes in loan balances and mix, and asset quality.

The determination of the amount 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, doubtful, loss or watch. 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 classified loan category 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 1.19% at December 31, 2008, compared to 0.98% at December 31, 2007. The ALL to non-performing loans (coverage ratio) was 47.0% at December 31, 2008, compared to 53.2% at December 31, 2007. The December 31, 2008 balance in the ALL account of $5.8 million is considered adequate by management after evaluation of the loan portfolio, past experience and current economic and market conditions. 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. 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, 2008, the Bancorp’s investment portfolio totaled $126.7 million and was invested as follows: 54.9% in U.S. government agency mortgage-backed securities and collateralized mortgage obligations, 35.4% in municipal securities, 4.4% in U.S. government agency debt securities, 3.8% in corporate securities and 1.5% in trust preferred securities. At December 31, 2008, securities available-for-sale totaled $108.2 million or 85.4% 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. During 2008, securities increased by $12.1 million (10.5%). In addition, at December 31, 2008, the Bancorp had $3.7 million in FHLB stock.

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, 2008, deposits totaled $528.1 million. During 2008, deposits increased by $34.8 million (7.0%). The 2008 change in deposits was comprised of the following: certificates of deposit increased by $16.9 million (7.9%), checking accounts increased by $14.5 million (12.5%), money market deposit accounts (MMDA’s) increased by $3.5 million (3.1%), while savings accounts decreased by $66 thousand (0.1%).

The Bancorp’s borrowed funds are primarily comprised of repurchase agreements and FHLB advances that are used to fund asset growth not supported by deposit generation. At December 31, 2008, borrowed funds totaled $74.8 million compared to $76.9 million at December 31, 2007, a decrease of $2.1 million (2.8%). Retail repurchase agreements totaled $25.8 million at December 31, 2008, compared to $14.2 million at December 31, 2007, an increase of $11.6 million (81.7%). During 2008, as a result of economic uncertainties, customer preference for retail repurchase agreements increased, with the additional security provided by pledged collateral for funds invested at the Bancorp. FHLB advances totaled $46.0 million, decreasing $13.0 million or 22.0%, as the Bancorp paid-off maturing advances with funds provided from deposit and retail repurchase agreement growth. In addition, the Bancorp’s FHLB line of credit carried a balance of $2.0 million at December 31, 2008, compared to $2.8 million at December 31, 2007. Other short-term borrowings totaled $978 thousand at December 31, 2008, compared to $898 thousand at December 31, 2007.

Liquidity and Capital Resources

The Bancorp’s primary goal for funds and 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 funds management is profit management. Because profit and liquidity are often conflicting objectives, management will maximize the Bank’s net interest margin by making adequate, but not excessive, liquidity provisions. Furthermore, funds are managed so that future profits will not be significantly impacted as funding costs increase.

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, dividend receipts and the purchase 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, FHLB advances and federal funds purchased) as a source of funds.

During 2008, cash and cash equivalents decreased $815 thousand, compared to a decrease of $3.7 million for 2007. During 2008, the primary sources of cash and cash equivalents were from the maturities and sales of securities, loan sales and repayments, FHLB advances and cash from operating activities. The primary uses of cash and cash equivalents were loan originations, purchase of securities, expenditures for premises and equipment, deposit withdrawals, FHLB advance repayments and the payment of common stock dividends. During 2008, cash from operating activities totaled $12.1 million, compared to $8.2 million for 2007. The 2008 increase in cash provided by operating activities was a result of the net change in other liabilities and an increase in provision for loan losses. Cash outflows from investing activities totaled $41.5 million during 2008, compared to $13.9 million during 2007. The increase during 2008 was due primarily to an increase loan originations. Loan balances increased by $20.1 million during 2008, compared to a decrease of $3.3 million for 2007. Net cash inflows from financing activities totaled $28.6 million in 2008, compared to net cash inflows of $2.0 million in 2007. The change during 2008 was primarily due to deposit growth. Deposits increased by $34.8 million during 2008, compared to a decrease of $19.5 million for 2007. FHLB advances increased by $4.0 million during 2008 compared to an increase of $17.0 million during 2007. Other borrowed funds decreased by $6.1 million during 2008, compared to an increase of $8.4 million in 2007. The increase in deposit balances resulted in less dependence on borrowed funds. The Bancorp paid dividends on common stock of $4.0 million during 2008 and 2007.

During the fourth quarter of 2008, the Bancorp opened its tenth full service banking center in Gary, Indiana. The new $1.9 million state-of-the-art facility did not have a material impact on noninterest expense during 2008. It is expected that the new banking center will provide opportunities to expand market share for the Bancorp's products and services.

Management strongly believes that safety and soundness is enhanced by maintaining a high level of capital. Stockholders' equity totaled $52.8 million at December 31, 2008, compared to $52.7 million at December 31, 2007, an increase of $40 thousand (0.1%). The increase was a result of $5.9 million in net income for 2008. Additional items increasing stockholders' equity were $170 thousand from stock-based compensation plans and $83 thousand from the sale of treasury stock. Items decreasing stockholders' equity were $1.8 million from the net change in the valuation of available-for-sale securities, the Bancorp's declaration of $4.0 million in cash dividends, $226 thousand in treasury stock purchases and $11 thousand from the change in net unrealized items from the Bank's postretire-ment plans. At December 31, 2008 and 2007, book value per share was $18.79.

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, 2008, the Bancorp's capital exceeded all regulatory capital requirements. At December 31, 2008, 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*	
At December 31, 2008	*Amount*	*Ratio*	*Amount*	*Ratio*	*Amount*	*Ratio*
Total capital to risk-weighted assets	$59.9	12.0%	$ 39.9	8.0%	$50.0	10.0%
Tier 1 capital to risk-weighted assets	$54.1	10.8%	$ 20.0	4.0%	$29.9	6.0%
Tier 1 capital to adjusted average assets	$54.1	8.2%	$ 20.0	3.0%	$33.1	5.0%

Results of Operations —
Comparison of 2008 to 2007

Net income for 2008 was $5.9 million, compared to $5.6 million for 2007, an increase of $341 thousand (6.1%). During 2008, the Bancorp's earnings were enhanced by consistent earning asset growth, core deposit growth and significant increase in net interest income. The earnings represent a return on average assets of 0.91% for 2008 compared to 0.91% for 2007. The return on average equity was 10.96% for 2008 compared to 10.78% for 2007.

Net interest income for 2008 was $22.2 million, an increase of $4.3 million (24.3%) from $17.9 million for 2007. The increase in net interest income has been positively impacted by growth in the loan and securities portfolio, core deposit growth and a decrease in the cost of funds as a result the Federal Reserve's action in lowering short-term interest rates. The weighted-average yield on interest-earning assets was 5.78% for 2008 compared to 6.21% for 2007. The weighted-average cost of funds was 2.19% for 2008 compared to 3.18% for 2007. The impact of the 5.78% return on interest earning assets and the 2.19% cost of funds resulted in a net interest spread of 3.59% for 2008 compared to 3.03% for 2007. During 2008, total interest income decreased by $601 thousand (1.7%) while total interest expense decreased by $4.9 million (27.7%). The net interest margin was 3.65% for 2008 compared to 3.10% for 2007. During 2008, the Bancorp continued to focus on reducing its effective tax rate by investing in tax-exempt securities and loans. As a result, the Bancorp's tax equivalent net interest margin for 2008 was 3.81% compared to 3.21% for 2007.

During 2008, interest income from loans decreased by $1.5 million (5.0%) compared to 2007. The change was primarily due to a decrease in the weighted-average yield of the loan portfolio. The weighted-average yield on loans outstanding was 6.04% for 2008 compared to 6.60% for 2007. Loan balances averaged $484.8 million for 2008, an increase of $18.4 million (3.95%) from $466.4 million for 2007. During 2008, interest income from securities and other interest earning assets increased by $925 thousand (18.6%) compared to 2007. 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 4.75% for 2008 compared to 4.52% for 2007. Securities and other interest earning assets averaged $124.0 million for 2008, up $14.0 million (12.7%) from $110.0 million for 2007.

Interest expense for deposits decreased by $4.3 million (28.7%) during 2008 compared to 2007. The change was due to a decrease in the weighted-average rate paid on deposits. The weighted-average rate paid on deposits for 2008 was 2.02% compared to 3.02% for 2007. Total deposit balances averaged $517.4 million for 2008, an increase of $23.2 million (4.7%) from $494.2 million for 2007. Interest expense on borrowed funds decreased by $653 thousand (22.2%) during 2008 due to a decrease in the cost of borrowing. The weighted-average cost of borrowed funds was 3.08% for 2008 compared to 4.32% for 2007. Borrowed funds averaged $74.3 million during 2008, an increase of $6.3 million (9.3%) from $68.0 million for 2007.

During 2008, fees and service charges totaled $2.898 million, a decrease of $49 thousand (1.7%) from $2.947 million for 2007. Fees from Wealth Management operations totaled $814 thousand for 2008, an increase of $95 thousand (13.2%) from $719 thousand for 2007. The increase in Wealth Management income is related to consistent asset growth that has occurred during the past twelve months. Income from an increase in the cash value of bank owned life insurance totaled $413 thousand for 2008, an increase of $6 thousand (1.5%), compared to $407 thousand for 2007. Gains from the sale of securities totaled $210 thousand for the current year, an increase of $110 thousand (110.0%) from $100 thousand for 2007. Current market conditions provided opportunities to recognize gains from the sales of securities, while reinvesting in different sectors with similar yields. Gains from loan sales totaled $108 thousand for the year, a decrease of $113 thousand (51.1%), compared to $221 thousand for 2007. The current year decrease in gains on sale of loans is a result of lower customer demand for mortgage loans due to a decline in economic conditions. For 2008, $52 thousand in losses were realized related to foreclosed real estate, compared to $12 thousand in gains for 2007. During 2008, other noninterest income totaled $137 thousand, an increase of $112 thousand (448.0%) from $25 thousand for 2007. This increase was primarily due to the reversal of impairment on a letter of credit that was taken at December 31, 2007.

Noninterest expense for 2008 was $17.0 million, up $2.4 million (17.0%) from $14.5 million for 2007. During 2008, compensation and benefits totaled $8.8 million, an increase of $1.4 million (18.1%) from $7.5 million for 2007. The change in compensation and benefits is related to the increase in additional personnel for lending and retail banking activities. Occupancy and equipment totaled $2.8 million for 2008, an increase of $377 thousand (15.3%) compared to $2.5 million for 2007. The increase is related to the operations of a new banking center in Crown Point, Indiana that was opened during December 2007. Data processing expense totaled $852 thousand for 2008, a decrease of $15 thousand (1.7%) from $867 thousand for 2007. Marketing expense related to banking products totaled $405 thousand for the year, an increase of $126 thousand (45.2%) from $279 thousand for 2007. The additional marketing expense is associated with increased communications of the Bank's brand and product offerings, and the implementation of new marketing systems.

Other expenses related to banking operations totaled $3.4 million for 2008, an increase of $579 thousand (12.5%) from $2.8 million for 2007. The change in other expenses is a result of an increase in third- party professional services, community contributions and operating expenses related to loan and deposit products. The Bancorp's efficiency ratio for 2008 was 63.5% compared to 65.1% for 2007. 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 2008 totaled $1.4 million compared to $1.7 million for 2007, a decrease of $206 thousand (12.5%). The combined effective federal and state tax rates for the Bancorp were 19.6% for 2008 and 22.8% for 2007. The decrease was due to an increased investment in tax-exempt investments and loans, bank owned life insurance and the Bank's real estate investment trust.

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 most critical accounting policies are summarized below. Other accounting policies, including those related to the fair values of financial statements and the status of contingencies, are summarized in Note 1 to the Bancorp's consolidated financial statements.

Valuation of Investment Securities — The fair values of securities available for sale are determined on a recurring basis by obtaining quoted prices on nationally recognized securities exchanges or pricing models utilizing significant observable inputs such as matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. Different judgment and assumptions used in pricing could result in different estimates of value.

At the end of each reporting period securities held in the investment portfolio are evaluated on an individual security level for other-than-temporary impairment in accordance with SFAS No. 115, Accounting for Certain Investment in Debt and Equity Securities. An impairment is other-than-temporary if the decline in the fair value of the security is below its amortized cost and it is probable that all amounts due according to the contractual terms of a debt security will not be received. Significant judgments are required in determining impairment, which include making assumptions regarding the estimated prepayments, loss assumptions and the change in interest rates.

We consider the following factors when determining an other-than-temporary impairment for a securities: The length of time and the extent to which the market value has been less than amortized cost; The financial condition and near-term prospects of the issuer; The underlying fundamentals of the relevant market and the outlook for such market for the near future; Our intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in market value; and

If, in management's judgment, an other-than-temporary impairment exists, the cost basis of the security will be written down to the then-current fair value, and the unrealized loss will be transferred from accumulated other comprehensive loss as an immediate reduction of current earnings (as if the loss had been realized in the period of other than temporary impairment).

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: regional 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.

Forward-Looking Statements

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.

Report of Independent Registered Public Accounting Firm

Board of Directors
NorthWest Indiana
Bancorp Munster, Indiana

We have audited the accompanying consolidated balance sheets of NorthWest Indiana Bancorp ("Company") as of December 31, 2008 and 2007 and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. 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, 2008 and 2007, and the results of their operations and its cash flows for each of the two years in the period ended December 31, 2008 in conformity with U.S. generally accepted accounting principles.

Crowe Horwath LLP
Crowe Horwath LLP

South Bend, Indiana
March 11, 2009

(Dollars in thousands)	December 31, 2008	2007
ASSETS		
Cash and non-interest bearing balances in financial institutions	$ 10,005	$ 10,259
Interest bearing balances in financial institutions	1,291	1,852
Total cash and cash equivalents	11,296	12,111
Securities available-for-sale	108,207	96,286
Securities held-to-maturity; fair value: December 31, 2008 — $18,385		
December 31, 2007 — $18,557	18,515	18,358
Loans receivable	489,509	468,459
Less: allowance for loan losses	(5,830)	(4,581)
Net loans receivable	483,679	463,878
Federal Home Loan Bank stock	3,650	3,550
Accrued interest receivable	3,160	3,294
Premises and equipment	19,083	16,326
Foreclosed real estate	527	134
Cash value of bank owned life insurance	11,641	11,229
Investment in real estate limited partnerships	411	550
Other assets	4,563	3,002
Total assets	$ 664,732	$ 628,718
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 43,367	$ 44,799
Interest bearing	484,781	448,585
Total	528,148	493,384
Borrowed funds	74,795	76,930
Accrued expenses and other liabilities	9,016	5,671
Total liabilities	611,959	575,985
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:		
shares issued: December 31, 2008 — 2,887,452		
December 31, 2007 — 2,882,097		
shares outstanding: December 31, 2008 — 2,809,075		
December 31, 2007 — 2,808,853	361	360
Additional paid-in capital	5,064	4,895
Accumulated other comprehensive income/(loss)	(1,289)	563
Retained earnings	50,365	48,500
Treasury stock, common shares at cost: December 31, 2008 — 78,377		
December 31, 2007 — 73,244	(1,728)	(1,585)
Total stockholders' equity	52,773	52,733
Total liabilities and stockholders' equity	$ 664,732	$ 628,718

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

(Dollars in thousands, except per share data)	Year ended December 31, 2008	2007
Interest income:		
Loans receivable		
Real estate loans	$ 25,274	$ 26,637
Commercial loans	3,843	3,963
Consumer loans	152	195
Total loan interest	29,269	30,795
Securities	5,833	4,862
Other interest earning assets	65	111
Total interest income	35,167	35,768
Interest expense:		
Deposits	10,648	14,944
Borrowed funds	2,285	2,938
Total interest expense	12,933	17,882
Net interest income	22,234	17,886
Provision for loan losses	2,388	552
Net interest income after provision for loan losses	19,846	17,334
Noninterest income:		
Fees and service charges	2,898	2,947
Wealth management operations	814	719
Increase in cash value of bank owned life insurance	413	407
Gain on sale of loans, net	108	221
Gain/(loss) on sale of foreclosed real estate	(52)	12
Gain on sales of securities, net	210	100
Other	137	25
Total noninterest income	4,528	4,431
Noninterest expense:		
Compensation and benefits	8,822	7,472
Occupancy and equipment	2,834	2,457
Data processing	852	867
Statement and check processing	378	354
Marketing	405	279
Professional services	329	296
Other	3,379	2,800
Total noninterest expense	16,999	14,525
Income before income tax expenses	7,375	7,240
Income tax expenses	1,445	1,651
Net income	$ 5,930	$ 5,589
Earnings per common share:		
Basic	$ 2.11	$ 1.99
Diluted	$ 2.10	$ 1.98
Dividends declared per common share	$ 1.44	$ 1.44

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

(Dollars in thousands, except per share data)	*Common Stock*	*Additional Paid-in Capital*	*Accumulated Other Comprehensive Income (Loss)*	*Retained Earnings*	*Treasury Stock*	*Total Equity*
Balance at December 31, 2006	$ 359	$ 4,610	$ (389)	$ 46,952	$ (1,522)	$ 50,010
Comprehensive income:						
Net income	—	—	—	5,589	—	5,589
Net unrealized gain/(loss) on securities available-for-sale, net of reclassification and tax effects	—	—	962	—	—	962
Change in unrecognized gain on post retirement benefit, net of reclassification and tax effects	—	—	(10)	—	—	(10)
Comprehensive income	—	—	—	—	—	6,541
Issuance of 11,660 shares of common stock at $16.00 - $25.25 per share, under stock-based compensation plans, including related tax effects	1	213	—	—	—	214
Stock-based compensation expense	—	72	—	—	—	72
Purchase of treasury stock	—	—	—	—	(63)	(63)
Cash dividends, $1.44 per share	—	—	—	(4,041)	—	(4,041)
Balance at December 31, 2007	360	4,895	563	48,500	(1,585)	52,733
Comprehensive income:						
Net income	—	—	—	5,930	—	5,930
Net unrealized gain/(loss) on securities available-for-sale, net of reclassification and tax effects	—	—	(1,841)	—	—	(1,841)
Change in unrecognized gain on post retirement benefit, net of reclassification and tax effects	—	—	(11)	—	—	(11)
Comprehensive income	—	—	—	—	—	4,078
Issuance of 5,355 shares of common stock at $20.50 - $28.00 per share, under stock-based compensation plans, including related tax effects	1	106	—	—	—	107
Stock-based compensation expense	—	57	—	—	—	57
Purchase of treasury stock	—	—	—	—	(226)	(226)
Sale of treasury stock	—	6	—	—	83	89
Adjustments to retained earnings for adoption of EITF 06-4	—	—	—	(20)	—	(20)
Cash dividends, $1.44 per share	—	—	—	(4,045)	—	(4,045)
Balance at December 31, 2008	$ 361	$ 5,064	$ (1,289)	$ 50,365	$ (1,728)	$ 52,773

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Dollars in thousands)	Year Ended December 31, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 5,930	$ 5,589
Adjustments to reconcile net income to net cash provided by operating activities:		
Origination of loans for sale	(4,225)	(12,230)
Sale of loans originated for sale	4,333	12,335
Depreciation and amortization, net of accretion	1,330	1,368
Amortization of mortgage servicing rights	98	86
Amortization of investment in real estate limited partnerships	32	14
Equity in (gain)/loss of investments in limited partnership, net of interest received	41	117
Stock option compensation	57	72
Net gains on sale of securities	(210)	(100)
Net gains on sale of loans	(108)	(221)
Net gain on sale of foreclosed real estate	52	(12)
Provision for loan losses	2,388	552
Net change in:		
Interest receivable	134	37
Cash value of bank owned life insurance	(412)	(407)
Other assets	(613)	(44)
Accrued expenses and other liabilities	3,318	1,090
Total adjustments	6,215	2,657
Net cash from operating activities	12,145	8,246
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and paydowns of securities available-for-sale	26,577	24,423
Proceeds from sales of securities available-for-sale	11,203	14,853
Purchase of securities available-for-sale	(52,191)	(50,197)
Purchase of securities held-to-maturity	(2,171)	(4,046)
Proceeds from maturities and paydowns of securities held-to-maturity	1,991	883
Loan participations purchased	(957)	(12,465)
Net change in loans receivable	(22,094)	15,127
Purchase of Federal Home Loan Bank Stock	(100)	(6)
Purchase of premises and equipment, net	(4,144)	(3,052)
Proceeds from sale of foreclosed real estate	372	558
Net cash from investing activities	(41,514)	(13,922)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in deposits	34,764	(19,547)
Proceeds from FHLB advances	36,000	25,000
Repayment of FHLB advances	(32,000)	(8,000)
Change in other borrowed funds	(6,135)	8,429
Tax effect of nonqualified stock option exercise	6	17
Proceeds from issuance of common stock	107	197
Dividends paid	(4,045)	(4,010)
Treasury stock sold	83	—
Treasury stock purchased	(226)	(63)
Net cash from financing activities	28,554	2,023
Net change in cash and cash equivalents	(815)	(3,653)
Cash and cash equivalents at beginning of period	12,111	15,764
Cash and cash equivalents at end of period	$ 11,296	$ 12,111
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 12,916	$ 17,881
Income taxes	$ 1,885	$ 2,190
SUPPLEMENTAL NONCASH INFORMATION:		
Transfers from loans to foreclosed real estate	$ 817	$ 357

See accompanying notes to consolidated financial statements.

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 wealth management customers. NWIN, LLC is located in Las Vegas, Nevada and serves as the Bank's investment subsidiary and parent of a real estate investment trust, NWIN Funding, Inc.

NWIN Funding, Inc. was formed on September 1, 2006, as an Indiana Real Estate Investment Trust. The formation of NWIN Funding, Inc. provides the Bancorp with a vehicle that may be used to raise capital utilizing portfolio mortgages as collateral, without diluting stock ownership. In addition, NWIN Funding, Inc. will receive favorable state tax treatment for income generated by its operations. 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, loan servicing rights, 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 management has the positive intent and the Bancorp the 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, net of tax. The Bancorp does not have a trading portfolio. Realized gains and losses resulting from the sale of securities recorded on the trade date are computed by the specific identification method. Interest and dividend income, adjusted by amortization of premium or discount on a level yield method 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 aggregate cost or market, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing rights. 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 reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level yield method without anticipating prepayments.

Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Consumer loans are typically charged off no later than 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

Generally interest accrued but not received for loans placed on non-accrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses — The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

A loan is considered impaired when, based on current information and events, it is probable that the Bancorp will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case by case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bancorp does not separately identify individual consumer and residential loans for impairment disclosures.

Federal Home Loan Bank Stock — The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Premises and Equipment — Land is carried at cost. 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 2 to 10 years.

Foreclosed Real Estate — Assets acquired through or instead of loan foreclosure are initially recorded at fair value when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Servicing Rights — Servicing rights are recognized separately when they are acquired through sales of loans. For sales of mortgage loans prior to January 1, 2007, a portion of the cost of the loan was allocated to the servicing right based on relative fair values. The Company adopted SFAS No. 156 on January 1, 2007, and for sales of mortgage loans beginning in 2007, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. The Company compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Bancorp later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported with Other Noninterest Income on the income statement. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income which is reported on the income statement as Other Noninterest Income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Servicing fees totaled $111 thousand and $109 thousand for the years ended December 31, 2008 and 2007. Late fees and ancillary fees related to loan servicing are not material.

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 — Premises and equipment and other long-term 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 Bancorp has purchased life insurance policies on certain key executives. In accordance with EITF 06-5, Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

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.

Income Taxes — Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. The Bancorp adopted FASB Interpretation 48, Accounting for Uncertainty in Income Taxes ("FIN 48"), as of January 1, 2007. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Bancorp recognizes interest and/or penalties related to income tax matters in income tax expense. The adoption had no affect on the Bancorp's financial statements.

Loan Commitments and Related 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.

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 includes unrealized gains and losses on securities available-for-sale and the unrecognized gains and losses on postretirement benefits.

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.

Restrictions on Cash — Cash on hand or on deposit with the Federal Reserve Bank of $539,000 and $575,000 was required to meet regulatory reserve and clearing requirements at year-end 2008 and 2007. These balances do not earn interest.

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.

Operating Segments — While the Bancorp's executive management 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 year ended December 31, 2007, may have been reclassified to conform to the December 31, 2008 presentation.

Adoption of New Accounting Standards — In September 2006, the FASB issued Statement No. 157, Fair Value Measurements (FAS 157). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard was effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued Staff Position (FSP) 157-2, Effective Date of FASB Statement No. 157. This FSP delays the effective date of FAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The impact of adoption was not material. In October 2008, the FASB issued Staff Position (FSP) 157-3, Determining the Fair Value of a Financial Asset when the Market for That Asset Is Not Active. This FSP clarifies the application of FAS 157 in a market that is not active. The impact of adoption was not material.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new standard is effective for the Bancorp on January 1, 2008. The Bancorp did not elect the fair value option for any financial assets or financial liabilities as of January 1, 2008.

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. This issue requires that a liability be recorded during the service period when a split-dollar life insurance agreement continues after participants' employment or retirement. The required accrued liability will be based on either the post-employment benefit cost for the continuing life insurance or based on the future death benefit depending on the contractual terms of the underlying agreement. This issue is effective for fiscal years beginning after December 15, 2007. A liability of $20,000 was recorded and was reflected as an adjustment to retained earnings.

On November 5, 2007, the SEC issued Staff Accounting Bulletin No. 109, Written Loan Commitments Recorded at Fair Value through Earnings ("SAB 109"). Previously, SAB 105, Application of Accounting Principles to Loan Commitments, stated that in measuring the fair value of a derivative loan commitment, a company should not incorporate the expected net future cash flows related to the associated servicing of the loan. SAB 109 supersedes SAB 105 and indicates that the expected net future cash flows related to the associated servicing of the loan should be included in measuring fair value for all written loan commitments that are accounted for at fair value through earnings. SAB 105 also indicated that internally-developed intangible assets should not be recorded as part of the fair value of a derivative loan commitment, and SAB 109 retains that view.

SAB 109 is effective for derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The impact of adoption was not material.

In December 2007, the SEC issued SAB No. 110, which expresses the views of the SEC regarding the use of a "simplified" method, as discussed in SAB No. 107, in developing an estimate of expected term of "plain vanilla" share options in accordance with SFAS No. 123(R), Share-Based Payment. The SEC concluded that a company could, under certain circumstances, continue to use the simplified method for share option grants after December 31, 2007. The Bancorp does not use the simplified method for share options and therefore SAB No. 110 has no impact on the Bancorp's consolidated financial statements.

Effect of Newly Issued Accounting Standards —In December 2007, the FASB issued FAS No. 141 (revised 2007), Business Combinations ("FAS 141(R)"), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. FAS No. 141(R) is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The adoption of this standard did not have a material effect on the Bancorp's results of operations or financial position.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51" ("SFAS No. 160"), which will change the accounting and reporting for minority interests, which will be recharacterized as noncon-trolling interests and classified as a component of equity within the consolidated balance sheets. FAS No. 160 is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. The adoption of FAS No. 160 did not have a significant impact on the results of operations or financial position.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133". FAS No. 161 amends and expands the disclosure requirements of SFAS No. 133 for derivative instruments and hedging activities. FAS No. 161 requires qualitative disclosure about objectives and strategies for using derivative and hedging instruments, quantitative disclosures about fair value amounts of the instruments and gains and losses on such instruments, as well as disclosures about credit-risk features in derivative agreements. FAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of this standard did not have a material effect on the Bancorp's results of operations or financial position.

NOTE 2 — Securities

The fair value of available-for-sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

	(Dollars in thousands)		
Unrealized	*Fair Value*	*Gross Unrealized Gains*	*Gross Losses*
2008			
U.S. government sponsored entities	$ 5,621	$ 137	$ —
CMO and mortgage-backed securities	65,369	1,856	(7)
Municipal securities	26,679	259	(532)
Corporate securities	4,813	—	(266)
CMO government sponsored entities	3,852	97	(1)
Trust preferred securities	1,873	—	(3,608)
Total debt securities	$ 108,207	$ 2,349	$ (4,414)
2007			
U.S. government sponsored entities	$ 24,871	$ 276	$ (27)
CMO and mortgage-backed securities	51,913	547	(156)
Municipal securities	14,104	208	(15)
Trust preferred securities	4,049	—	(130)
CMO government sponsored entities	1,349	3	—
Total debt securities	$ 96,286	$ 1,034	$ (328)

The carrying amount, unrecognized gains and losses, and fair value of securities held-to-maturity were as follows:

	(Dollars in thousands)			
	Carrying Amount	*Gross Unrecognized Gains*	*Gross Unrecognized Losses*	*Fair Value*
2008				
Municipal securities	$ 18,127	$ 117	$ (263)	$ 17,981
Mortgage-backed securities	388	16	—	404
Total debt securities	$ 18,515	$ 133	$ (263)	$ 18,385
2007				
Municipal securities	$ 17,897	$ 219	$ (24)	$ 18,093
Mortgage-backed securities	461	6	(3)	464
Total debt securities	$ 18,358	$ 225	$ (27)	$ 18,557

The fair value of debt securities and carrying amount, if different, at year end 2008 by contractual maturity were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	(Dollars in thousands)		
	Available-for-sale	*Held-to-maturity*	
	Fair Value	*Carrying Amount*	*Fair Value*
Due in one year or less	$ —	$ —	$ —
Due from one to five years	8,428	—	—
Due over five years	30,558	18,127	17,981
CMO and mortgage-backed securities	69,221	388	404
Total	$ 108,207	$ 18,515	$ 18,385

Sales of available-for-sale securities were as follows:

	2008	2007
	(Dollars in thousands)	
Proceeds	$11,203	$14,853
Gross gains	214	107
Gross losses	(5)	(7)

The tax benefits related to these net realized gains and losses were $84,000 for 2008 and $39,000 for 2007.

Securities with carrying values of $37,414,000 and $25,060,000 were pledged as of December 31, 2008 and 2007 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 2008 and 2007 not recognized in income are as follows:

	Less than 12 months		12 months or longer		Total	
	(Dollars in thousands)					
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2008						
Description of Securities:						
U.S. government sponsored entities	$ —	$ —	$ 104	$ (1)	$ 104	$ (1)
CMO and mortgage-backed securities	1,368	(3)	371	(4)	1,739	(7)
Municipal securities	25,924	(795)	—	—	25,924	(795)
Corporate securities	4,813	(266)	—	—	4,813	(266)
Trust preferred securities	1,409	(2,640)	464	(968)	1,873	(3,609)
Total temporarily impaired	$ 33,514	$ (3,704)	$ 939	$ (973)	$ 34,453	$ (4,677)

	Less than 12 months		12 months or longer		Total	
	(Dollars in thousands)					
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2007						
Description of Securities:						
U.S. government sponsored entities	$ —	$ —	$ 9,433	$ (27)	$ 9,433	$ (27)
CMO and mortgage-backed securities	1,376	(6)	14,259	(153)	15,635	(159)
Municipal securities	2,152	(15)	2,629	(24)	4,781	(39)
Trust preferred securities	4,050	(130)	—	—	4,050	(130)
Total temporarily impaired	$ 7,578	$ (151)	$ 26,321	$ (204)	$ 33,899	$ (355)

Unrealized losses on securities have not been recognized into income because the securities are of high credit quality or have undisrupted cash flows. Management has the intent and ability to hold for the foreseeable future, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the securities approach maturity.

We currently have four trust preferred securities. In accordance with SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities”, we have determined this decline in value to represent only temporary impairment. This investment is held by our investment subsidiary. The investment is collateralized by underlying investments in trust preferred securities issued by many different banks and insurance companies. We believe the increase in the net unrealized loss is the result of the declining economy, the low trade volume of the security, and the lack of confidence in the financial services industry. Based on the latest trustee reports, review of underlying financial information, and review of projected cash flows, we believe that no adverse change in estimated cash flows has occurred and anticipate no interruption of cash flows.

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:

	2008	2007
	(Dollars in thousands)	
Loans secured by real estate:		
Construction and land development	$ 54,975	$ 46,288
Residential, including home equity	238,638	229,410
Commercial real estate and other dwelling	130,256	132,142
Total loans secured by real estate	423,869	407,840
Consumer loans	1,967	2,400
Commercial business	49,418	47,034
Government and other	14,783	11,664
Subtotal	490,037	468,938
Less:		
Net deferred loan origination fees	(347)	(380)
Undisbursed loan funds	(181)	(99)
Loans receivable	$ 489,509	$ 468,459

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

	2008	2007
	(Dollars in thousands)	
Balance at beginning of period	$ 4,581	$ 4,267
Provision charged to income	2,388	552
Loans charged-off	(1,227)	(268)

Recoveries	88	30
Balance at end of period	$ 5,830	$ 4,581

Non-performing loans at year end were as follows:

	(Dollars in thousands) 2008	2007
Loans past due over 90 days still on accrual	$ 1,476	$ 842
Non-accrual loans	10,937	7,776

Impaired loans at year end were as follows:

	(Dollars in thousands) 2008	2007
Year end loans with no allocated allowances for loan losses	$ 1,748	$ 687
Year end loans with allocated allowances for loan losses	6,819	5,319
Total	$ 8,567	$ 6,006
Amount of the allowance for loan losses allocated	$ 1,683	$ 824
Average of impaired loans during the year	7,393	6,311
Interest income recognized during impairment	—	—
Cash-basis interest income recognized	—	—

During January 2009, the Bancorp's management implemented a strategy with a one-time sale of fixed rate mortgage loans from its loan portfolio by selling $10.5 million in fixed rate mortgage loans, while funding newly originated construction and land development, commercial and government loan originations. Implementing the balance sheet restructuring strategy had a positive impact on interest rate risk by replacing longer duration fixed rate mortgage loans with shorter duration non-mortgage loans that will reprice more frequently. The gain realized from the loan sale totaled approximately $230 thousand.

NOTE 4 — Loan Servicing

Mortgage loans serviced for others are not reported as assets. The principal balances of these loans at year end are as follows:

	(Dollars in thousands) 2008	2007
Mortgage loan portfolio serviced for FHLMC	$ 43,212	$ 46,061

Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately $619,000 and $244,000 at December 31, 2008 and 2007.

Activity for capitalized mortgage servicing rights, and the related valuation allowance, was as follows:

	(Dollars in thousands) 2008	2007
Servicing rights:		
Beginning of year	$ 325	$ 295
Additions	49	116
Amortized to expense	(98)	(86)
End of year	$ 276	$ 325

At year end 2008 and 2007, there was no valuation allowance required.

The fair value of servicing rights was $438,000 and $484,000 at year end 2008 and 2007. Fair value at year-end 2008 was determined using a discount rate of 9.3%, prepayment speeds ranging from 134.4% to 395.0%, depending on the stratification of the specific right, and a weighted average default rate of 0.0%. Fair value at year-end 2007 was determined using a discount rate of 9.3%, prepayment speeds ranging from 138.2% to 465%, depending on the stratification of the specific right, and a weighted average default rate of 0.0%.

The weighted average amortization period is 7.3 years. Estimated amortization expense for each of the next five years is:

	(Dollars in thousands)
2009	$ 64
2010	57
2011	48
2012	43
2013	36

NOTE 5 — Premises and Equipment, Net

At year end, premises and equipment are summarized below:

	(Dollars in thousands) 2008	2007
Cost:		
Land	$ 5,069	$ 3,287
Buildings and improvements	16,821	15,248
Furniture and equipment	9,383	8,595
Total cost	31,273	27,130
Less accumulated depreciation	(12,190)	(10,804)
Premises and equipment, net	$ 19,083	$ 16,326

Depreciation expense was $1,386,000 and $1,329,000 for 2008 and 2007.

NOTE 6 — Income Taxes

Components of the income tax expenses consist of the following:

	(Dollars in thousands) 2008	2007
Federal:		
Current	$ 1,825	$ 2,037

Deferred	(305)	(89)
State:		
Current	—	—
Deferred	(75)	(297)
Income tax expenses	$ 1,445	$ 1,651

Effective tax rates differ from federal statutory rate of 34% applied to income before income taxes due to the following:

	(Dollars in thousands) 2008	2007
Federal statutory rate	34%	34%
Tax expense at statutory rate	$ 2,507	$ 2,462
State tax, net of federal effect	(49)	(187)
Tax exempt income	(686)	(380)
Bank owned life insurance	(140)	(138)
Tax credits	(114)	(114)
Reversal of FIN 48	(84)	—
Other	11	8
Total income tax expenses	$ 1,445	$ 1,651

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

	(Dollars in thousands) 2008	2007
Deferred tax assets:		
Bad debts	$ 2,276	$ 1,774
Deferred loan fees	136	147
Deferred compensation	609	545
Unrealized depreciation on securities available-for-sale	690	—
Net operating loss	276	169
Other	275	230
Total deferred tax assets	4,262	2,865
Deferred tax liabilities:		
Depreciation	(894)	(673)
Unrealized appreciation on securities available-for-sale	—	(240)
Prepaids	(196)	(199)
Other	(347)	(389)
Total deferred tax liabilities	(1,437)	(1,501)
Valuation allowance	(143)	—
Net deferred tax assets	$ 2,682	$ 1,364

The Bancorp has a state net operating loss carry forward of approximately $4.9 million which will begin to expire in 2022 if not used. A valuation allowance of $143,000 was provided at December 31, 2008 for the state net operating loss deferred tax asset.

The Bancorp qualified under provisions of the Internal Revenue Code, in prior years, 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, 2008 and 2007 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, 2008.

The Bancorp and its subsidiaries are subject to US Federal income tax as well as income tax of the State of Indiana. The Bancorp is no longer subject to examination by taxing authorities for the years before 2005. The Bancorp is currently under examination by the Internal Revenue Service for the 2006 tax year. While the examination is not final, the Bancorp expects no material adjustment to the financial statements.

Unrecognized Tax Benefits

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	(Dollars in thousands) 2008	2007
Balance at beginning of period	47	$ 25
Additions based on tax positions related to the current year	—	—
Additions for tax positions of prior years	37	25
Reducations for tax positions of prior years	84	3
Reducations due to the statute of limitations	—	—
Settlements	—	—
Balance at end of period	$ —	$ 47

The Bancorp does not expect the total amount of tax benefits to significantly increase or decrease in the next twelve months.

We recognize interest and penalties related to income tax matters in income tax expense. We had approximately $0 and $6,000 for interest and penalties accrued at December 31, 2008 and December 31, 2007.

NOTE 7 — Deposits

The aggregate amount of certificates of deposit with a balance of $100 thousand or more was $99.6 million at December 31, 2008 and $89.4 million at December 31, 2007.

At December 31, 2008, scheduled maturities of certificates of deposit were as follows:

	(Dollars in thousands)
2008	$ 208,933
2009	20,472
2010	1,472
2011	195
Total	$ 231,072

NOTE 8 — Borrowed Funds

At year end, borrowed funds are summarized below:

	(Dollars in thousands) 2008	2007
Repurchase agreements	$ 25,773	$ 14,186
Fixed rate advances from the FHLB	41,000	31,000
Variable rate advances from the FHLB	—	26,000
Putable advances from the FHLB	5,000	2,000
Line of credit from the FHLB	2,044	2,846
Other	978	898
Total	$ 74,795	$ 76,930

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) 2008	2007
Ending balance	$25,773	$14,186
Average balance during the year	16,301	14,280
Maximum month-end balance during the year	25,773	15,746
Securities underlying the agreements at year end:		
Carrying value	37,414	21,421
Fair value	37,414	21,421
Average interest rate during the year	2.65%	3.79%

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

	(Dollars in thousands) 2008	2007
Fixed rate advances, maturing January 2008 through May 2011, at rates from 2.60% to 4.36% average rate: 2008 — 3.40%; 2007 — 4.23%	$ 41,000	$ 31,000
Variable rate advances, maturing January 2008 through June 2008 at the rate of 3.75%, average rate: 2008 — N/A; 2007 — 3.75%	—	26,000
Putable advances, maturing July 2008 through February 2013 at rates from 2.62% to 5.28%, average rate: 2008 — 2.62%; 2007 — 5.28%	5,000	2,000

Fixed rate advances are payable at maturity, with a prepayment penalty. Variable rate advances have a maturity of six months and reprice daily. Variable rate advance can be partially or fully prepaid without 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 $231,267,000 and $175,308,000 at December 31, 2008 and 2007. 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 $2.0 million and $2.8 million at December 31, 2008 and 2007.

Other borrowings at December 31, 2008 and 2007 include Treasury, Tax and Loan and reclassified bank balances.

At December 31, 2008, scheduled maturities of borrowed funds were as follows:

	(Dollars in thousands)
2009	$ 44,542
2010	22,253
2011	3,000
2012	—
2013	5,000
Total	$ 74,795

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 the next date following the 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, 2008 and 2007, were based on 5% 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 $314,000 and $254,000 for 2008 and 2007.

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, 2008 and 2007 was $97,000 and $86,000. The Plan expense amounted to $11,000 for 2008 and $10,000 for 2007.

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 $148.00 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 Bancorp uses December 31 as the measurement date for its postretirement plan. The benefit obligation for this plan was $25,000 and $27,000 at December 31, 2008 and 2007. Benefit plan expense was $13,000 and $15,000 for 2008 and 2007 and contains no significant components, and thus details are not presented due to immateriality. Since future expected payments over the next ten years are approximately $12,000, detail by year is not presented due to immateriality. Also, future benefit plan obligations, funded status, and expense are considered immaterial.

Directors have deferred some of their fees in consideration of future payments. Fee deferrals, including interest totaled $154,000 and $138,000 for 2008 and 2007. The deferred fee liability at December 31, 2008 and 2007 was $1,561,000 and $1,407,000.

NOTE 10 — 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. Failure to meet various capital requirements can initiate regulatory action. Prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly under-capitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2008 and 2007, the most recent regulatory notifications categorized the Bancorp and Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bancorp's or the Bank's category.

At year end, capital levels for the Bancorp and the Bank were considerably the same. Actual capital levels (in millions), 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*	
(Dollars in millions)	*Amount*	*Ratio*	*Amount*	*Ratio*	*Amount*	*Ratio*
2008						
Total capital to risk-weighted assets	$59.9	12.0%	$ 39.9	8.0%	$ 50.0	10.0%
Tier 1 capital to risk-weighted assets	$54.1	10.8%	$ 20.0	4.0%	$ 29.9	6.0%
Tier 1 capital to adjusted average assets	$54.1	8.2%	$ 20.0	3.0%	$ 33.1	5.0%
2007						
Total capital to risk-weighted assets	$56.8	12.0%	$ 37.8	8.0%	$ 47.2	10.0%
Tier 1 capital to risk-weighted assets	$52.2	11.0%	$ 18.9	4.0%	$ 28.3	6.0%
Tier 1 capital to adjusted average assets	$52.2	8.3%	$ 18.8	3.0%	$ 31.4	5.0%

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 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 because of the financial condition of the Bank. The aggregate amount of dividends, which may be declared by the Bank in 2009, without prior regulatory approval, approximates $3,650,000 plus current 2009 net profits.

NOTE 11 — Stock Based Compensation

The Bancorp's 2004 Stock Option Plan (the Plan), which is stockholder-approved, permits the grant of share options to its employees for up to 250,000 shares of common stock. Awards granted under the Plan may be in the form of incentive stock options, 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. Option awards are generally granted with an exercise price equal to the market price of the Bancorp's common stock at the date of grant; those option awards have five year vesting periods and have 10-year contractual terms. Total compensation cost that has been charged against income for those plans was $10 thousand and $22 thousand for 2008 and 2007 respectively. The total income tax benefit was $7 thousand and $17 thousand 2008 and 2007 respectively.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company's common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

A summary of the Bancorp's stock option activity for 2008 follows:

		(Dollars in thousands)		
	Shares	*Weighted Average Exercise Price*	*Weighted Average Remaining Contractual Term*	*Aggregate Intrinsic Value*
Outstanding at beginning of year	75.952	$ 23.25		
Granted	1,000	28.50		
Exercised	(4,755)	20.65		
Forfeited or expired	(1,600)	20.50		
Outstanding at end of year	70,597	$ 23.56	3.1	$ 120
Vested or expected to vest	70,597	$ 23.56	3.1	$ 120
Exercisable at end of year	59,172	$ 22.35	2.7	$ 120

Information related to the stock option plan during each year follows:

	(Dollars in thousands)	
	2008	*2007*
Intrinsic value of options exercised	$ 28	$ 80
Cash received from options exercised	98	199
Tax benefit realized from options exercised	7	17
Weighted average fair value of options granted	4.61	N/A

	2008
Risk-free interest rate	3.61%
Expected term	10.0 years
Expected stock price volatility	26.55%
Dividend yield	5.20%

As of December 31, 2008, there was $3,688 of total unrecognized compensation cost related to nonvested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 4.0 years.

Restricted stock awards are generally granted with an award price equal to the market price of the Bancorp's common stock on the award date. Restricted stock awards have been issued with a five year vesting period. Forfeiture provisions exist for personnel that separate employment before the vesting period expires. Compensation expense related to restricted stock awards are recognized over the vesting period. Total compensation cost that has been charged against income for those plans was $47 thousand and $50 thousand for 2008 and 2007 respectively.

A summary of changes in the Bancorp's nonvested restricted stock for 2008 follows:

	(Dollars in thousands)	
Nonvested Shares	*Shares*	*Weighted Average Grant Date Fair Value*
Nonvested at January 1, 2008	9,300	$ 324
Granted	600	16
Vested	(2,350)	(64)
Nonvested at December 31, 2008	7,550	$ 276

As of December 31, 2008, there was $111,617 of total unrecognized compensation cost related to nonvested restricted shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 4.1 years. No shares vested during the year ended December 31, 2007.

NOTE 12 — Earnings Per Common Share

A reconciliation of the numerators and denominators of the basic earnings per common share and diluted earnings per common share computations for 2008 and 2007 is presented below.

	2008	2007
Basic earnings per common share:		
Net income available to common stockholders	$ 5,930,255	$ 5,589,023
Weighted-average common shares outstanding	2,809,176	2,805,860
Basic earnings per common share	$ 2.11	$ 1.99
Diluted earnings per common share:		
Net income available to common stockholders	$ 5,930,255	$ 5,589,023
Weighted-average common shares outstanding	2,809,176	2,805,860
Add: dilutive effect of assumed stock option exercises and restrictive stock	16,595	23,805
Weighted-average common and dilutive potential common shares outstanding	2,825,771	2,829,665
Diluted earnings per common share	$ 2.10	$ 1.98

There were 11,183 and 10,325 anti-dilutive shares outstanding at December 31, 2008 and 2007.

NOTE 13 — Related Party Transactions

The Bancorp had aggregate loans outstanding to directors and executive officers (with individual balances exceeding $120,000) of $8,999,000 at December 31, 2008 and $5,560,000 at December 31, 2007. For the year ended December 31, 2008, the following activity occurred on these loans:

	(Dollars in thousands)
Aggregate balance — January 1, 2008	$ 5,560
New loans	3,965
Repayments	(526)
Aggregate balance — December 31, 2008	$ 8,999

Deposits from directors and executive officers were $2.9 million and $3.0 million at December 31, 2008 and 2007.

NOTE 14 — 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, 2008:			
Commercial business	$ —	$ 42,458	$ 42,458
Real estate	11,890	28,618	40,508
Consumer loans	—	17	17
Unsecured consumer overdrafts	12,345	—	12,345
Total	$ 24,235	$ 71,093	$ 95,328
December 31, 2007:			
Commercial business	$ —	$ 49,592	$ 49,592
Real estate	8,268	10,706	18,974
Consumer loans	—	17	17
Unsecured consumer overdrafts	11,382	—	11,382
Total	$ 19,650	$ 60,315	$ 79,965

The $11,890 thousand in fixed rate commitments outstanding at December 31, 2008 had interest rates ranging from 4.50% to 8.75%, for a period not to exceed forty-five days. At December 31, 2007, fixed rate commitments outstanding of $8,268 thousand had interest rates ranging from 4.75 to 8.75%, 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, 2008 and 2007, the Bancorp had standby letters of credit totaling $4,416 thousand and $3,681 thousand, respectively. 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 15 — Fair Values of Financial Instruments

Statement 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing and asset or liability.

The fair values of securities available for sale are mostly determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities.In certain cases where market data is not readily available because of lack of market activity or little public disclosure, values may be based on unobservable inputs and classified in level 3 of the fair value hierarchy.

Trust Preferred Securities which are issued by financial institutions and insurance companies were historically priced using Level 2 inputs, the decline in the level of observable inputs and market activity in this class of investments by the measurement date has been significant and resulted in unreliable external pricing. Broker pricing and bid/ask spreads, when available, vary widely. The once active market has become comparatively inactive. As such, some of these investments are now priced using Level 3 inputs.

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	(Dollars in thousands) Fair Value Measurements at December 31, 2008 Using			
	December 31, 2008	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
Assets:				
Available for sale securities	$ 108,207	$ —	$107,204	$ 1,003

Reconciliation of available for sale securities, which require significant adjustment based on unobservable data are presented below:

	(Dollars in thousands) Fair Value Measurements at December 31, 2008 Using Significant Unobservable Inputs (Level 3)
	Available for sale securities
Beginning balance — January 1, 2008	$ —
Included in other comprehensive income	440
Transfers in and/or out of Level 3	563
Ending balance	$ 1,003

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

	(Dollars in thousands) Fair Value Measurements at December 31, 2008 Using			
	December 31, 2008	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
Assets:				
Impaired loans	$ 5,523	$ —	$ 2,789	$ 2,734

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $7.2 million, with a valuation allowance of $1.7 million, resulting in an additional provision of $2.1 million for the year. Fair value is determined, where possible, using market prices derived from an appraisal or evaluation. In many cases, this qualifies as Level 2 pricing. However, sometimes assumptions and unobservable inputs are used many times by the appraiser, therefore, qualifying the assets as Level 3 in the fair value hierarchy.

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, 2008	
	Carrying Value	*Estimated Fair Value*
Financial assets		
Cash and cash equivalents	$ 11,296	$ 11,296
Securities available-for-sale	108,207	108,207
Securities held-to-maturity	18,515	18,385
Loans receivable, net	483,679	533,377
Federal Home Loan Bank stock	3,650	N/A
Accrued interest receivable	3,160	3,160
Financial liabilities		
Demand and savings deposits	297,076	297,076
Certificates of deposit	231,072	232,926
Borrowed funds	74,795	75,166
Accrued interest payable	256	256

	(Dollars in thousands) December 31, 2007	
	Carrying Value	*Estimated Fair Value*
Financial assets		
Cash and cash equivalents	$ 12,111	$ 12,111
Securities available-for-sale	96,286	96,286
Securities held-to-maturity	18,358	18,557
Loans receivable, net	463,878	487,443
Federal Home Loan Bank stock	3,550	N/A
Accrued interest receivable	3,294	3,294
Financial liabilities		
Demand and savings deposits	279,176	279,176
Certificates of deposit	214,208	214,094
Borrowed funds	76,930	71,450
Accrued interest payable	239	239

For purposes of the above disclosures of estimated fair value, the following assumptions were used as of December 31, 2008 and 2007. The estimated fair value for cash and cash equivalents and accrued interest receivable and payable are considered to approximate cost. The estimated fair value for loans is based on estimates of the rate the Bancorp would charge for similar such loans at December 31, 2008 and 2007, applied for the time period until estimated repayment. For commercial loans the fair value includes a liquidity adjustment to reflect current market conditions. 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, 2008 and 2007, applied for the time period until maturity. The estimated fair value for borrowed funds is based on current rates for similar financings. 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 16 — Other Comprehensive Income/(Loss)

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

	(Dollars in thousands)	
	2008	*2007*
Net change in net unrealized gains and losses on securities available for sale:		
Unrealized gains/(losses) arising during the year	$ (2,981)	$ 1,585
Reclassification adjustment for gains included in net income	210	(100)
Net securities gain (loss) during the year	(2,771)	1,485
Tax effect	930	523
Net of tax amount	(1,841)	962
Net change in unrecognized gain on post retirement benefit:		
Net gain on post retirement benefit	5	(4)
Amortization of net actuarial gain	(16)	(18)
Net gain (loss) activity during the year	(11)	(22)
Tax effect	—	(12)
Net of tax amount	(11)	(10)
Other comprehensive income (loss), net of tax	$ (1,852)	$ 952

Accumulated other comprehensive income/(loss) balances, net of tax, were as follows:

	Balance at December 31, 2007	*Current Period Change*	*Balance at December 31, 2008*
Unrealized gains (losses) on securities available for sale	$ 466	$ (1,841)	$ (1,375)
Unrealized gain (loss) on pension benefits	97	(11)	86
Total	$ 563	$ (1,852)	$ (1,289)

NOTE 17 — Parent Company Only Statements

(Dollars in thousands)
NorthWest Indiana Bancorp
Condensed Balance Sheets
December 31,

	2008	2007
Assets		
Cash on deposit with Peoples Bank	$ 1,867	$ 1,754
Investment in Peoples Bank	51,384	51,274
Dividends receivable from Peoples Bank	1,012	1,011
Other assets	219	252
Total assets	$ 54,482	$ 54,291
Liabilities and stockholders' equity		
Dividends payable	$ 1,011	$ 1,011
Other liabilities	698	547
Total liabilities	1,709	1,558
Common stock	361	360
Additional paid in capital	5,064	4,895
Accumulated other comprehensive income (loss)	(1,289)	563
Retained earnings	50,365	48,500
Treasury stock	(1,728)	(1,585)
Total stockholders' equity	52,773	52,733
Total liabilities and stockholders' equity	$ 54,482	$ 54,291

(Dollars in thousands)
NorthWest Indiana Bancorp
Condensed Statements of Income
Year Ended December 31,

	2008	2007
Dividends from Peoples Bank	$ 4,047	$ 4,037
Operating expenses	161	181
Income before income taxes and equity in undistributed income of Peoples Bank	3,886	3,856
Provision (benefit) for income taxes	(61)	(66)
Income before equity in undistributed income of Peoples Bank	3,947	3,922
Equity in undistributed income of Peoples Bank	1,983	1,667
Net income	$ 5,930	$ 5,589

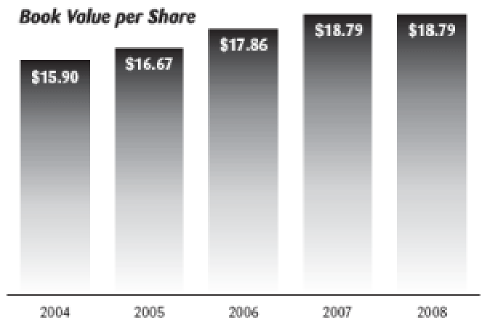
(Dollars in thousands)
NorthWest Indiana Bancorp
Condensed Statements of Cash Flows
Year Ended December 31,

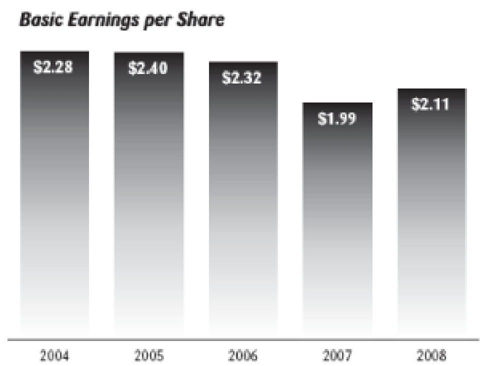
	2008	2007
Cash flows from operating activities:		
Net income	$ 5,930	$ 5,589
Adjustments to reconcile net income to net cash from operating activities		
Equity in undistributed net income of Peoples Bank	(1,983)	(1,667)
Stock-based compensation expense	57	72
Change in other assets	33	638
Change in other liabilities	151	(127)
Total adjustments	(1,742)	(1,084)
Net cash from operating activities	4,188	4,505
Cash flows from investing activities	—	—
Cash flows from financing activities:		
Dividends paid	(4,045)	(4,010)
Treasury stock purchased	(226)	(63)
Sale of treasury stock	83	—
Proceeds from issuance of common stock	113	214
Net cash from financing activities	(4,075)	(3,859)
Net change in cash	113	646
Cash at beginning of year	1,754	1,108
Cash at end of year	$ 1,867	$ 1,754

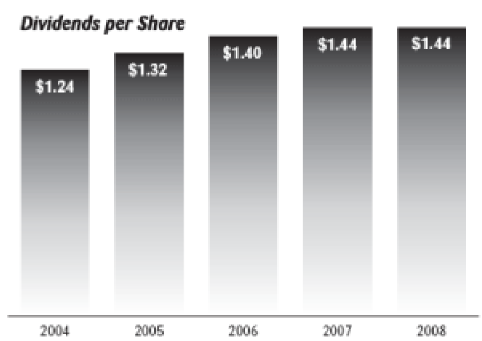
Market Information

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 23, 2009, the Bancorp had 2,809,285 shares of common stock outstanding and 410 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, 2008 and December 31, 2007. 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 10 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, 2008	1st Quarter	$29.90	$23.10	$ 0.36
	2nd Quarter	27.25	26.00	0.36
	3rd Quarter	29.00	26.00	0.36
	4th Quarter	27.25	24.00	0.36
Year Ended				
December 31, 2007	1st Quarter	$32.00	$30.90	$ 0.36
	2nd Quarter	31.40	29.59	0.36
	3rd Quarter	30.75	27.45	0.36
	4th Quarter	29.75	23.60	0.36


Book Value per Share
$15.90
$16.67
$17.86
$18.79
$18.79
2004
2005
2006
2007
2008


Basic Earnings per Share
$2.28
$2.40
$2.32
$1.99
$2.11
2004
2005
2006
2007
2008


Dividends per Share
$1.24
$1.32
$1.40
$1.44
$1.44
2004
2005
2006
2007
2008

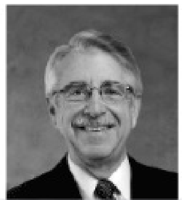
2008 Board of Directors

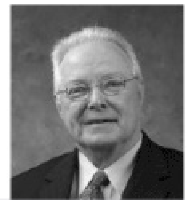
Left to right:

David A. Bochnowski, *Director since 1977*
Chairman and Chief Executive Officer of the Bancorp

Lourdes M. Dennison, *Director since 1983*
Executive Coordinator, Asian American Medical Association;
Managing Partner D&T LLC, a real estate investment partnership

Stanley E. Mize, *Director since 1997*
Retired; former President of
Stan Mize Towne & Countree Auto Sales, Inc.



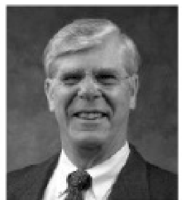
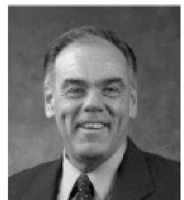


Left to right:

Frank J. Bochnowski, *Director since 1999*
Retired; former Executive Vice President
and Secretary of the Bancorp

James L. Wieser, *Director since 1999*
Attorney with Wieser & Wyllie, LLP

Edward J. Furticella, *Director since 2000*
Former Executive Vice President and CFO of the Bancorp, Currently part-time
employee of the Bancorp, and Continuous Lecturer at Purdue University Calumet

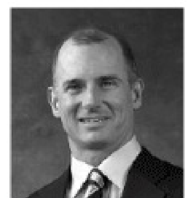

Left to right:

Joel Gorelick, *Director since 2000*
President and Chief Administrative Officer of the Bancorp

Kenneth V. Krupinski, *Director since 2003*
Certified Public Accountant and Principal with Swartz Retson, P.C.

Anthony M. Puntillo, D.D.S., M.S.D., *Director since 2004*
Orthodontist, President of Puntillo Orthodontics, P.C.





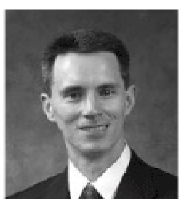
Left to right:

Donald P. Fesko, *Director since 2005*
Administrator of Community Hospital

Amy W. Han, Ph.D., *Director since 2008*
Director of Clinical Affairs and Clinical Professor of
Psychology at Indiana University
School of Medicine - Northwest

Gloria C. Gray-Weissman, Director Emeritus

Leroy F. Cataldi, P.D., Director Emeritus




Board Committees

Asset, Liability, Liquidity, Capital & Technology Management
Anthony M. Puntillo, *Chairman*
Frank J. Bochnowski
Donald P. Fesko
Edward J. Furticella
Joel Gorelick
Kenneth V. Krupinski
Stanley E. Mize

Compensation & Benefits
James L. Wieser, *Chairman*
Lourdes M. Dennison
Kenneth V. Krupinski
Stanley E. Mize

Executive
David A. Bochnowski, *Chairman*
Frank J. Bochnowski
Lourdes M. Dennison
Stanley E. Mize
James L. Wieser

Nominating & Corporate Governance
Lourdes M. Dennison, *Chairman*
Frank J. Bochnowski
Donald P. Fesko
Amy W. Han
Kenneth V. Krupinski
Stanley E. Mize
Anthony M. Puntillo
James L. Wieser

Risk Management
Kenneth V. Krupinski, *Chairman*
Stanley E. Mize
James L. Wieser

Wealth Management
Frank J. Bochnowski, *Chairman*
Lourdes M. Dennison
Joel Gorelick
Amy W. Han
Anthony M. Puntillo

Corporate Information

Officers of NorthWest Indiana Bancorp and Peoples Bank
David A. Bochnowski
Chairman and Chief Executive Officer
Joel Gorelick
President and Chief Administrative Officer
Jon E. DeGuilio
Executive Vice President,
General Counsel and Corporate Secretary
Robert T. Lowry
Senior Vice President,
Chief Financial Officer and Treasurer

Officers of Peoples Bank
Tanya A. Buerger
Senior Vice President,
Chief Operating Officer
Stacy A. Januszewski
Senior Vice President,
Risk Management Group
Terrence M. Quinn
Senior Vice President,
Wealth Management Group
Todd M. Scheub
Senior Vice President, Chief Lending Officer

Management Personnel of Peoples Bank
Lending Group
Commercial Lending
Ronald P. Knestrict
Vice President,
Commercial Loan Officer
Daniel W. Moser
Vice President,
Construction & Development Lending
Eugene R. Novello
Vice President, Commercial Loan Officer
Brian E. Rusin
Vice President, Commercial Loan Officer
Michael L. Zappia
Vice President, Commercial Loan Officer
Daniel J. Duncan
Assistant Vice President,
Commercial Loan Officer
Retail Lending
Catherine L. Gonzalez
Vice President, Manager, Retail Lending
Jeremy A. Gorelick
Assistant Vice President,
Residential Loan Officer
Rachel C. Lentz
Assistant Vice President,
Retail Lending Officer
Austin P. Logue
Assistant Vice President,
Residential Loan Officer
Alicia Q. McMahon
Assistant Vice President,
Residential Loan Officer
Nancy L. Weckler
Assistant Vice President,
Loan Underwriting
Loan Collections
Thomas Guiden
Manager of Collections

Retail Banking Group
Carla J. Houck
Vice President, Retail Banking Group
Shannon E. Franko
Vice President, Banking Center Coordinator
Cynthia S. Miles
Assistant Vice President,
Retail Banking Assistant
Banking Centers
Marilyn K. Repp
Vice President, Senior Manager,
Crown Point Banking Center
Kelly A. Stoming
Vice President, Banking Center Manager
Charman F. Williamson
Vice President,
Manager, Merrillville-Taft Banking Center

Margaret M. Haas
Assistant Vice President,
Manager, East Chicago Banking Center
Robin L. Lubbinga
Assistant Vice President
Manager, Schererville Banking Center
Colleen A. Mastalski
Assistant Vice President,
Manager, Merrillville-Broadway
Banking Center
Sandra L. Sigler
Assistant Vice President,
Manager, Woodmar Banking Center
Donna M. Vurva
Assistant Vice President,
Manager, Hobart Banking Center
Michael A. Cronin
Manager, Dyer Banking Center
Candice N. Logue
Manager, Munster Banking Center
Michael C. Matlock
Manager, Gary Banking Center
Nadia M. Casanova
Assistant Manager, East Chicago Banking Center
Jennifer L. Gunning
Assistant Manager, Broadway Banking Center

Private Banking
Trisha Yugo
Vice President, Private Banking

Wealth Management Group
Stephan A. Ziemba
Vice President,
Senior Wealth Management Officer
Mary T. Ciciora
Vice President, Wealth Management Officer
Randall H. Walker
Vice President, Wealth Management Officer
Joyce M. Barr
Assistant Vice President,
Assistant Wealth Management Officer
Igor Marjanovic
Assistant Vice President,
Wealth Management Officer

Operations & Technology Group
Bank Operations
Mary D. Mulroe
Vice President, Manager, Bank Operations
Deposit Operations
Meredith L. Bielak
Vice President, Manager, Deposit Operations
Charlotte V. Conn
Assistant Vice President, Deposit Operations
Information Technology
Donna M. Gin
Vice President,
Manager, Information Technology
Matthew S. Manoski
Assistant Vice President,
Information Technology
Loan Operations
Karen M. Sulek
Vice President, Manager, Loan Operations
Bonnie J. Connors
Assistant Vice President, Loan Operations
Antoinette S. Shettles
Assistant Vice President, Loan Operations
Sharon V. Vacendak
Assistant Vice President, Loan Operations
Systems Delivery
Julie M. Bonnema
Assistant Vice President,
Manager, Systems Delivery

Brand Learning & Communications Group
Jill M. Knight
Vice President, Training Coordinator
Elizabeth O. Kasenga
Assistant Vice President,
Manager, Human Resources
Michelle L. Dvorscak
Assistant Vice President,
Human Resource Generalist

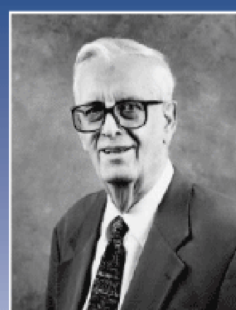
Finance & Controls Group

Peymon S. Torabi
Vice President, Controller
Michaelene M. Smith
Assistant Vice President, Accounting

Risk Management & Stakeholders Services Group
Christine M. Friel
Vice President, Loan Review Officer
Linda C. Nemeth
Vice President, Internal Auditor
Nicole M. Gullette
Assistant Vice President,
Loan Review Assistant
Michael J. Shimala,
Assistant Vice President, Security Officer
Timothy G. Fesko
Staff Attorney and Compliance Officer

Other Management Personnel
Marilyn Furticella
Marketing Consultant
Laura J. Spicer
Executive Assistant to the Chairman

Dedicated to the memory of



Harold G. Reuth
1918-2008
Director and Friend

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 Horwath LLP
330 East Jefferson Boulevard
P. O. Box 7
South Bend, Indiana 46624

Special Legal Counsel
Barnes & Thornburg LLP
11 S. Meridian Street
Indianapolis, Indiana 46204

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 24, 2009 at 9:00 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.

NorthWest Indiana
BANCORP

Peoples Bank

SUBSIDIARY OF NORTHWEST INDIANA BANCORP

CROWN POINT, 855 Stillwater Parkway, (219) 662-0220
DYER, 1300 Sheffield Avenue, (219) 322-2530
EAST CHICAGO, 4901 Indianapolis Blvd., (219) 378-1000
GARY, 1801 W. 25th Avenue, (219) 944-0005
HAMMOND, 7120 Indianapolis Blvd., (219) 844-4500
HOBART, 1501 S. Lake Park Avenue, (219) 945-1305
MERRILLVILLE, 7915 Taft Street, (219) 796-9000
8600 Broadway, (219) 685-8600
MUNSTER, 9204 Columbia Avenue, (219) 853-7550
LOAN CENTER, (219) 853-7500
WEALTH MANAGEMENT, (219) 853-7080
SCHERERVILLE, 141 W. Lincoln Highway, (219) 865-4300

Member FDIC

LENDER

www.**ibankpeoples**.com

www.**ibankpeoples**.com

Exhibit 23.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement No. 333-115666 on Form S-8 of NorthWest Indiana Bancorp of our report dated March 11, 2009 on the consolidated financial statements of NorthWest Indiana Bancorp, which report is in Form 10-K for NorthWest Indiana Bancorp for the year ended December 31, 2008.

/s/ Crowe Horwath LLP
Crowe Horwath LLP

South Bend, Indiana
March 11, 2009

Exhibit 31.1

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) 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

(d) 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 11, 2009

/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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) 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

(d) 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 11, 2009

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

Exhibit 32.

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, 2008, 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 11, 2009

/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

A signed original of this written statement required by Section 906 has been provided to and is being retained by NorthWest Indiana Bancorp and will be forwarded to the Securities and Exchange Commission or its staff upon request.