SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended DECEMBER 31, 1997

OR

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

For the transaction period from __________ to __________

Commission file number 0-26128

NORTHWEST INDIANA BANCORP
(Exact name of registrant as specified in its charter)

INDIANA	35-1927981
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9204 COLUMBIA AVENUE MUNSTER, INDIANA	46321
(Address of principal executive offices)	(Zip Code)

(219) 836-9690
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
NONE

Securities registered pursuant to Section 12(g) of the Act:
COMMON STOCK, WITHOUT PAR VALUE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] 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. [ ]

Based on the average bid and ask prices for the registrant's Common Stock at February 28, 1998, 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 $35,997,822.

There were 1,381,512 shares of the registrant's Common Stock, without par value, outstanding at February 28, 1998.

DOCUMENTS INCORPORATED BY REFERENCE

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

1. 1997 Annual Report to Shareholders. (Parts II and IV)

2. Definitive Proxy Statement for the 1998 Annual Meeting of Shareholders. (Part III)

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 (the "Bank"), the resulting Indiana savings bank in the conversion of Peoples Bank from a federal stock savings bank to an Indiana stock savings bank. Pursuant to the conversion, on July 31, 1994, all of the outstanding stock of Peoples Bank was converted into shares of Common Stock, without par value, of the Bancorp. As a result, Peoples Bank SB is a wholly owned subsidiary of the Bancorp. The Bancorp has no other business activity other than being the holding company for Peoples Bank SB.

The 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 to a lesser extent commercial real estate and construction loans, as well as various types of consumer loans and commercial business loans, within its primary market area of Lake County, in northwest Indiana. In addition, the Bank's trust department provides estate planning, guardianships, land trusts, retirement planning, self-directed IRA and Keogh accounts, investment agency accounts, and serves as personal representative of estates and acts as trustee for revocable and irrevocable trusts.

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

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

FORWARD-LOOKING STATEMENTS

Statements contained in this filing on Form 10-K that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. 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, among other things, to factors identified in this filing, including the following:

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

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

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

EXPOSURE TO LOCAL ECONOMIC CONDITIONS. The Bank's primary market area for deposits and loans encompasses Lake County, in northwest Indiana, where all of its offices are located. Ninety-five percent of the Bank's business activities are within this area. This concentration exposes the Bank to risks resulting from changes in the local economy. A dramatic drop in local real

estate values would, for example, adversely affect the quality of the Bank's loan portfolio.

INTEREST RATE RISK. The Bank's earnings depend to a great extent upon the level of net interest income, which is the difference between interest income earned on loans and investments and the interest expense paid on deposits and other borrowings. While the Bank attempts to balance the maturities of the Bank's assets in relation to maturities of liabilities (gap management), gap management is not an exact science. Rather, it involves estimates as to how changes in the general level of interest rates will impact the yields earned on assets and the rates paid on liabilities. Moreover, rate changes can vary depending upon the level of rates and competitive factors. From time to time, maturities of assets and liabilities are not balanced, and a rapid increase or decrease in interest rates could have an adverse effect on net interest margins and results of operations of the Bancorp. To moderate unfavorable operating results in periods of rising or high interest rates, the Bank restructures its asset-liability mix on an ongoing basis. Increasing the amount of interest-earning assets that are rate sensitive, extending the maturities of customer deposits, increasing the balances of NOW/checking accounts and utilizing cost effective borrowings are all part of management's commitment toward reducing the Bank's overall vulnerability to interest rate risk. While these steps may reduce the overall vulnerability to interest rate risk, the Bank will still be adversely affected by a rising or high interest rate environment, and is beneficially affected by a falling or low interest rate environment because rate sensitive liabilities exceed rate sensitive assets within a one year time period.

At December 31, 1997, the Bank's one year unadjusted GAP; i.e., the difference between interest-earning assets maturing or repricing during the next twelve months and interest-bearing liabilities maturing in the same period as a percentage of total assets, was -41.19%. The GAP position incorporates the Bank's internal data as related to the maturity/repricing and repayment/withdrawal of interest-earning assets and interest-bearing liabilities. The Bank has not experienced material earnings volatility as a result of the unadjusted GAP, because a significant portion of the Bank's deposits do not reprice on a contractual basis.

As is common in the banking industry, management makes adjustments to the timing and magnitude of non-contractual deposit repricing to more accurately reflect anticipated pricing behavior and exposure to interest rate risk. These adjustments include assumptions on rate/volume elasticity for checking and non-interest bearing deposits, NOW accounts, money market accounts and savings accounts. The table which follows is first presented without adjustment for expected repricing behavior. Then, as presented in the management adjustment line, these balances have been distributed over a number of periods to reflect those portions of such accounts that are expected to reprice over the respective periods. The distribution of the balances over the repricing periods represents an aggregation of allocations. A core amount

of transaction and savings account balances has been calculated by reviewing historical data on short-term interest rates and account balance activity. The core balance is considered non-rate sensitive and is classified as due/repricing between one and five years. Management expects to continue the same methodology in response to future market rate changes; however, management adjustments may change as customer preferences and competitive market conditions change. All management adjustments are reflected in the cumulative management adjusted GAP line. The cumulative GAP reflects sensitivity to interest rate changes over time. The Bank's management believes that the Bank's adjusted one year GAP of - -11.00% has been maintained within an acceptable range in view of the prevailing interest rate environment. There can be no assurance that the assets and liabilities will have the projected maturities used in developing this table. The GAP position is a static indicator and is not a predictor of net interest income for a dynamic business in a rapidly changing environment. Further discussion of interest rate risk can be found under the caption "Quantitative and Qualitative Disclosures about Market Risk" in the Bancorp's 1997 Annual Report to Shareholders.

GAP Position at December 31, 1997

<TABLE>
<CAPTION>

	0-3 months	4-12 months	1-5 years	Over 5 years	Total
	(dollars in thousands)				
<S>	<C>	<C>	<C>	<C>	<C>

Real estate loans	$ 43,310	$49,165	$107,900	$42,548	$242,923
Consumer loans	1,545	1,358	2,685	73	5,661
Commercial business loans and other	18,729	2,453	2,436	11	23,629
Securities held-to-maturity	1,501	6,990	15,715	5,156	29,362
Interest-bearing balances and federal funds	3,570	---	---	---	3,570
Total	68,655	59,967	128,735	47,788	305,145
Certificates of deposit	66,081	79,318	20,456	---	165,855
Checking and non-interest bearing deposits	16,685	---	---	---	16,685
NOW accounts	23,656	---	---	---	23,656
Money market accounts	22,235	---	---	---	22,235
Savings accounts	43,659	---	---	---	43,659
Borrowed funds	3,208	5,420	6,000	---	14,628
Total	175,524	84,738	26,456	---	286,718

<CAPTION>

At December 31, 1997:

<S>	<C>	<C>	<C>	<C>
GAP	(106,869)	(24,771)	102,279	47,788
Cumulative GAP	$(106,869)	$(131,640)	$(29,361)	$18,427
Cumulative GAP as a percent of total assets	-33.44%	-41.19%	-9.19%	5.77%
Management adjustments	$ 102,059	$ 96,476	$ ---	$ ---
Cumulative management adjusted GAP	$ (4,810)	$ (35,164)	$(29,361)	$18,427
Cumulative management adjusted GAP/total assets	-1.50%	-11.00%	-9.19%	5.77%

</TABLE>

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

LENDING ACTIVITIES

GENERAL. Over the years, the Bank has directed its lending efforts toward the origination of loans with adjustable rates and/or shorter terms to maturity. Product offerings include adjustable rate residential and commercial mortgages, commercial business loans tied to the prime interest rate, variable rate home equity lines of credit and consumer loans. It is management's goal that all programs are marketed aggressively and priced competitively.

The Bank is primarily a portfolio lender. Mortgage banking activities are limited to the sale of fixed rate mortgage loans with contractual maturities of thirty years. These loans are sold in the secondary market because of the additional exposure to interest rate risk associated with this product. All loan sales are made to the Federal Home Loan Mortgage Corporation ("FHLMC"). Loans are sold in the secondary market with servicing retained by the Bank. 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 capital and unimpaired surplus (plus up to an additional 10% of 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 which the Bank could have loaned to one borrower and the borrower's related entities at December 31, 1997, under the 15% of capital and surplus limitation was approximately $4,883,000. At December 31, 1997, the Bank had no loans which exceeded the regulatory limitations.

At December 31, 1997, there were no concentrations of loans in any type of industry which 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 Bank's loan portfolio by type of loan and type of collateral at the end of each of the last five years. The amounts are in thousands (000's).

	1997	1996	1995	1994	1993
Type of loan:					
Conventional real estate loans:					
Construction and development loans	$ 21,440	$ 13,248	$ 8,913	$ 8,451	$ 4,893
Loans on existing properties (1)	221,482	208,601	194,779	196,468	182,571
Consumer loans	5,661	4,890	3,527	3,172	3,833
Commercial business, other(2)	23,630	17,957	15,074	13,839	12,908
Loans receivable(3)	$272,213	$244,696	$222,293	$221,930	$204,205
Type of collateral:					
Real estate:					
1-to-4 family	$178,091	$164,590	$152,485	$152,208	$136,806
Other dwelling units, land and commercial real estate	64,831	57,259	51,207	52,711	50,658
Consumer loans	5,410	4,619	3,335	2,960	3,370
Commercial business, other(2)	21,712	16,306	13,893	13,288	12,520
Loans receivable (4)	$270,044	242,774	$220,920	$221,167	$203,354
Average loans outstanding during the period (3)	$254,219	$232,465	$221,352	$213,349	$202,106

(1) Includes construction loans converted to permanent loans and commercial real estate loans.
(2) Includes government loans and 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 below is a table showing loan origination and sale activity for each of the last three years. The amounts are in thousands (000's).

	1997	1996	1995
Loans originated:			
Conventional real estate loans:			
Construction and development loans	$ 13,168	$ 16,244	$ 9,434
Loans on existing property	23,461	26,811	12,914
Loans refinanced	14,824	10,253	15,961
Total conventional real estate loans originated	51,453	53,308	38,309
Commercial business loans	60,944	53,580	41,844
Consumer loans	4,591	7,290	4,690
Total loans originated	$116,988	$114,178	$84,843
Loan participations purchased	$ 3,240	$ --	$ 33

Whole loans and participations sold	$ 1,820	$ 2,011	$ 2,986

</TABLE>

LOAN MATURITY SCHEDULE. The following table sets forth certain information at December 31, 1997, regarding the dollar amount of loans in the Bank'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 Bank 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 and the loan is not repaid. The amounts are stated in thousand's (000's).

<TABLE>
<CAPTION>

	Maturing			
	Within one year	After one but within five years	After five years	Total
<S>	<C>	<C>	<C>	<C>
Real estate loans	$ 35,946	$ 63,106	$ 143,870	$242,922
Consumer loans	2,702	2,886	73	5,661
Commercial business loans	16,388	5,707	1,535	23,630
Total loans receivable	$ 55,036	$ 71,699	$ 145,478	$272,213

</TABLE>

The table below sets forth the dollar amount of all loans due after one year from December 31, 1997, which have predetermined interest rates or have floating or adjustable interest rates. The amounts are stated in thousands (000's).

<TABLE>
<CAPTION>

	Predetermined rates	Floating or adjustable rates	Total
<S>	<C>	<C>	<C>
Real estate loans	$72,688	$134,288	$206,976
Consumer loans	2,758	201	2,959
Commercial business loans	1,713	5,529	7,242
Total	$77,159	$140,018	$217,177

</TABLE>

LENDING AREA. The primary lending area of the Bank encompasses all of Lake County in northwest Indiana, where a majority of loan activity is concentrated. The Bank is also an active lender in Porter, LaPorte, Newton and Jasper counties in Indiana. During the past 15 years, the communities of Munster, Highland, Crown Point, Dyer, St. John, Merrillville and Schererville have experienced rapid growth and, therefore, have provided the greatest lending opportunities. At December 31, 1997, the housing vacancy rate in the Bank's primary lending area was below 5%.

LOAN COMMITMENTS. At the present time, residential real estate loan commitments must be accepted within 14 days by the borrower(s) signing a commitment acceptance and paying required loan fees. Fixed rate loans must close within 45 days of the date of the application, while adjustable rate loans must close within 60 days of the date of the application. Days are measured by calendar days from the date on the commitment letter. Approximately 90% of all commitments issued are exercised by borrowers. Loan commitments on commercial real estate and non-mortgage loans are given under various terms and conditions as may be warranted by the project.

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 real estate brokers and builders, solicitations by the Bank's lending staff, and advertising of loan programs and rates. The Bank employs no staff appraisers. All appraisals are performed by fee appraisers that have been approved by the Bank's Board of Directors and who meet all federal guidelines and state licensing and certification requirements.

Designated officers of the Bank have authorities, established by the Bank's Board of Directors, to approve loans. Loans from $600,000 to $1,000,000 are approved by the loan officers loan committee. Loans from $1,000,000 to $1,250,000 are approved by the senior officers loan committee. All loans in excess of $1,250,000, 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.) Loans to executive officers of the Bank or the Bancorp and their affiliated parties must be approved by a disinterested majority of the Bank's Board of Directors. Loans to directors and principal shareholders must be approved by a disinterested majority of the Bank's Board of Directors when the extension of credit exceeds $50,000 or, when the aggregated amount of all extensions of credit exceeds $500,000.

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 Bank has been the granting of conventional mortgage loans to enable borrowers to purchase existing homes or construct new homes. The residential loan portfolio also includes loans on two-to-four family dwellings. Conventional loans are made up to a maximum of 97% of the appraised value of the property, or purchase price if lower than the appraisal. For loans made in excess of 80% of value, private mortgage insurance is required in an amount sufficient to reduce the Bank'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 1997, 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.

All fixed-rate loans currently being originated conform to FHLMC guidelines for loans purchased under the 1-to-4 family program. Loan interest rates are determined based on secondary market yield requirements and local market conditions. Thirty year fixed rate mortgage loans have been sold and/or classified as held for sale to control exposure to interest rate risk.

The Bank has offered Adjustable Rate Mortgage Loans ("ARMs") since 1984. The "Mini-Fixed ARM" has been very popular with Bank customers. The "Mini-Fixed" mortgage reprices annually after a three, five or seven year period. ARM originations totaled $23.6 million for 1997, $26.1 million for 1996, and $19.5 million during 1995. During 1997, ARMs represented 46% of total mortgage loan originations. The ability of the Bank 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.

The 15 year mortgage loan program has gained wide acceptance in the Bank's primary market area. As a result of the shortened maturity of the 15 year loan, the product has been priced below the comparable 30 year loan offering. Mortgage applicants for the 15 year loan 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.

CONSTRUCTION LOANS. Construction loans on residential properties are made primarily to individuals and residential contractors who are under contract with individual purchasers. In most cases, 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, subject to prior lease of the mortgaged property and a confirmed loan takeout. In most cases, these loans are personally guaranteed by the borrower. In general, loans made do not exceed 75% of the appraised value of the property. Commercial construction loans are typically made for periods of one year.

COMMERCIAL REAL ESTATE LOANS. Commercial real estate loans are typically made to a maximum of 75% of the appraised value. Such loans are generally made on an adjustable rate basis. These loans are typically made for terms of 15 to 20 years. Loans exceeding twenty years have a balloon feature calling for a full repayment within 7 to 10 years from the date of the loan. The balloon feature affords the Bank 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, commercial/industrial properties, and other retail and commercial developments.

While commercial real estate lending is generally considered to involve a higher degree of risk than single-family residential lending due to the concentration of principal in a limited number of loans and the effects of general economic conditions on real estate developers and managers, the Bank has endeavored to reduce this risk in several ways. In originating commercial real estate loans, the Bank 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 retail properties and commercial real estate loans are generally located within an area permitting physical inspection and regular review of business records. Projects financed outside of the Bank's primary lending area generally involve borrowers and guarantors who are or were previous customers of the Bank.

CONSUMER LOANS. The Bank 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 Bank purchases indirect dealer paper from various well established businesses in its immediate banking area.

HOME EQUITY LINE OF CREDIT. The Bank offers "Prime Line", a revolving line of credit secured by the equity in the borrower's home. The offering which is tied to the prime rate of interest requires borrowers to repay 1.5% of their outstanding balance each month. In most cases, Prime Line loans will require a second mortgage appraisal and a second mortgage lenders title insurance policy. Loans are 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 Bank'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 Bank seeks commercial loan relationships from the local business community and from its present customers. Conservative lending policies based upon sound credit analysis govern the extension of commercial credit. The following loans, although not inclusive, are considered preferable for the Bank'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. Although conservative lending policies have been applied to commercial business loans, the Bank regards the exercise of its commercial lending authority as vital to its asset restructuring program.

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 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 Bank'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 Bank will recast the loan or grant a limited moratorium on loan payments to enable the borrower to reorganize their financial affairs. If the loan continues in a delinquent status for 60 days, the Bank 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 Bank. Foreclosed real estate is recorded at the lower of cost (the unpaid balance at date of acquisition plus foreclosure costs, costs related to the sale of the foreclosed real estate and other related costs) or fair value at the date of acquisition and carried at the lower of acquisition value or net realizable value subsequent to the date of acquisition. Any write-down of the property is charged to the allowance for loan losses. 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 10 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 Bank may grant a payment deferral. If a loan continues delinquent after 90 days and all collection efforts have been exhausted, the Bank will initiate legal proceedings. Collection procedures for commercial business loans provide that when a commercial loan becomes 10 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 Bank may grant a payment deferral or restructure the loan. Once it has been determined that collection efforts are unsuccessful, the Bank will initiate legal proceedings.

The table which follows sets forth information with respect to the Bank's non-performing assets for the periods indicated. During the periods shown, the Bank 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).

<TABLE>
<CAPTION>

	At December 31,				
	1997	1996	1995	1994	1993
<S>	<C>	<C>	<C>	<C>	<C>
Loans accounted for on a non-accrual basis:					
Real estate:					
Residential	$ 715	$ 583	$ 361	$ 786	$ 146
Commercial	44	45	---	82	88
Commercial business	56	111	---	---	---
Consumer	151	49	11	6	---
Total	$ 966	$ 788	$ 372	$ 874	$ 234
Accruing loans which are contractually past due 90 days or more: Real estate:					
Residential	$ 220	$ 373	$ 637	$ 575	$ 334
Commercial	---	---	---	---	---
Commercial business	---	5	---	104	---
Consumer	6	1	46	6	---
Total	$ 226	$ 379	$ 683	$ 685	$ 334
Total of non-accrual and 90 days past due	$1,192	$1,167	$1,055	$1,559	$ 568
Ratio of non-performing loans to total assets	0.37%	0.39%	0.38%	0.59%	0.23%
Ratio of non-performing loans to total loans	0.44%	0.48%	0.47%	0.70%	0.27%
Foreclosed real estate	$ 259	$ 189	$ 86	$ 160	$ 183
Ratio of foreclosed real estate to total assets	0.08%	0.06%	0.03%	0.06%	0.07%

</TABLE>

During 1997, gross interest income of $111,374 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 $53,198.

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 Bank'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-one leverage ratio calculations, tier-one risk-based capital requirements, or in capital under Generally Accepted Accounting Principles ("GAAP"). Amounts reserved for by a specific allowance are not counted toward capital for purposes of any of the regulatory capital requirements. At December 31, 1997, $1.3 million of the Bank's loans were classified as substandard. The total represents 10 residential real estate loans, 2 commercial real estate loans, 5 commercial business loans and 6 consumer loans. There was one consumer loan for $5 thousand classified as doubtful. No loans were classified as loss.

Because some loans may not be repaid in accordance with contractual agreements, an allowance for loan losses ("ALL") is maintained. Because estimating the risk of loss and the amount of loss on any loan is necessarily subjective, the ALL is maintained by management at a level considered adequate to cover losses based on loan portfolio growth, past loss experience, general economic conditions, information about specific borrower situations including their financial position and collateral values, and other factors and estimates which are subject to change over time. Although management believes that it uses the best information available to make such estimations, future adjustments to reserves may be necessary, and net income could be significantly affected, if circumstances differ substantially from the assumptions used in making the initial estimations. 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. A loan is charged-off against the allowance by management as a loss when deemed uncollectible, although collection efforts continue and future recoveries may occur. The allocation of the ALL reflects consideration of the facts and circumstances that affect the repayment of individual loans, as well as, loans which have been pooled as of the evaluation date, with particular attention given to loans which have been classified as substandard, doubtful or loss.

At December 31, 1997, management of the Bancorp is of the opinion that there are no loans, except those discussed above, where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as nonaccrual, past due or restructured loans.

Also, at December 31, 1997, there are no other interest bearing assets that would be required to be disclosed as nonaccrual, past due, restructured or potential problem if such assets were loans.

The table which 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 or commercial real estate loans during the periods presented. The amounts are in thousands (000's).

<TABLE>
<CAPTION>

	At December 31,				
	1997	1996	1995	1994	1993
<S>	<C>	<C>	<C>	<C>	<C>
Balance at beginning of period	$2,887	$2,830	$2,751	$2,583	$2,317
Loans charged-off:					
Real estate - residential	(9)	(28)	-	-	-
Commercial business	(19)	-	-	(7)	(30)
Consumer	(6)	-	(2)	(3)	(28)
Total charge-offs	(34)	(28)	(2)	(10)	(58)
Recoveries:					
Real estate - residential	-	-	-	-	-
Commercial business	-	-	-	1	-
Consumer	-	-	1	33	5
Total recoveries	-	-	1	34	5
Net (charge-offs)/recoveries	(34)	(28)	(1)	24	(53)
Provision for loan losses	221	85	80	144	319

Balance at end of period	$3,074	$2,887	$2,830	$2,751	$2,583
	=======	======	======	======	======
ALL to loans outstanding	1.13%	1.18%	1.27%	1.24%	1.26%
ALL to nonperforming loans	257.8%	247.4%	268.3%	160.0%	454.8%
Net charge-offs/recoveries to average loans outstanding during the period	0.01%	0.01%	0.00%	0.01%	0.03%

</TABLE>

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

<TABLE>
<CAPTION>

	At December 31,									
	1997		1996		1995		1994		1993	
	$	%	$	%	$	%	$	%	$	%
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Real estate loans:										
Residential	322	57.5	372	61.8	372	64.6	387	64.8	280	64.6
Commercial and other dwelling	932	23.8	880	23.4	860	23.0	834	23.8	1,225	24.8
Construction and development	268	7.9	153	5.4	130	4.0	105	3.8	---	2.4
Consumer loans	153	2.1	110	2.0	110	1.6	111	1.4	132	1.9
Commercial business and other	630	8.7	650	7.4	650	6.8	626	6.2	946	6.3
Unallocated	769		722		708		688		---	
Total	3,074	100.0	2,887	100.0	2,830	100.0	2,751	100.0	2,583	100.0
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

</TABLE>

INVESTMENT ACTIVITIES

The primary objective of the investment portfolio is to provide for the liquidity needs of the Bank and to contribute to profitability by providing a stable flow of dependable earnings. Securities will generally be classified as held to maturity at the time of purchase, as management has both the positive intent and the ability to hold securities to maturity. While securities may be classified as available for sale at the time of purchase, no securities will be classified as trading investments. At December 31, 1997, all investment securities were classified as held to maturity. It has been the policy of the Bank to invest its excess cash in U.S. government securities and federal agency obligations. In addition, short-term funds are generally invested as interest-bearing balances in financial institutions and federal funds. At December 31, 1997, the Bank's investment portfolio totaled $29.4 million. In addition, the Bank had $3.6 million in interest-bearing balances at the FHLB of Indianapolis.

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

<TABLE>
<CAPTION>

	At December 31,		
	1997	1996	1995
<S>	<C>	<C>	<C>
U.S. government securities	$ 6,537	$ 11,549	$ 9,985
U.S. government agencies	19,648	24,934	24,015
Mortgage-backed securities	1,531	1,944	2,404
FHLB stock	1,646	1,597	1,597
Totals	$ 29,362	$ 40,024	$ 38,001
	========	========	========

</TABLE>

The contractual maturities and weighted average yields for the U.S. government securities, agency securities and mortgaged-backed securities at December 31, 1997, are summarized as follows. The amounts are in thousands (000's).

<TABLE>
<CAPTION>

	Within 1 Year		1-5 Years		5-10 Years		After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
U.S. government securities	$1,990	5.68%	$ 4,546	6.14%	$ --	--%	$ --	-- %
U.S. government agencies	6,501	5.47	11,148	6.25	2,000	7.04	--	--
Mortgaged-backed securities	--	--	21	7.18	263	7.46	1,247	8.54
Totals	$8,491	5.52%	$15,715	6.22%	$2,263	7.09%	$1,247	8.54%

</TABLE>

SOURCES OF FUNDS

GENERAL. Deposits are the major source of the Bank's funds for lending and other investment purposes. In addition to deposits, the Bank 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 Bank of Indianapolis (FHLBI) 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 Bank uses repurchase agreements and advances from the FHLBI for borrowings. At December 31, 1997, the Bank had $4.5 million in repurchase agreements. Other borrowings totaled $10.1 million, of which $8.0 million represents FHLBI advances.

DEPOSITS. Retail and commercial deposits are attracted principally from within the Bank's primary market area through the offering of a broad selection of deposit instruments including savings accounts, NOW and Super NOW accounts, checking accounts, money market type accounts, certificate accounts currently ranging in maturity from ten days to 42 months, 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. The deregulation of federal controls on insured deposits has allowed the Bank to be more competitive in obtaining funds and to be flexible in meeting the threat of net deposit outflows. The Bank does not obtain funds through brokers.

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

<TABLE>
<CAPTION>

	1997		1996		1995	
	Amount	Average rate %	Amount	Average rate %	Amount	Average rate %
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Demand deposits	$ 16,685	0.00	$ 13,122	0.00%	$ 10,859	0.00%
NOW accounts	23,656	2.13	23,034	2.29	20,425	2.28
MMDA accounts	22,235	3.30	22,495	3.27	23,294	3.26
Savings accounts	43,659	3.01	43,521	3.02	42,189	3.01
Certificates of deposit	165,855	5.52	153,433	5.53	143,005	5.51
Total deposits	$272,090	4.30	$255,605	4.33%	$239,772	4.32%

</TABLE>

Maturities of time certificates of deposit and other time deposits of $100,000 or more at December 31, 1997 are summarized as follows. The amounts are in thousands (000's).

<TABLE>

<S>	<C>
3 months or less	$19,533
Over 3 months through 6 months	12,949
Over 6 months through 12 months	5,077
Over 12 months	2,107
Total	$39,666

</TABLE>

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 FHLBI. FHLBI advances with maturities ranging from one to five years are used to fund securities and loans of comparable duration, as well as, to reduce the impact that movements in short-term interest rates have on the Bank's overall cost of funds. Securities sold under agreements to repurchase mature within one year. Repurchase agreements are generally secured by FHLMC mortgage-backed securities or U.S. government securities under the Bank's control. The Bank does not obtain funds through brokers.

The following table sets forth the balances in short-term borrowings on the dates indicated. The amounts are stated in thousands (000's).

<TABLE>
<CAPTION>

	At December 31,		
	1997	1996	1995
<S>	<C>	<C>	<C>
Repurchase agreements	$ 4,541	$ 3,993	$ 2,403
Federal Home Loan Bank advances	8,000	7,000	--
Other borrowings	2,087	1,268	735
Total borrowings	$14,628	$12,261	$ 3,138

</TABLE>

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

<TABLE>
<CAPTION>

	At December 31,		
	1997	1996	1995
<S>	<C>	<C>	<C>
Balance	$4,541	$3,993	$2,403
Securities underlying the agreements:			
Ending book value	7,988	5,572	3,364
Ending market value	8,014	5,559	3,538
Weighted average rate paid (1)	5.54%	5.19%	5.60%

<CAPTION>

	For year ended December 31,		
	1997	1996	1995
Highest month-end balance	$4,975	$5,419	$2,403
Approximate average outstanding balance	4,308	3,599	1,593
Approximate weighted average rate paid on securities sold under agreements to repurchase (2)	5.43%	5.27%	5.65%

<FN>

- ----------

(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 outstanding for the period.

</TABLE>

TRUST POWERS

The activities of the trust department include the management of self-directed investments, IRA and Keogh plans, investment agency accounts, land trusts, serving as court-appointed executor of estates and as guardian or conservator of estates, and trustee with discretionary investment authority for revocable and irrevocable trusts. At December 31, 1997, the market value of the trust department's assets totaled $129.2 million.

ANALYSIS OF PROFITABILITY AND KEY OPERATING RATIOS

DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY;
INTEREST RATES AND INTEREST DIFFERENTIAL.

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

The following table presents the weighted average yields on loans and investment securities, the weighted average cost of interest-bearing deposits and other borrowings, and the interest rate spread at December 31, 1997.

<TABLE>

<S>	<C>
Weighted average yield:	
Interest-bearing balances in financial institutions	5.70%
Securities held-to-maturity	6.23
Net loans receivable	8.35
Total interest-earning assets	8.11
Weighted average cost:	
Interest bearing deposits	4.32
Borrowed funds	5.62
Total interest-bearing liabilities	4.38
Interest rate spread:	
Weighted average yield on interest-earning assets minus the weighted average cost of interest-bearing funds	3.73

</TABLE>

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:

<TABLE>
<CAPTION>

	Year ended December 31,		
	1997	1996	1995
<S>	<C>	<C>	<C>
Return on average assets	1.13%	0.75%	1.14%
Return on average equity	11.87	7.90	11.74
Average equity-to-average assets ratio	9.49	9.51	9.72
Dividend payout ratio	51.76	72.17	48.92

<CAPTION>

	At December 31,		
	1997	1996	1995
<S>	<C>	<C>	<C>
Total stockholders' equity to total assets	9.22%	9.29%	9.68%

</TABLE>

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).

<TABLE>
<CAPTION>

	Year ended December 31, 1997	Year ended December 31, 1996	Year ended December 31, 1995
	Interest	Interest	Interest

	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Assets:									
Interest bearing balances in financial institutions	$ 2,282	$ 139	6.%9	$ 3,846	$ 266	6.92%	$ 4,520	$ 278	6.15%
Federal funds sold	102	5	5.32	1,068	58	5.43	1,131	66	5.84
Securities	33,454	2,155	6.44	42,513	2,605	6.13	35,139	2,055	5.85
Total investments	35,838	2,299	6.42	47,427	2,929	6.18	40,790	2,399	5.88
Loans:*									
Real estate mortgage loans	230,420	19,128	8.30	212,161	17,523	8.26	203,709	17,015	8.35
Commercial business loans	18,380	1,780	9.68	16,014	1,522	9.50	14,174	1,412	9.96
Consumer loans	5,419	462	8.52	4,290	363	8.46	3,469	297	8.56
Total loans	254,219	21,370	8.41	232,465	19,408	8.35	221,352	18,724	8.46
Total interest-earning assets	290,057	23,669	8.16	279,892	22,337	7.98	262,142	21,123	8.06
Allowance for loan losses	(2,959)			(2,854)			(2,792)		
Cash and due from banks	6,005			4,994			4,576		
Premises and equipment	6,992			6,153			4,662		
Other assets	3,220			3,098			3,272		
Total assets	$ 303,315			$ 291,283			$ 271,860		
Liabilities:									
Demand deposit	$ 14,836	-	0.00%	$ 13,122	-	0.00%	$ 10,859	-	0.00%
NOW accounts	23,451	500	2.13	23,034	528	2.29	20,425	465	2.28
Money market demand accounts	23,115	762	3.30	22,495	736	3.27	23,294	759	3.26
Savings accounts	43,673	1,315	3.01	43,521	1,315	3.02	42,189	1,269	3.01
Certificates of deposit	158,041	8,730	5.52	153,433	8,487	5.53	143,005	7,874	5.51
Total interest-bearing deposits	263,116	11,307	4.30	255,605	11,066	4.33	239,772	10,367	4.32
Borrowed funds	8,082	414	5.13	4,780	221	4.62	2,479	117	4.72
Total interest-bearing liabilities	271,198	11,721	4.32	260,385	11,287	4.32	242,251	10,484	4.33
Other liabilities	3,343			3,191			3,192		
Total liabilities	274,541			263,576			245,443		
Stockholders' equity	28,774			27,707			26,417		
Total liabilities and stockholders' equity	$ 303,315			$ 291,283			$ 271,860		
Net interest income		$ 11,948			$ 11,050			$ 10,639	
Net interest spread			3.84%			3.66%			3.73%
Net interest margin**			3.94%			3.79%			

3.91%

<FN>
* Non-accruing loans have been included in the average balances.
** Net interest income divided by average total assets.

</TABLE>

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).

<TABLE>
<CAPTION>

	Year Ended December 31,			Year Ended December 31,			Year Ended December 31,		
	1997 vs. 1996			1996 vs. 1995			1995 vs. 1994		
	Increase/(Decrease) Due To			Increase/(Decrease) Due To			Increase/(Decrease) Due To		
	Volume	Rate	Total	Volume	Rate	Total	Volume	Rate	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Interest income:									
Loans receivable	$ 1,840	$ 122	$ 1,962	$ 947	$ (263)	$ 684	$ 657	$ 931	$ 1,588
Securities	(578)	128	(450)	448	102	550	154	94	248
Other interest-earning assets	(146)	(34)	(180)	(48)	28	(20)	95	69	164
Total interest-earning assets	1,116	216	1,332	1,347	(133)	1,214	906	1,094	2,000
Interest Expense:									
Deposits	289	(48)	241	651	48	699	500	1,856	2,356
Borrowings and Federal Home Loan Bank Advances	167	26	193	106	(2)	104	36	12	48
Total interest-bearing liabilities	456	(22)	434	757	46	803	536	1,868	2,404
Net change in net interest income/(expense)	$ 660	$ 238	$ 898	$ 590	$ (179)	$ 411	$ 370	$ (774)	$ (404)

</TABLE>

BANK SUBSIDIARY ACTIVITIES

The Bank has two wholly-owned subsidiaries, which are incorporated under the laws of the State of Indiana. Peoples Service Corporation is inactive. At December 31, 1997, the Bank had an investment balance of $10,000 in Peoples Service Corporation. During 1997, PSA Insurance Corporation was dissolved.

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

COMPETITION

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

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

The Bank 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 home builders. It competes for deposits by offering depositors a wide variety of savings accounts, checking accounts, competitive interest rates, convenient branch locations, drive-up facilities, automatic teller machines, tax-deferred retirement programs and other miscellaneous services.

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

PERSONNEL

As of December 31, 1997, the Bank had 94 full-time and 21 part-time employees. The employees are not represented by a collective bargaining agreement. Management believes its employee relations are good. The Bancorp has four officers (listed below under "Executive Officers of the Bancorp"),

but has no other employees. The Bancorp's officers also are full-time employees of the Bank, and are compensated by the Bank.

REGULATION AND SUPERVISION

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

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

Under FRB policy, a bank holding company is expected to serve as a source of financial and managerial strength to its subsidiary banks. It is the policy of the FRB that, pursuant to this requirement, a bank holding company should stand ready to use its resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity. This support may be required by the FRB at times when the Bancorp may not have the resources to provide it or, for other reasons, would not be inclined to provide it. Additionally, under the Federal Deposit Insurance Corporation Improvements Act of 1991 ("FDICIA"), a bank holding company is required to guarantee the compliance of 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 up to the lesser of (i) an amount equal to 5% of the institution's total assets at the time the institution became undercapitalized, or (ii) the amount that is necessary (or would have been necessary) to bring the institution into compliance with all applicable capital standards as of the time the institution fails to comply with such capital restoration plan.

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 Indiana Department of Financial Institutions (the "DFI"). The Bank's deposit accounts are insured by the SAIF, which is

administered by the FDIC. The Bank is not a member of the Federal Reserve System.

Both federal and Indiana law extensively regulate various aspects of the banking business such as reserve requirements, truth-in-lending and truth-in-savings disclosure, 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. The Board of Directors does not believe that these restrictions will have a material adverse effect on the Bank.

DEPOSIT INSURANCE AND THE BANKING INDUSTRY. The Bank's deposits are insured up to $100,000 per insured account by the SAIF. The Deposit Insurance Funds Act of 1996 (the "Funds Act") required the FDIC to take steps to recapitalize the SAIF and to change the basis on which funds are raised to make the scheduled payments on the FICO bonds issued in 1987 to replenish the Federal Savings and Loan Insurance Corporation. As part of the SAIF recapitalization, during 1996 the Bank paid a special assessment of $1.6 million. The Funds Act generally limited future SAIF assessments to the level required to maintain its capitalization. Accordingly, periodic SAIF insurance assessments have fallen toward the level paid by BIF members, thereby reducing a competitive advantage for BIF members. While SAIF members continue to face higher FICO bond assessments than BIF members, the disparity is small relative to the former disparity in insurance assessments.

The Funds Act and recent legislative and regulatory initiatives propose changes to the regulatory structure of the banking industry, including proposals to reduce regulatory burdens and expand bank powers. It is not possible to predict whether, or in what form, the proposed changes will take effect or how they will affect the Bancorp.

BRANCHES AND AFFILIATES. The establishment of branches by the Bank is subject to approval of the DFI and FDIC and geographic limits established by state laws. In 1994, Congress enacted the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Riegle-Neal Act"). This 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 after June 1, 1997, subject to the right of individual states to "opt

in" or to "opt out" of this authority before that date, 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. During 1996, Indiana "opted in" to the provisions described in clauses (ii) and (iii) above. The effect of this new law may be to increase competition in the Bank's market area, although the extent and timing of this increase cannot be predicted.

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 I 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 II 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 I (leverage) capital ratio which requires a minimum level of Tier I capital to average total consolidated 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 I risk-based capital ratio of 6% or greater, and a leverage ratio of 5% of 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, 1997, the Bancorp's capital exceeded all regulatory capital requirements. At December 31, 1997, the Bancorp's and the Bank's regulatory capital ratios were substantially the same. At December 31, 1997, the Bancorp and the Bank were categorized as well capitalized.
The dollar amounts are in millions.

<TABLE>
<CAPTION>

	Actual		Required for adequate capital		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Total capital risk-weighted assets	$32.2	15.0%	$17.1	8.0%	$21.4	10.0%
Tier I capital to risk-weighted assets	$29.5	13.8%	$ 8.6	4.0%	$12.8	6.0%
Tier I capital to adjusted assets	$29.5	9.2%	$ 9.6	3.0%	$16.0	5.0%

</TABLE>

Banking regulators continue to indicate their desire to raise capital requirements applicable to banking organizations beyond their current levels. 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, no more often than quarterly, to the extent of its undivided profits (generally, earnings less losses, bad debts, taxes and other operating expenses). However, DFI approval is required to pay dividends in any year in excess of the Bank's net profits for the current year and retained net profits for the prior two years. 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. 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.

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. As of the date of its most recent regulatory examination, the Bank was rated "outstanding" with respect to its CRA compliance.

In May 1995, the FDIC and other Federal banking agencies amended their regulations concerning the CRA. Among other things, the revised regulations implemented a new evaluation system that rates banks based on their performance in meeting community financial needs. In particular, the revised system evaluates the degree to which a bank is performing under tests and standards judged in the context of information about the institution, its community, its competitors and its peers with respect to (i) lending, (ii) service delivery systems and (iii) investments. The regulations also 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.

FEDERAL AND STATE TAXATION

Savings institutions such as the Bank that meet certain definitional tests relating to the composition of assets and other conditions prescribed by the Internal Revenue Code of 1986, as amended (the "Code"), are permitted to establish reserves for bad debts and to make annual additions thereto which may, within specified formula limits, be taken as a deduction in computing taxable income for federal income tax purposes. The amount of the bad debt reserve deduction for "non-qualifying loans" is computed under the experience method. The amount of the bad debt reserve deduction for "qualifying real property loans" (generally loans secured by improved real estate) may be computed under either the experience method or the percentage of taxable income method (based on an annual election).

Under the experience method, the bad debt reserve deduction is an amount determined under a formula based generally upon the bad debts actually sustained by the savings association over a period of years.

Since 1987, the percentage of specially-computed taxable income that was used to compute a savings association's bad debt reserve deduction under the percentage of taxable income method (the "percentage bad debt deduction") was 8%. The percentage bad debt deduction thus computed was reduced by the amount permitted as a deduction for non-qualifying loans under the experience method. The availability of the percentage of taxable income method permitted qualifying savings associations to be taxed at a lower effective federal income tax rate than that applicable to corporations generally (approximately 31.3% assuming the maximum percentage bad debt deduction). Under changes in federal tax law enacted in August 1996, the percentage bad debt deduction has been eliminated for tax years beginning after December 31, 1995. Accordingly,

this method has not been available for the Bank for its tax years ending December 31, 1996 and thereafter.

Under the percentage of taxable income method, the percentage bad debt deduction could not exceed the amount necessary to increase the balance in the reserve for qualifying real property loans to an amount equal to 6% of such loans outstanding at the end of the taxable year or the greater of (i) the amount deductible under the experience method or (ii) the amount which when added to the bad debt deduction for non-qualifying equals the amount by which 12% of the amount comprising savings accounts at year-end exceeds the sum of surplus, undivided profits and reserves at the beginning of the year. At December 31, 1995, the 6% and 12% limitations did not restrict the percentage bad debt deduction available to the Bank.

The federal tax legislation enacted in August 1996 also imposes a requirement to recapture into taxable income the portion of the qualifying and non-qualifying loan reserves in excess of the "base-year" balances of such reserves. For the Bank, the base-year reserves are the balances as of December 31, 1987. Recapture of the excess reserves will occur over a six-year period which will begin for the Bank for its tax year ending December 31, 1998. Commencement of the recapture period was delayed for two years because the Bank met certain residential lending requirements. The Bank previously established, and will continue to maintain, a deferred tax liability with respect to its federal tax bad debt reserves in excess of the base-year balances; accordingly, the legislative changes will have no effect on total income tax expense for financial reporting purposes.

Also, under the August 1996 legislation, the Bank's base-year federal bad debt reserves are "frozen" and subject to current recapture only in very limited circumstances. Generally, recapture of all or a portion of the base-year reserves will be required if the Bank pays a dividend in excess of the greater of its current or accumulated earnings and profits, redeems any of its stock, or is liquidated. The Bank has not established a deferred federal tax liability under SFAS No. 109 for its base-year federal tax bad debt reserves, as it does not anticipate engaging in any of the transactions that would cause such reserves to be recaptured.

In addition to the regular income tax, corporations, including savings associations such as the Bank, generally are subject to a minimum tax. An alternative minimum tax is imposed at a minimum tax rate of 20% on alternative minimum taxable income, which is the sum of a corporation's regular taxable income (with certain adjustments) and tax preference items, less any available exemption. The alternative minimum tax is imposed to the extent it exceeds the corporation's regular income tax and net operating losses can offset no more than 90% of alternative minimum taxable income. For taxable years beginning after 1986 and before 1996, corporations, including savings associations such as the Bank, are also subject to an environment tax equal to 0.12% of the excess alternative minimum taxable income for the taxable year (determined

without regard to net operating losses and the deduction for the environmental tax) over $2 million.

The tax returns of the Bank or Bancorp have not been examined by the Internal Revenue Service since its year ended June 30, 1985. In the opinion of management, any examinations of still open returns would not result in a deficiency which could have a material adverse effect on the financial condition of the Bancorp.

For additional information regarding federal taxation, see Notes to Consolidated Financial Statements included in the 1997 Annual Report to Stockholders attached hereto as Exhibit 13.

The Bancorp is subject to Indiana's Financial Institutions Franchise 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 tax 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, the most notable of which is the required addback of interest that is tax-free for federal income tax purposes.

ACCOUNTING FOR INCOME TAXES

At December 31, 1997, the Bank's consolidated total deferred tax assets were $1,068 thousand and the consolidated total deferred tax liabilities were $274 thousand, resulting in a consolidated net deferred tax asset of $794 thousand. 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 2. PROPERTIES

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

The table below sets forth additional information with respect to the Bank's offices as of December 31, 1997. Net book value and total investment figures are for land, buildings, furniture and fixtures.

<TABLE>
<CAPTION>

Office location	Year facility opened	Net book value	Approximate square footage	Total investment
9204 Columbia Avenue Munster, In 46307	1985	$1,331,494	11,640	$2,587,049
141 W. Lincoln Highway Schererville, In 46375	1990	1,324,643	9,444	2,048,783
7120 Indianapolis Blvd. Hammond, In 46324	1978	354,969	2,600	741,943
1300 Sheffield Dyer, In 46311	1976	207,692	2,100	575,479
7915 Taft Merrillville, In 46410	1968	178,075	2,750	501,080
8600 Broadway Merrillville, In 46410	1996	1,789,526	4,400	1,956,746
4901 Indianapolis Blvd. East Chicago, In 46312	1995	1,184,318	4,300	1,437,164

</TABLE>

During 1995, the Bancorp replaced its existing East Chicago, Indiana, office location with a new facility. During 1996, the Bancorp opened a new full-service branch facility located in Merrillville, Indiana. The facilities represent the Bancorp's commitment to quality service and community development, and provide opportunities to expand market share by attracting additional deposits and loans from surrounding areas. At December 31, 1997, the Bank had investments totaling $450 thousand in land which has been acquired for future branch development. The Bank's primary recordkeeping is accomplished through the use of microcomputer networks linked via data line to M&I Data Services, Inc., located in Brown Deer, Wisconsin. M&I provides real time services for mortgage and installment loans, savings, certificates, NOW accounts and general ledger transactions. In addition to the M&I System, the Bank utilizes a microcomputer network for the trust department operations.

The net book value of the Bank's investment in property, premises and equipment totaled $6.8 million at December 31, 1997. For further information, see Note 5 of Notes to Consolidated Financial Statements in the Bancorp's December 31, 1997, Annual Report to Shareholders.

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 1997.

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 1997 Annual Meeting of Shareholders:

The executive officers of the Bancorp are as follows:

	AGE AT DECEMBER 31, 1997	POSITION
David A. Bochnowski	52	Chairman and Chief Executive Officer
Joel Gorelick	50	Vice President and Chief Lending Officer
Edward J. Furticella	50	Vice President, Chief Financial Officer and Treasurer
Frank J. Bochnowski	59	Senior Vice President and Secretary

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 has held these positions with the Bank since 1981. He has been a director since 1977 and was the Bank's legal counsel from 1977 to 1981. Mr. Bochnowski is a director of America's Community Bankers (ACB)and chairman of ACB Partners, Inc., the operating subsidiaries of America's Community Banker. He is a director of the Northwest Indiana Forum and a trustee of the Munster Community Hospital. He is a former chairman of the Indiana League of Savings Institutions and a former director of the Federal Home Loan Bank of Indianapolis. Mr. Bochnowski serves on 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 Doctor degree from Georgetown University and a Masters Degree from Howard University.

Joel Gorelick is vice president of the Bancorp and vice president and chief lending officer for the Bank. He is responsible for overseeing new business development and all loan functions of the Bank. Mr. Gorelick joined the Bank in November, 1983 as vice president of commercial lending. Mr. Gorelick is involved in many community service organizations and has most

recently served as president of the Northwest Indiana Boys & Girls Club and chairman of the board of the Northwest Indiana Regional Development Corporation. Mr. Gorelick has been appointed as a board member for the United States Selected Service System. Mr. Gorelick is also a volunteer for numerous youth related sports activities. He holds a Masters of Business Administration Degree from Indiana University and is a graduate of the Graduate School of Banking at the University of Wisconsin at Madison.

Edward J. Furticella is vice president, chief financial officer and treasurer of the Bancorp and the Bank. He is responsible for managing the Bank's investment portfolio and daily liquidity, as well as, overseeing the activities of accounting, systems processing and branch operations. Mr. Furticella has been with the Bank since 1981. Mr. Furticella holds a Masters of Education, Masters of Business Administration and a Masters of Science in Accountancy from DePaul

University. Mr. Furticella is a Certified Public Accountant (CPA) and a Certified Cash Manager (CCM). He is also a part-time finance instructor at Purdue University Calumet and a member of the Customer Advisory Group for the Federal Reserve Bank of Chicago.

Frank J. Bochnowski is senior vice president and secretary for the Bancorp and senior vice president, general counsel, trust officer and corporate secretary for the Bank. Mr. Bochnowski assumed his current responsibilities with the Bank as of November, 1984. He has been the Bank's attorney since 1981. Mr. Bochnowski is a member and past president of the Munster, Indiana Rotary Club and a former director and officer of the Lake County, Indiana Chapter of the American Red Cross. He holds a Juris Doctor degree from St. John's University and a Masters of Business Administration from Fairleigh Dickinson University. He is a graduate of the United States Military Academy and served for twenty-one years as an army officer, retiring in 1981 with the rank of lieutenant colonel. He is the first cousin of the Bancorp's President.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The information contained under the caption "Business" and "Market Information" in the 1997 Annual Report to Shareholders is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

The information contained in the table captioned "Selected Consolidated Financial Data" in the 1997 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 1997 Annual Report to Shareholders is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements contained in the 1997 Annual Report to Shareholders, which are listed under Item 14 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 caption.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained under the section captioned "Election of Directors" and in the final paragraph under the section captioned "Security Ownership by Certain Beneficial Owners and Management" in the Bancorp's definitive Proxy Statement for the 1998 Annual Meeting of Shareholders is incorporated herein by reference. Information regarding the Bancorp's executive officers is included under the unnumbered item captioned "Executive Officers of the Bancorp" at the end of Part I hereof and is incorporated herein by reference, in accordance with General Instruction G(3) to Form 10-K and Instruction 3 to Item 401(b) of a Regulation S-K.

ITEM 11. EXECUTIVE COMPENSATION

The information contained under the section captioned "Compensation of and Transactions with Officers and Directors" in the Bancorp's definitive Proxy Statement for its 1998 Annual Meeting of Shareholders is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information under the section captioned "Security Ownership by Certain Beneficial Owners and Management" in the Bancorp's definitive Proxy Statement for the 1998 Annual Meeting of Shareholders is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information contained under the section captioned "Compensation of and Transactions with Officers and Directors" in the Bancorp's definitive Proxy Statement for its 1998 Annual Meeting of Shareholders, and in the footnote captioned "Related Party Transactions" in the 1997 Annual Report to Shareholders, is incorporated herein by reference. Additional information as required per Schedule I, "Indebtedness of and to related parties - not current", is not applicable.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) FINANCIAL STATEMENTS:

The following financial statements of the Bancorp are incorporated herein by reference to the 1997 Annual Report to Shareholders, filed as Exhibit 13 to this report:

(a) Report of Independent Auditors

(b) Consolidated Balance Sheets, December 31, 1997 and 1996

(c) Consolidated Statements of Income for the years ended December 31, 1997, 1996 and 1995

(d) Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 1997, 1996 and 1995

(e) Consolidated Statements of Cash Flows for the years ended December 31, 1997, 1996 and 1995

(f) Notes to Consolidated Financial Statements

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

(3) EXHIBITS:

EXHIBIT NUMBER	DESCRIPTION
2.	Plan of Conversion of Peoples Bank, A Federal Savings Bank, dated December 18, 1993 (incorporated herein by reference to Exhibit A to the Bancorp's Definitive Proxy Statement/Prospectus dated March 23, 1994, as filed pursuant to Rule 424(b) under the 1933 Act on March 28, 1994).

3.i.	Articles of Incorporation (incorporated herein by reference to Exhibit 3(i) to the Bancorp's Registration Statement on Form S-4 filed March 3, 1994 (File No. 33-76038)).
3.ii.	By-Laws (incorporated herein by reference to Exhibit 3(i) to the Bancorp's Registration Statement on Form S-4 filed March 3, 1994 (File No. 33-76038)).
3.iii.	Amendment of By-Laws adopted July 27, 1994(incorporated herein by reference to Exhibit 3.iii to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 1994).
10.1.	1994 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit A to the Bancorp's Definitive Proxy Statement/Prospectus dated March 23, 1994, as filed pursuant to Rule 424(b) under the 1933 Act on March 28, 1994).
10.2.	Employment Agreement, dated March 1, 1988, between Peoples Bank and David A. Bochnowski (incorporated herein by reference to Exhibit 10.2 to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 1994).
10.3.	Amendment, dated January 18, 1993, to the Employment Agreement referred to in Exhibit 10.2 above (incorporated herein by reference to Exhibit 10.3 to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 1994).
10.4.	Employee Stock Ownership Plan of Peoples Bank(incorporated herein by reference to Exhibit 10.4 to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 1994).
10.5.	Unqualified Deferred Compensation Plan of Peoples Bank (incorporated herein by reference to Exhibit 10.5 to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 1996).

13. 1997 Annual Report to Shareholders.

21. Subsidiaries of the Bancorp.

27. Financial Data Schedule.

(4) REPORTS ON FORM 8-K:

No reports on Form 8-K were filed during the fourth quarter of 1997.

SIGNATURES

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

NORTHWEST INDIANA BANCORP

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

Date: March 23, 1998

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 18, 1998:

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/Edward J. Furticella Edward J. Furticella	Vice President, Chief Financial Officer and Treasurer
The Board of Directors:	
/s/Leroy F. Cataldi Leroy F. Cataldi	Director
/s/James J. Crandall James J. Crandall	Director

/s/Lourdes M. Dennison Lourdes M. Dennison	Director
/s/Gloria C. Gray Gloria C. Gray	Director
/s/Stanley E. Mize Stanley E. Mize	Director

/s/Jerome F. Vrabel   Director
- -------------------------------
Jerome F. Vrabel

/s/John J. Wadas, Jr.   Director
- -------------------------------
John J. Wadas, Jr.

EXHIBIT INDEX

1997
Annual
Report

MEETING THE
CHALLENGE
OF COMMUNITY BANKING

[Photo of
Business
Customer]

[Photo of
Community
Project]

[Photo of
Mortgage
Customer]

[Photo of
Checking
Customer]

[Photo of
Business
Customer]

[Photo of
Business
Customer]

[Photo of
Trust
Customer]

[NorthWest Indiana Bancorp Logo]

MEETING THE
CHALLENGE
OF COMMUNITY BANKING

To Our Customers and Shareholders:

Since 1910, Peoples Bank has been meeting the challenge of community banking. The Bank's success and now that of our holding company, the NorthWest Indiana Bancorp, has been linked for eighty seven years to the progress of our community.

As a community bank, we are mindful of the challenge posed by larger regional and of Community Banking national financial institutions. Competitive rates and service, while important, are not the only factors in a customer's banking decision. Customers also want to do business with people they know, trust, and who are empowered to make decisions at the local level.

[Photo of
Home]

[Photo of
Business
Customer]

"People's Bank treats me the way I want to be treated...just like I strive to treat my customers at River Oaks Lincoln Mercury. Whether it's a business matter, personal account or trust department issue, Peoples Bank can give you the personal touch that only a smaller bank can provide."

Fran Hoffman River
Oaks Lincoln Mercury

[Photo of
Mortgage

Customer]

Left to right:
Sylvia Magallanez,
Peoples Mortgage Loan Officer and
Pamelyn and Robert Robinson and Caesar

"Thirty years ago Peoples gave us a loan on our home. We got wonderful service and have enjoyed a great relationship with them. So when it came time to move and purchase a new home, we knew we wanted to stay with Peoples, and the choice has been a great one!"

Robert and Pamelyn Robinson
Mortgage Customers

[Photo of
Business
Customer]

In my role as Clerk-Treasurer for the Town of Schererville, I have to do the best I can investing the Town's dollars. Peoples Bank meets that need by providing competitive rates on our checking and sweep accounts, excellent customer service, and up to date products like PC Banking. Peoples Bank made it apparent they are extremely interested in helping the Town with its banking business."

Janice Malinowski
Schererville Clerk Treasurer

[Aerial View of
Barrington
Ridge Estates]

"It's a pleasure doing business with a community bank like Peoples. They provided development financing for my Barrington Ridge residential subdivision project and were able to give me the answers and solutions I needed...without having to call out of town like the 'big banks' do. I think the world of them."

Charles "Bud" Grainer
Builder and Developer
Barrington Ridge Estates

Our mission is to be the leading provider of high quality deposit, loan, and trust products and services to our customers in each of the communities we serve. Our future success depends on our ability to redeploy our customers' deposits into housing, consumer, and small business credit which expands the local economy and improves the quality of life in our communities.

Banking is a privilege, not a right. We are grateful for our banking charter and for the umbrella offered to our depositors by federal deposit insurance. We manage our business, however, as if our reputation for prudent banking practices was the dominant factor in the banking relationship decision.

Our capital ratio stood at 9.2% at the end of 1997, a strong figure substantially exceeding our regulatory requirement. The Bancorp reported record earnings of $3.4 million during 1997. Our return on assets (ROA), a key measure of financial performance, was 1.13%.

High asset quality stands out as another indicator of our financial strength. At year end our ratio of non-performing loans to total loans was 0.44%, a figure well below industry norms. Despite this low figure, the Bancorp's allowance for loan losses stood at 1.13% of outstanding loans, a reserve position designed to insulate our performance in the event of change in the business cycle.

Meeting the challenge of community banking requires an understanding of our community's credit needs and a commitment to their funding. During 1997, our loan portfolio grew $27.5 million or 11.2% which reflects the high level of confidence consumers and business have in our local economy as well as the ability of our loan officers to provide timely responses to customers' loan applications. Guided by our strong underwriting standards, our loan officers respond to customers without resorting to the bureaucratic process of some of our larger competitors.

[Photo of Business Customer]

"Peoples Bank goes beyond the lender-borrower relationship. They were a catalyst in the creation of our new 46,000 sq. ft. facility in Portage, and provided all of the support we needed to benefit from a 504 SBA loan program. Peoples enthusiastically embraced our project. Now we can give something back to our community through the creation of new jobs and a state-of-the-art facility."

Dave Lawson
Harbor Motors

[Photo of Business Customer]

"Peoples Bank has been there for me and my company when we've needed it most. When an opportunity to advance my commercial heat treating company materialized, People's Bank quickly responded and provided support. People's has shown faith in me and my business decisions...and we're both enjoying the benefits of a great relationship."

Mary Stogner
Tri-State Metal

[Photo of Checking Customer]

"If you're paying for checking you"re not banking at Peoples."

Brian Johnson
Munster High School Senior

[Photo of Trust Customer]

"Meeting the customer's needs is what Peoples Bank is all about. When I bring my clients to Peoples Bank, I'm confident the Trust Department has the knowledge and expertise to tailor the right financial vehicle to suit their needs."

Darnail Lyles
Attorney

The community banking challenge includes providing quality services to our deposit customers. Our philosophy permits the ability to work one on one with a teller at no extra charge. In addition to old fashion lobby services we constantly upgrade our technological capabilities so we can offer non-traditional banking including customer access to their accounts through telephone and on-line banking along with ATM and VISA debit cards.

As a community bank we are also challenged to provide trust services to our customers. Our effort encompasses the administration of estates and guardianships, trusts, including land trusts, IRA and Keogh investments, and investment agency accounts for our commercial customers. Our trust department emphasizes personalized services and a high degree of customer satisfaction which resulted in a 14.1% increase in the book value of assets to $75.2 million at the end of 1997. At year end the market value of trust assets was $129.2 million.

All banks, not just community banks, face the challenge of the year 2000 problem and whether our computers and those of our vendors and customers can accurately read the date associated with the beginning of the next century. Our board of directors has approved an action plan which has already assessed our current position and we are prepared to implement the steps necessary to avoid any interruption of our operations because of the century date change. The costs of this plan are not expected to have a material impact on our operations.

Meeting the expectations of our shareholders provides a distinct challenge for a community bank. The costs related to expanding our business are constantly weighed against the return alternative investments would bring to our owners. For example, our new Merrillville Broadway office increased our operating expenses, but our deposits there exceeded $10 million last year, which has positive long run implications for our bottom line. Likewise, our investment in technology was more than offset by a 56.3% increase in non-interest income during 1997.

[Photo of
Business
Customer]

"Since April 1997, we have dedicated significant resources to solving the year 2000 computer issues and are doing everything possible to prevent interruption in our services or business operations."

Tanya Mathews
Peoples Bank, Manager
Information Services

[Photo of
Business
Customer]

Left to right:
Ernesto Rosa,
and Steve Niedert

"I've worked long, hard hours my whole life, and always dreamed of rewarding myself with a Corvette. With easy financing and low interest rates, Peoples Bank made that dream become a reality for me."

Ernesto Rosa
Car Loan Customer

[Photo of
Business
Outdoor Sign]

"People's Bank was instrumental in financing my new business. All of the employees have provided prompt and professional service, and with a number of convenient banking locations throughout Lake County, Peoples meets all of my business and banking needs."

Steve A. Niedert
U.S.A. Corvette
& Accessories

[photo of
community
project]

"For over 27 years, Peoples Bank has been there for us. When no one else would take a mortgage for our home in the Horace Mann area, Peoples took care of it. Now our relationship with them has grown and they've stepped up to support programs like the HMANIO project. They've really become one of the champions of HMANIO, Inc. We truly value our relationship."

Finis Springer
Executive Director, HMANIO, CDC
Gary, Indiana

Left to right:
Darnell N. Bolton,
Finis Springer,
Rosie Thomas
and Virgil Ashley

[Photo of
Business
Customer]

"We at Ogden Engineering have been a satisfied customer of Peoples for years. Whether we needed an extended conventional credit line or assurance in securing an SBA import/export line of credit, Peoples has been there to advise and assist us with all of our financial needs."

L. Neal Bannister
Ralph Ogden
Ogden Engineering,
Northwest Indiana Exporter of the Year

Left to right:
Ralph Ogden,
and
L. Neal Bannister

Shareholders should be pleased that our assets grew 6.7% to $320 million at the end of 1997. Our return on equity (ROE) was a respectable 11.87% during the year and the marketplace rewarded our investors with a 35% increase in our stock price to $42.13 at year end. The board of directors increased the total dividend paid to shareholders to $1.8 million in 1997 compared to $1.5 million in 1996, an increase of 16.5%.

In the final analysis, the real challenge of community banking is to understand, relate, and respond to the people we serve. Each year we support the banking needs of our consumer and commercial customers and we especially appreciate the opportunity to work with families who have done business with the Peoples Bank for two, three, and even four generations.

We look forward to the opportunity to work with you in 1998.

/s/ David A. Bochnowski

Sincerely,
David A. Bochnowski
Chairman and Chief Executive Officer

Meeting the
Challenge
of Community Banking

1997
Annual
Report

Financial
Information

"We manage our
business...as if our
reputation for prudent banking practices
was the dominant

factor in the banking
relationship decision."

[NorthWest Indiana
Bancorp Logo]

SELECTED CONSOLIDATED FINANCIAL DATA
(In Thousands of Dollars, except Per Share Data)

<TABLE>
<CAPTION>

Fiscal Year Ended	December 31, 1997	December 31, 1996	December 31, 1995	December 31, 1994	December 31, 1993 (1)	June 30, 1993
Statement of Income:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Total interest income.......	$ 23,669	$ 22,337	$ 21,123	$ 19,122	$ 9,360	$ 19,035
Total interest expense......	11,721	11,287	10,484	8,079	4,015	8,485
Net interest income.........	11,948	11,050	10,639	11,043	5,345	10,550
Provision for loan losses...	221	85	80	145	319	711
Net interest income after provision for loan losses.	11,727	10,965	10,559	10,898	5,026	9,839
Noninterest income..........	1,066	682	685	493	253	749
Noninterest expense.........	7,154	8,039	6,117	6,031	3,011	5,378
Net noninterest expense.....	6,088	7,357	5,432	5,538	2,758	4,629
Income tax expenses.........	2,223	1,419	2,026	2,132	902	2,158
Cumulative effect of changes in accounting............	-	-	-	-	450	-
Net income..................	$ 3,416	$ 2,189	$ 3,101	$ 3,228	$ 1,816	$3,052
Earnings per common share...	$2.47	$1.59	$2.25	$2.35	$1.33	$2.25
Earnings per common share, assuming dilution.........	$2.45	$1.58	$2.24	$2.33	$1.32	$2.19
Cash dividends declared per common share..........	$1.28	$1.15	$1.10	$1.10	$0.50	$0.80

<CAPTION>

	December 31, 1997	December 31, 1996	December 31, 1995	December 31, 1994	December 31, 1993	June 30, 1993
Balance Sheet:						

<S> <C> <C> <C> <C> <C> <C>

Total assets................	$ 319,609	$299,419	$ 280,911	$266,343	$ 251,481	$246,180
Loans receivable...........	272,213	244,696	222,293	221,930	204,205	202,083
Investment securities.......	29,362	40,024	38,001	33,678	33,639	28,910
Deposits....................	272,090	256,420	247,945	234,639	222,945	219,133
Borrowed funds..............	14,628	12,261	3,139	3,151	2,087	993
Total stockholders' equity..	29,482	27,815	27,204	25,606	23,874	22,691

<CAPTION>

Fiscal Year Ended	December 31, 1997	December 31, 1996	December 31, 1995	December 31, 1994	December 31, 1993 (1) (2)	June 30, 1993
Interest Rate Spread During Period:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Average effective yield on loans and investment securities................	8.16%	7.98%	8.06%	7.66%	7.75%	8.24%
Average effective cost of deposits and borrowings...	4.32%	4.32%	4.33%	3.48%	3.63%	4.04%
Interest rate spread........	3.84%	3.66%	3.73%	4.18%	4.12%	4.20%
Net interest margin.............	3.94%	3.79%	3.91%	4.25%	4.27%	4.44%
Return on assets................	1.13%	0.75%	1.14%	1.24%	1.45%	1.28%
Return on equity................	11.87%	7.90%	11.74%	13.04%	15.51%	14.00%

<CAPTION>

	December 31, 1997	December 31, 1996	December 31, 1995	December 31, 1994	December 31, 1993	June 30, 1993
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Tier I capital to risk-weighted assets......	13.8%	14.7%	15.8%	15.9%	15.5%	14.9%
Total capital to risk-weighted assets......	15.0%	16.0%	17.1%	17.2%	16.8%	16.1%
Tier I capital leverage ratio	9.2%	9.3%	9.7%	9.6%	9.5%	9.2%
Allowance for loan losses to total loans..............	1.13%	1.18%	1.27%	1.24%	1.26%	1.15%
Allowance for loan losses to non-performing loans......	257.84%	247.40%	268.25%	176.46%	454.75%	382.34%
Non-performing loans to total loans..............	0.44%	0.48%	0.47%	0.70%	0.27%	0.30%
Total loan accounts.........	4,764	4,404	4,606	4,671	4,654	4,661
Total deposit accounts......	25.443	24,666	23,730	22,738	21,204	21,330
Total branches (all full service)	7	7	6	6	6	6

<FN>
(1) Six month period due to change in fiscal year end.

(2) Data for six months ended December 31, 1993 has been annualized.
</TABLE>

<TABLE>
<CAPTION>

June 30, 1992	June 30, 1991	June 30, 1990	June 30, 1989
<S>	<C>	<C>	<C>
$ 19,744	$ 20,709	$ 20,042	$ 18,313
10,698	12,896	13,145	11,872
9,046	7,813	6,897	6,441
665	238	130	188
8,381	7,575	6,767	6,253
726	757	622	854
4,795	4,625	4,357	4,057
4,069	3,868	3,735	3,203
1,849	1,505	992	1,024
-	-	-	-
$ 2,463	$ 2,202	$ 2,040	$ 2,026
$1.85	$1.65	$1.54	$1.55
$1.75	$1.58	$1.47	$1.49
$0.68	$0.22	$0.15	$0.23

<CAPTION>

June 30, 1992	June 30, 1991	June 30, 1990	June 30, 1989
<S>	<C>	<C>	<C>
$227,183	$ 220,053	$ 208,796	$ 192,269
183,366	177,421	173,244	156,925
28,910	25,160	24,983	24,885
202,823	196,880	188,621	174,729
609	799	604	-
20,667	18,972	16,955	14,986

<CAPTION>

June 30, 1992	June 30, 1991	June 30, 1990	June 30, 1989
<S>	<C>	<C>	<C>
9.20%	10.08%	10.28%	9.85%
5.39%	6.75%	7.25%	6.86%
3.81%	3.33%	3.03%	2.99%
4.04%	3.80%	3.42%	3.36%
1.10%	1.03%	1.01%	1.06%
12.38%	12.31%	12.82%	14.51%

June 30, 1992	June 30, 1991	June 30, 1990	June 30, 1989
14.7%	14.1%	13.1%	N/A
15.9%	14.8%	13.7%	N/A
9.1%	8.6%	8.1%	7.8%
0.88%	0.53%	0.42%	0.43%
231.51%	117.96%	155.93%	129.81%
0.38%	0.45%	0.27%	0.33%
4,755	4,793	4,428	4,907
20,834	21,200	21,492	20,932
6	6	6	5

Business

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

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

The Bancorp's capital stock is traded in the over-the-counter market and quoted in the National Quotation Bureau's "Pink Sheets". On February 28, 1998, the Bancorp had 1,381,512 shares of common stock outstanding, excluding fractional shares, and 592 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.

[GRAPHIC OMITTED]

TOTAL ASSET COMPOSITION
(DOLLARS IN MILLIONS)

Commercial Real Estate and Multifamily	$64.8(20.3%)
Commercial Business and Other	$23.6(7.4%)
Consumer	$5.7(1.8%)
Other Assets	$14.5(4.5%)
Investments and Interest Bearing Liabilities	$32.9(10.3%)
Construction and Land Development	$21.4(6.7%)
Residential Real Estate, Including Home Equity -	$156.7(49.0%)

At December 31, 1997, the Bancorp had total assets of $319.6 million. Interest-earning assets totaled $305.1 million and represented 95.5% of total assets.

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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 total assets. The net interest margin is perhaps the clearest indicator of a financial institution's ability to generate core earnings. The Bank's profitability is also affected by fees and service charges, trust department income, gains and losses from the sale of loans, provisions for loan losses, income taxes and operating expenses.

At December 31, 1997, the Bancorp had total assets of $319.6 million and total deposits of $272.1 million. The Bank's deposit accounts are insured up to applicable limits by the Savings Association Insurance Fund (SAIF) which is administered by the Federal Deposit Insurance Corporation (FDIC), an agency of the federal government. At December 31, 1997, stockholders' equity totaled $29.5 million or 9.2% of total assets, with book value per share at $21.34. Net income for 1997 was $3.4 million, or $2.47 per common share and $2.45, assuming dilution. The return on average assets (ROA) was 1.13%, while the return on average stockholders' equity (ROE) was 11.87%.

[GRAPHIC OMITTED]

<TABLE>
<CAPTION>

TOTAL ASSETS
(DOLLARS IN MILLIONS)

<S>	<C>
1993	$251.5
1994	$266.3
1995	$280.9
1996	$299.4
1997	#319.6

</TABLE>

Total assets have increased from $251.5 million at December 31, 1993 to $319.6 million at December 31, 1997. Growth during 1997 totaled $20.2 million or 6.7%.

- --

Asset/Liability Management

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

The Bank is primarily a portfolio lender. Mortgage banking activities are limited to the sale of fixed rate mortgage loans with contractual maturities of thirty years. These loans are sold in the secondary market because of the additional exposure to interest rate risk associated with this product. The Bank retains the servicing on all loans sold in the secondary market.

The primary objective of the Bank's investment portfolio is to provide for the liquidity needs of the Bank and to contribute to profitability by providing a stable flow of dependable earnings. Funds are generally invested in federal funds, interest-bearing balances in financial institutions, U.S. government securities and federal agency obligations. Interest-bearing balances in financial institutions include overnight deposits at the Federal Home Loan Bank of Indianapolis (FHLBI). Investments are generally for terms ranging from one day to five years.

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

Quantitative and Qualitative Disclosures about Market Risk

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

The Bank's exposure to interest rate risk is due to repricing or mismatch risk, basis risk, embedded option risk and

yield curve risk. Repricing risk is the risk of adverse consequence from a change in interest rates that arises because of differences in the timing of when those interest rate changes affect the Bank's assets and liabilities. Basis risk is the risk that the spread, or rate difference, between instruments of similar maturities will change. Option risk arises whenever Bank products give customers the right, but not the obligation, to alter the quantity or timing of cash flows. Yield curve risk is the risk that changes in prevailing interest rates will affect instruments of different maturities by different amounts. Because the Bank is liability sensitive, i.e., it has more rate sensitive liabilities than rate sensitive assets maturing or repricing within a one year time period, asset/liability management strategies designed to control IRR include a continued focus on construction lending, adjustable rate residential loans, equity lines of credit, and adjustable rate commercial real estate and commercial business loans. Consumer loans are generally made for terms of five years or less. Fixed rate residential real estate loans are generally made for terms of fifteen years or less. Thirty year fixed rate residential loans are underwritten according to guidelines of the Federal Home Loan Mortgage Corporation (FHLMC) and are generally sold to the FHLMC directly for cash in the secondary market. Increasing the amount of interest-earning assets that are rate sensitive, extending the maturities of customer deposits, increasing the balances of checking/NOW accounts and utilizing cost effective borrowings are all part of management's commitment toward reducing the Bank's overall vulnerability to interest rate risk. While these steps may reduce the overall vulnerability to interest rate risk, the Bank will still be adversely affected by a rising or high interest rate environment, and is beneficially affected by a falling or low interest rate environment because rate sensitive liabilities exceed rate sensitive assets maturing or repricing within a one year time period.

The table below provides forward-looking information about the Bancorp's financial instruments that are sensitive to changes in interest rates as of December 31, 1997. The Bancorp had no derivative financial instruments or trading portfolio as of December 31, 1997. The table incorporates the Bank's internal system generated data as related to the maturity and repayment/withdrawal of interest-earning assets and interest-bearing liabilities. For loans, securities, and liabilities with contractual maturities, the table presents principal cash flows and related weighted-average interest rates by contractual maturities as well as the Bank's historical experience of the impact of interest-rate fluctuations on the prepayment of residential loans. From a risk management

TABULAR PRESENTATION: QUANTITATIVE DISCLOSURES OF MARKET RISK

<TABLE>
<CAPTION>

(Dollars in thousands)	PRINCIPAL AMOUNT MATURING IN:			
	1998	1999	2000	2001
<S>	<C>	<C>	<C>	
Rate-sensitive assets:				
Fixed-interest-rate loans	$ 20.495	$ 10.1	9.431	$ 6.832
Average interest rate	8.35%	8.24%	8.21%	7.89%
Variable-interest-rate loans	34,541	14,682	7,273	10,581
Average interest rate	9.38%	9.04%	8.69%	8.68%
Total loans	55,036	24,829	16,704	17,413
Average interest rate	8.99%	8.71%	8.42%	8.37%
Securities	8,491	6,569	5,548	3,094
Average interest rate	5.52%	6.00%	6.03%	6.50%
Other interest-bearing assets	3,570	--	--	--
Average interest rate	5.70%	0.00%	0.00%	0.00%
Total rate-sensitive assets	67,097	31,398	22,252	20,507
Average interest rate	8.37%	8.15%	7.82%	8.09%
Rate-sensitive liabilities:				
Checking and other non-interest bearing deposits	834	417	417	--
Average interest rate	0.00%	0.00%	0.00%	0.00%
NOW accounts	1,183	592	591	--
Average interest rate	2.04%	2.04%	2.04%	0.00%
Savings and Money market accounts	7,742	10,521	10,521	--
Average interest rate	3.18%	3.20%	3.20%	0.00%
Certificates of Deposit	145,399	15,810	3,791	855
Average interest rate	5.54%	5.71%	5.82%	5.77%
Total Deposits	155,158	27,340	15,320	855
Average interest rate	5.37%	4.58%	3.72%	5.77%
Fixed-interest-rate borrowings	8,628	4,000	2,000	--
Average interest rate	5.43%	5.99%	5.71%	0.00%
Total rate-sensitive liabilities	163,786	31,340	17,320	855
Average interest rate	5.37%	4.76%	3.95%	5.77%

<CAPTION>

	PRINCIPAL AMOUNT MATURING IN:			FAIR VALUE
	2002	THEREAFTER	TOTAL	12/31/97
<S>	<C>	<C>	<C>	<C>
Fixed-interest-rate loans	$ 6,057	$ 37,100	90,062	$ 90,510
Average interest rate	7.77%	7.80%	8.02%	
Variable-interest-rate loans	6,696	108,378	182,151	181,450
Average interest rate	8.53%	8.10%	8.49%	
Total loans	12,753	145,478	272,213	271,960
Average interest rate	8.17%	8.05%	8.35%	
Securities	504	5,156	29,362	29,498
Average interest rate	6.26%	7.73%	6.23%	
Other interest-bearing assets	--	--	3,570	3,570
Average interest rate	0.00%	0.00%	5.70%	
Total rate-sensitive assets	13,257	150,634	305,145	305,028
Average interest rate	8.10%	8.04%	8.11%	
Rate-sensitive liabilities:				
Checking and other non-interest bearing deposits	--	15,017	16,685	16,685
Average interest rate	0.00%	0.00%		
NOW accounts	--	21,290	23,656	23,656
Average interest rate	0.00%	2.04%	2.04%	
Savings and Money market accounts	--	37,110	65,894	65,894

Average interest rate	0.00%	3.00%	3.08%	
Certificates of Deposit	--	--	165,855	166,043
Average interest rate	0.00%	0.00%	5.56%	
Total Deposits	--	73,417	272,090	272,278
Average interest rate	0.00%	2.11%	4.32%	
Fixed-interest-rate borrowings	--	--	14,628	14,628
Average interest rate	0.00%	0.00%	5.62%	
Total rate-sensitive liabilities	--	73,417	286,718	286,906
Average interest rate	0.00%	2.11%	4.38%	

</TABLE>

perspective, however, the Bancorp believes that repricing dates, as opposed to contractual maturity dates, may be more relevant in analyzing the value of financial instruments. For core deposits (for example, checking, NOW, savings, and money market deposit accounts) that have no contractual maturity, the table presents principal cash flows and, as applicable, related weighted-average interest rates based on the Bank's historical experience, management's judgment, and statistical analysis, as applicable, concerning their most likely withdrawal behaviors.

Financial Condition

During the year ended December 31, 1997, total assets increased by $20.2 million (6.7%), with interest-earning assets increasing by $19.4 million (6.8%). At December 31, 1997, interest-earning assets totaled $305.1 million and represented 95.5% of total assets. Loans totaled $272.2 million and represented 89.2% of interest-earning assets, 85.2% of total assets and 100.0% of total deposits. The loan portfolio includes $21.4 million (7.9%) in construction and land development loans, $156.7 million (57.5%) in residential real estate loans, $64.8 million (23.8%) in commercial and multifamily real estate loans, $5.7 million (2.1%) in consumer loans, and $23.6 million (8.7%) in commercial business and other loans. During 1997, loans increased by $27.5 million (11.2%). Loan demand was strong in all areas as evidenced by the growth in the real estate loans (9.5%), consumer loans (15.8%) and commercial business and other loans (31.6%). Adjustable rate loans comprised 67% of total loans at year end. Loan growth was due to a strong local economy, an aggressive customer calling program and an aggressive marketing program. Assuming the continuation of the current strength of the local economy, the current interest rate environment, and the Bank's aggressive marketing efforts, management believes that loan growth should remain strong during 1998.

[GRAPHIC OMITTED]

<TABLE>
<CAPTION>

LOAN COMPOSITION
(DOLLARS IN MILLIONS)

<S>	<C>
Commercial Real Estate And Multifamily -	$64.8(23.8%)
Commercial Business and Other -	$23.6(8.7%)
Consumer -	$5.7(2.1%)
Construction and Land Development -	$21.4(7.9%)
Residential Real Estate, Including Home Equity -	$156.7(57.5%)

</TABLE>

At December 31, 1997, the loan portfolio totaled $272.2 million and represented 89.2% of interest-earning assets.

- --

During 1997, the Bank sold $1.7 million in fixed rate mortgages compared to $699 thousand in 1996 and $1.3 million in 1995. The amounts include 23 loans for 1997, 10 loans for 1996 and 15 loans for 1995. All loans sold had contractual maturities of thirty years. Net gains realized from the sales totaled $26 thousand, $1 thousand and $19 thousand for 1997, 1996 and 1995. Mortgage loan servicing income totaled $21 thousand for 1997 and 1996, and $23 thousand for 1995. At December 31, 1997, the Bank had no loans classified as held for sale. During 1998, the Bank will continue to sell thirty year fixed rate mortgage loans on a case-by-case basis as part of its efforts to manage interest rate risk.

[GRAPHIC OMITTED]

<TABLE>
<CAPTION>

TOTAL LOANS
(DOLLARS IN MILLIONS)

<S>	<C>
1993	$204.2
1994	$221.9
1995	$222.3
1996	$244.7
1997	$272.2

</TABLE>

During 1997, loans increased by $27.5 million or 11.2%. Loan growth was due to a strong local economy, an aggressive customer calling program and an aggressive marketing program.

- --

At December 31, 1997, the Bank's investment portfolio totaled $29.4 million and was invested as follows: 66.9% in U.S. government agency debt securities, 22.3% in U.S. government debt securities, 5.2% in U.S. government agency mortgage-backed securities and 5.6% in FHLBI common stock. In addition, the Bank had $3.6 million in interest-bearing balances at the FHLBI. During 1997, investment securities decreased by $10.7 million (26.6%) as maturing securities were used to provide funding for loan portfolio growth. During 1998, the Bank expects to fund loan growth with a mix of deposits and borrowed funds.

Management believes that the credit risk profile of the earning asset portfolio is relatively low. At December 31, 1997, the Bank had $1.2 million in non-performing loans. The December 31, 1997 balance includes $966 thousand in loans accounted for on a non-accrual basis and $226 thousand in accruing loans which were contractually past due 90 days or more. The total of these non-performing loans represents 0.44% of the total loan portfolio and 0.37% of total assets. The amount of non-accruing loans includes 15 residential real estate loans, 1 commercial real estate loan, 1 commercial business loan and 3 consumer loans. The amount of accruing loans which are contractually past due 90 days or more includes 3 residential real estate loans and 2 consumer loans. At December 31, 1997, $1.3 million of the Bank's loans were classified as substandard. The total represents 10 residential real estate loans, 2 commercial real estate loans, 5 commercial business loans and 6 consumer loans. There was 1 consumer loan for $5 thousand classified as doubtful. There were no loans classified as loss.

Management does not anticipate that any of the non-performing loans or classified loans will materially impact future operations, liquidity or capital resources. At December 31, 1997, there were no material credits which would cause management to have serious doubts as to the ability of such borrowers to comply with loan repayment terms.

At December 31, 1997, the Bank had $259 thousand in foreclosed real estate. The total includes 5 residential properties and represents 0.08% of total assets.

[GRAPHIC OMITTED]

<TABLE>
<CAPTION>

NON-PERFORMING LOANS TO TOTAL LOANS

<S>	<C>
1993	0.27%
1994	0.70%

1995	0.47%
1996	0.48%
1997	0.44%

</TABLE>

Management believes that the credit risk profile of the loan portfolio is relatively low. At December 31, 1997, the Bank's ratio of non-performing loans to total loans was 0.44% (forty-four hundredths of one percent) which was below the industry norm.

- --

Because some loans may not be repaid in accordance with contractual agreements, an allowance for loan losses (ALL) has been maintained. While management may periodically allocate portions of the allowance for specific problem loans, the entire allowance is available to absorb all credit losses that arise from the loan portfolio and is not segregated for, or allocated to, any particular loan or group of loans. During 1997, amounts provided to the ALL account totaled $221 thousand compared to $85 thousand for 1996 and $80 thousand for 1995. The amount provided during 1997 was based on loan activity, changes within the loan portfolio mix, and resulting changes in management's assessment of portfolio risk. Charge-offs net of recoveries totaled $34 thousand during 1997.

[GRAPHIC OMITTED]

<TABLE>
<CAPTION>

ALLOWANCE FOR LOAN LOSSES TO TOTAL LOANS

<S>	<C>
1993	1.26%
1994	1.24%
1995	1.27%
1996	1.18%
1997	1.13%

</TABLE>

At December 31, 1997, the Bank had $3.1 million in the Allowance for Loan Losses account. The amount represents 1.13% of loans outstanding and 257.9% of non-performing loans.

- --

At December 31, 1997, the balance in the ALL account totaled $3.1 million which is considered adequate by management after evaluation of the loan portfolio, past experience and current economic and market conditions. The allocation of the ALL reflects consideration of the facts and circumstances that affect the repayment of individual loans, as well as, loans which have been evaluated on a pooled basis. At December 31, 1997, no portion of the ALL was allocated to impaired loan balances as the Bank had no loans considered to be impaired loans as of, or for the year ended December 31, 1997.

Deposits are the major source of funds for lending and other investment purposes. At December 31, 1997, deposits totaled $272.1 million. During 1997, deposit growth totaled $15.7 million (6.1%). Savings accounts increased $6 thousand (0.0%), money market deposit accounts (MMDAs) decreased $124 thousand (0.6%), NOW accounts decreased $251 thousand (1.0%), checking accounts increased $3.8 million (29.6%) and certificates of deposit increased by $12.2 million (8.0%). At December 31, 1997, the deposit base was comprised of 16.0% savings accounts, 8.2% MMDAs, 8.7% NOW accounts, 6.1% checking accounts and 61.0% certificates of deposit. At December 31, 1997, repurchase agreements totaled $4.5 million. Other short-term borrowings totaled $2.1 million. The Bancorp had $8 million in FHLBI advances with a weighted average maturity of 3.3 years.

[GRAPHIC OMITTED]

<TABLE>
<CAPTION>

TOTAL DEPOSITS
(DOLLARS IN MILLIONS)

<S> <C>

1993	$222.9
1994	$234.6
1995	$247.9
1996	$256.4
1997	$272.1

</TABLE>

Deposits are the major source of funds for lending and other investment purposes. During 1997, deposits increased by $15.7 million or 6.1%.

- --

Liquidity and Capital Resources

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

subject to legal reserve requirements under Federal Reserve Regulation D, liquidity is managed to ensure that the Bank maintains an adequate level of legal reserves.

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

[GRAPHIC OMITTED]

<TABLE>
<CAPTION>

CAPITAL TO TOTAL ASSETS

<S> <C>

1993	9.5%
1994	9.6%
1995	9.7%
1996	9.3%
1997	9.2%

</TABLE>

Management firmly believes that the safety and soundness of the Bancorp is enhanced by maintaining a high level of capital. At December 31, 1997, the Bancorp's capital exceeded all regulatory capital requirements. The Bancorp is categorized as "well capitalized". The ratio of Tier I capital to total assets reflects the increase in capital over the periods presented as a result of profitability and success in managing growth. In addition, Tier I capital to risk-weighted assets was 13.8% and total capital to risk-weighted assets was 15.0%.

- --

During 1997, cash and cash equivalents increased by $4.1 million compared to a $8.4 million decrease for 1996 and a $9.2 million increase for 1995. During 1997, cash provided by operating activities totaled $5.2 million, compared to $2.4 million for 1996 and $3.1 million for 1995. The increase during 1997 was due to increased earnings and cash flows from loan sales. Cash flows from investing activities reflect strong loan demand throughout 1997. Maturing securities held-to-maturity were used to provide funding for loan growth. Loans made net of payments received totaled $24.8 million during 1997, compared to

$22.6 million for 1996 and $711 thousand for 1995. Cash flows from financing activities totaled $16.3 million during 1997, compared to $16.1 million for 1996 and $11.8 million for 1995. During 1997, the Bancorp paid dividends on common stock of $1.8 million. In addition, the Bank used both deposits and borrowed money to fund loan growth. Deposit growth during 1997 totaled $15.7 million, compared to $8.5 million for 1996 and $13.3 million for 1995. The increase in borrowed funds totaled $2.3 million during 1997, compared to $9.1 million for 1996 and a decrease of $12 thousand for 1995. The increase in borrowed funds as a source of funds, provided a cost effective alternative to certificates of deposit as price competition within the local market area became very competitive during 1997.

At December 31, 1997, outstanding commitments to fund loans totaled $41.7 million. Approximately 85% of the commitments were at variable rates. Management believes that the Bank has sufficient cash flow and borrowing capacity to fund all outstanding commitments and to maintain proper levels of liquidity.

Management strongly believes that safety and soundness is enhanced by maintaining a high level of capital. During 1997, stockholders' equity increased by $1.7 million (6.0%). The increase resulted primarily from earnings of $3.4 million for 1997. In addition, $18 thousand represents proceeds from the exercise of 1,877 stock options. The Bancorp paid $1.8 million in cash dividends during 1997. At December 31, 1997, book value per share was $21.34 compared to $20.16 at December 31, 1996.

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 identical. These regulations divide capital into two tiers. The first tier (Tier I) 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 II) 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 I capital. In addition, the FRB and FDIC regulations provide for a minimum Tier I leverage ratio (Tier I capital to adjusted 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 I leverage ratio of 3% plus an additional cushion of at least one to two percent.

The following table shows that, at December 31, 1997, the Bancorp's capital exceeded all regulatory capital requirements. At December 31, 1997, the Bancorp's and the Bank's regulatory capital ratios were substantially the same. The dollar amounts are in millions.

<TABLE>
<CAPTION>

	Actual		Required for adequate capital		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Total capital to risk-weighted assets..	$32.2	15.0%	$17.1	8.0%	$21.4	10.0%
Tier I capital to risk-weighted assets..	$29.5	13.8%	$ 8.6	4.0%	$12.8	6.0%
Tier I capital to adjusted assets.......	$29.5	9.2%	$ 9.6	3.0%	$16.0	5.0%

</TABLE>

RESULTS OF OPERATIONS - COMPARISON OF 1997 TO 1996.

Net income for 1997 was $3.4 million compared to $2.2 million for 1996, an increase of $1.2 million (56.1%). The earnings represent a return on average assets of 1.13% for 1997 compared to 0.75% for 1996. The return on average equity was 11.87% for 1997 compared to 7.90% for 1996.

The net income for 1996 reflects the one-time special assessment required by the Deposit Insurance Funds Act of 1996 on SAIF-assessable deposits to capitalize SAIF. The SAIF assessment resulted in a pre-tax expense of $1.6 million for 1996. Excluding the SAIF assessment, adjusted net income for 1996 was $3.1 million, representing an adjusted ROA of 1.07% and an adjusted ROE of

11.27%.

[GRAPHIC OMITTED]

NET INTEREST MARGIN

1993*	4.27%
1994	4.25%
1995	3.91%
1996	3.79%
1997	3.94%

The net interest margin is total interest income minus total interest expense stated as a percentage of average total assets. During 1997, the increase was due to higher yields on interest-earning assets and a reduction in the Bank's cost of funds.

* Six month period due to change in fiscal year end.

Net interest income for 1997 was $11.9 million, up $898 thousand (8.1%) from $11.1 million for 1996. The growth in net interest income was due to the growth in average interest-earning assets, increased yields on interest-earning assets and a lower cost of funds. Interest-earning assets averaged $290.1 million for 1997, up $10.2 million (3.6%) from $279.9 million for 1996. The weighted average yield on interest-earning assets was 8.16% for 1997 compared to 7.98% for 1996. The weighted average cost of funds was 4.32% for 1997 compared to 4.33% for 1996. The impact of the 8.16% return on interest-earning assets and the 4.32% cost of funds resulted in an interest rate spread of 3.84% for 1997 compared to 3.65% for 1996. During 1997, total interest income increased by $1.3 million (6.0%) while total interest expense increased by $434 thousand (3.8%). The net interest margin was 3.94% for 1997 compared to 3.79% for 1996.

During 1997, interest income from loans increased by $2.0 million (10.1%) compared to 1996. The increase was due to an increase in yield and an increase in average balances for the loan portfolio. The weighted average yield on loans outstanding was 8.41% for 1997 compared to 8.35% for 1996. Higher average loan balances have contributed to the increase in interest income as loans averaged $254.2 million for 1997, up $21.7 million (9.3%) from $232.5 million for 1996. During 1997, interest income on investments and other deposits decreased by $630 thousand (21.5%) compared to 1996. The decrease was due to lower average daily balances as maturing securities and short-term investments were used to fund loan growth. Securities and other deposits averaged $35.8 million for 1997, down $11.6 million (24.5%) from $47.4 million for 1996, as maturing securities were used to provide funding for loan growth. The weighted average yield on investments and other deposits was 6.42% for 1997 compared to 6.18% for 1996.

Interest expense for deposits increased by $241 thousand (2.2%) during 1997. The increase was due to higher average balances as deposits averaged $263.1 million for 1997, up $7.5 million (2.9%) from $255.6 million for 1996. The weighted average rate paid on deposits for 1997 was 4.30% compared to 4.33% for 1996. Interest expense on borrowed funds increased by $193 thousand (87.3%) during 1997 due to the increased cost of borrowed funds and higher average balances. The weighted average cost of borrowed funds was 5.13% for 1997 compared to 4.62% for 1996. The increase was due to lengthening the maturities of borrowed funds. Borrowed funds averaged $8.1 million, up $3.3 million (68.8%) from $4.8 million for 1996.

During 1997, management focused on initiatives designed to review and enhance noninterest income. As a result, noninterest income for 1997 was $1.1 million, up $384 thousand (56.3%) from $682 thousand for 1996. During 1997, income from fees and service charges increased $208 thousand (42.7%) due to an increase in the number of customer account relationships and the implementation of new fee and service charge pricing schedules and procedures. Income from Trust operations increased by $66 thousand (34.7%) due to increased fees from services provided and growth, as the market value of the trust department's assets totaled $129.2 million at December 31, 1997 compared to $88.2 million at December 31, 1996. In addition, gains from the sale of fixed rate loans, foreclosed real estate and other real estate properties held by the Bank contributed to the increase in noninterest income.

Noninterest expense for 1997 was $7.2 million, down $885 thousand (11.0%) from $8.0 million for 1996. The decrease was due to the special SAIF assessment of $1.6 million during 1996. Excluding the SAIF assessment of $1.6 million during 1996. Excluding the SAIF assessment results in an increase of noninterest expense of $674 thousand (10.4%) for 1997 compared to 1996. In general, increases in noninterest expense have resulted from the operation of the Merrillville, Indiana, Broadway branch facility which opened during September 1996, and costs related to investments in new technologies. The increase in compensation and benefits was due to additiona staffing for the Merrillville facility and annual salary increases. Other expense changes were due to standard increases in bank oeprations. The decrease in the federal insurance premium reflects lower premiums for SAIF deposits due to the recapitalization of SAIF during 1996. The Bancorp's efficiency ratio for 1997 was 55.0% compared to 55.2% for 1996. The 1996 efficienty ratio excludes the special SAIF assessment. 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 1997 totaled $2.2 million compared to $1.4 million for 1996, an increase of $804 thousand (56.7%). The increase was due to the non-reoccurence of the 1996 SAIF assessment and an increase in pretax earnings during 1997. The combined effective federal and state tax rates for the Bancorp were 39% for 1997 and 1996.

RESULTS OF OPERATIONS - COMPARISON OF 1996 TO 1995

Net income for 1996 was $2.2 million compared to $3.1 million for 1995, a decrease of $913 thousand (29.4%). The earnings represented a return on average assets of 0.75% for 1996 compared to 1.14% for 1995. The return on average equity was 7.90% for 1996 compared to 11.74% for 1995. The decrease in 1996 operating results was due to the one-time special assessment required by the Deposit Insurance Funds Act of 1996 on SAIF-assessable deposits to capitalize SAIF. The SAIF assessment resulted in a pre-tax expense of $1.6 million for 1996. Excluding the SAIF assessment, adjusted net income for 1996 was $3.1 million, representing an adjusted ROA of 1.07% and an adjusted ROE of 11.27%.

Net interest income for 1996 was $11.1 million, up $412 thousand (3.9%) from $10.6 million for 1995. The growth in net interest income was due to the growth in average interest-earning assets and a stable cost of funds. Interest-earning assets averaged $279.9 million for 1996, up $17.8 million (6.8%) from $262.1 million for 1995. The net interest margin was 3.79% for 1996 compared to 3.91% for 1995. The decrease was due to lower yields on interest-earning assets as the Bank's cost of funds remained stable. During 1996, total interest income increased by $1.2 million (5.7%) while total interest expense increased by $802 thousand (7.7%).

During 1996, interest income from loans increased by $685 thousand (3.7%) compared to 1995. The weighted average yield on loans outstanding was 8.35% for 1996 compared to 8.46% for 1995. Higher average loan balances have contributed to the increase in interest income as loans averaged $232.5 million for 1996, up $11.1 million (5.0%) from $221.4 million for 1995. During 1996, interest income on investments and other deposits increased by $530 thousand (22.1%) compared to 1995. The increase was due to higher yields and portfolio growth during 1996. The weighted average yield on investments and other deposits was 6.17% for 1996 compared to 5.88% for 1995. The increase in yield was due to a reduction in the average balances for federal funds sold and interest bearing balances in financial institutions, and the investment of funds in securities with contractual maturities ranging from three to seven years. In addition, securities averaged $40.9 million for 1996, up $5.8 million (16.4%) from $35.1 million for 1995. The combined weighted average yield on total interest-earning assets was 7.98% for 1996 compared to 8.06% for 1995.

Interest expense for deposits increased by $699 thousand (6.7%) during 1996. The increase was due to higher average balances as deposits averaged $255.6 million for 1996, up $15.8 million (6.6%) from $239.8 million for 1995. The weighted average rate paid on deposits for 1996 was 4.33% compared to 4.32% for 1995. Interest expense on short-term borrowings increased by $104 thousand during 1996 due to higher average balances as borrowed funds averaged $4.8 million, up $2.3 million (92.8%) from $2.5 million for 1995. The weighted average cost of short-term borrowings was 4.62% for 1996 compared to 4.72% for 1995. The combined weighted average rate paid on deposits and borrowings for 1996 and 1995 was 4.33%. The impact of the 7.98% return on interest-earning assets and the 4.33% cost of funds resulted in an interest rate spread of 3.65% for 1996 compared to 3.73% for 1995.

Noninterest income for 1996 was $682 thousand, down $3 thousand (0.5%) from $685 thousand for 1995. The decrease was due to reduced gains from the sale of fixed rate loans and foreclosed real estate. During 1996, income from fees and service charges increased $59 thousand (13.9%), while income from Trust operations increased by $11 thousand (6.2%).

Noninterest expense for 1996 was $8.0 million, up $1.9 million (31.4%) from $6.1 million for 1995. The increase was due primarily to the SAIF assessment of

$1.6 million. Excluding the SAIF assessment results in an increase of noninterest expense of $364 thousand (6.0%) for 1996 compared to 1995. In general, increases in noninterest expense have resulted from the expansion of the Bank's operations and the investment in new technologies. The increase in compensation and benefits was due to additional staffing and annual salary increases. The increase in occupancy and equipment expense was due to the operation of the new East Chicago, Indiana, branch facility which opened during September 1995, the operation of the new Merrillville, Indiana, Broadway branch facility which opened during September 1996, and depreciation related to investments in technology. Other expense changes were due to standard increases in bank operations. The Bancorp's efficiency ratio, excluding the SAIF assessment, for 1996, was 55.2% compared to 54.0% for 1995. The ratio is determined by dividing total noninterest expense minus the SAIF assessment by the sum of net interest income and total noninterest income for the period.

Income tax expenses for 1996 totaled $1.4 million compared to $2.0 million for 1995, a decrease of $607 thousand (30.0%). The decrease was due to a decrease in pretax earnings during 1996. The combined effective federal and state tax rates for the Bancorp were 39% for 1996 compared to 40% for 1995.

CHANGING REGULATORY STRUCTURE OF THE BANKING INDUSTRY

The laws and regulations affecting banks and bank holding companies are in a state of flux. The laws, rules and the regulatory agencies in this area have changed significantly over recent years, and there is reason to expect that similar changes will continue in the future. It is difficult to predict the outcome of these changes. Recent legislation has, for example, reduced the regulatory burden on bank holding companies and may lead to consolidated regulation of the banking industry. Other recent initiatives have removed barriers to interstate mergers and acquisitions; encouraged lending for the development of poor, rural, inner city and other communities; and provided additional proposals to

restructure regulation of the banking industry and its participants' powers, particularly with respect to insurance and securities activities. Based on what is presently known about these initiatives, management does not believe that the Bancorp's operations will be materially adversely affected by those initiatives that have been enacted or those pending initiatives that may be enacted in the future.

Impact of Inflation and Changing Prices

The financial statements and related data presented herein have been prepared in accordance with Generally Accepted Accounting Principles 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 Bank 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.

Year 2000

The year 2000 problem stems from computer programs that identify the year with two digits instead of four. The problem with this code is that in the year 2000, `00' may be interpreted as 1900 or not processed at all. The year 2000 problem is not limited to one type of software or hardware. Machines and programs affected include mainframes, personal computers, networks, ATMs, and other items such as elevators, infrastructures, and telephone systems.

The Bancorp has implemented an action plan to address the century date change issue so that service and business operations will not be interrupted in the year 2000. A project leader, a team of employees and a consulting group have analyzed daily operations, business forms, software, hardware and equipment for year 2000 compliance. Due to the Bancorp's reliance upon external parties for business operations, ongoing communication with third party vendors has been established to monitor their year 2000 efforts. All systems and interfaces will be tested internally to confirm reported compliance. The Bancorp does not expect the cost of year 2000 compliance to have a material effect on its business, financial position or results of operations.

[GRAPHIC OMITTED]

<TABLE>
<CAPTION>

RETURN ON ASSETS

<S>	<C>
1993*	1.45%

1994	1.24%
1995	1.14%
1996	0.75%
1997	1.13%

</TABLE>

Return on assets (ROA) indicates the overall operating efficiency of a company. The ratio is determined by stating net income as a percentage of average total assets. The increase in the ROA for 1997 was due to an increase in the Bancorp's net interest margin, noninterest income, and the one-time special assessment on SAIF-assessable deposits to recapitalize SAIF during 1996.

*Six month period due to change in fiscal year end.

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[GRAPHIC OMITTED]

<TABLE>
<CAPTION>

RETURN ON EQUITY

<S>	<C>
1993*	15.5%
1994	11.04%
1995	1.14%
1996	7.90%
1997	11.87%

</TABLE>

Return on equity (ROE) is determined by stating net income as a percentage of average stockholders' equity. The ratio is important to the Bancorp's stockholders because it measures the return on their invested capital. The increase in ROE for 1997 reflects record earnings due to increases in net interest margin and noninterest income.

*Six month period due to change in fiscal year end.

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CROWE CHIZEK

REPORT OF INDEPENDENT AUDITORS

Board of Directors
NorthWest Indiana Bancorp
Munster, Indiana

We have audited the accompanying consolidated balance sheets of NorthWest Indiana Bancorp (the Company) as of December 31, 1997 and 1996 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years ended December 31, 1997, 1996 and 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NorthWest Indiana

Bancorp as of December 31, 1997 and 1996 and the results of its operations and its cash flows for the years ended December 31, 1997, 1996 and 1995, in conformity with generally accepted accounting principles.

/s/ Crowe, Chizek and Company LLP

Crowe, Chizek and Company LLP

South Bend, Indiana
January 9, 1998

<TABLE>
<CAPTION>

CONSOLIDATED BALANCE SHEETS

(DOLLARS IN THOUSANDS)	DECEMBER 31, 1997	DECEMBER 31, 1996
ASSETS		
<S>	<C>	<C>
Cash and non-interest bearing balances in financial institutions..............	$ 7,083	$ 5,509
Interest bearing balances in financial institutions...........................	3,570	1,000
Total cash and cash equivalents...	10,653	6,509
Securities held-to-maturity (fair value: December 31, 1997 - $29,498; December 31, 1996 - $39,909)..	29,362	40,024
Loans receivable..	272,213	244,696
Less: allowance for loan losses...	(3,074)	(2,887)
Net loans receivable..	269,139	241,809
Accrued interest receivable...	2,195	2,153
Premises and equipment..	6,820	7,086
Foreclosed real estate..	259	189
Deferred income taxes...	794	706
Other assets..	387	943
Total assets..	$319,609	$299,419
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing..	$ 16,685	$ 12,879
Interest bearing..	255,405	243,541
Total...	272,090	

		256,420
Borrowed funds	14,628	12,261
Accrued expenses and other liabilities	3,409	2,923
Total liabilities	290,127	271,604
Stockholders' Equity:		
Preferred stock, no par or stated value; 10,000,000 shares authorized, none outstanding	-	-
Common stock, no par or stated value; 20,000,000 shares authorized; issued and outstanding: December 31, 1997 - 1,381,472 shares; December 31, 1996 - 1,379,595 shares	345	345
Additional paid in capital	2,948	2,930
Retained earnings - substantially restricted	26,189	24,540
Total stockholders' equity	29,482	27,815
Total liabilities and stockholders' equity	$319,609	$299,419

</TABLE>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

<TABLE>
<CAPTION>

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
<S>	<C>	<C>	<C>
Interest income:			
Loans receivable			
Real estate loans	$19,128	$17,523	$17,015
Commercial loans	1,780	1,522	1,412
Consumer loans	462	363	297
Total loan interest	21,370	19,408	18,724
Securities held-to-maturity	2,155	2,605	2,055
Other interest earning assets	144	324	343
Total interest income	23,669	22,337	21,122
Interest expense:			
Deposits	11,307	11,066	10,367
Borrowed funds	414	221	117
Total interest expense	11,721	11,287	10,484
Net interest income	11,948	11,050	10,638
Provision for loan losses	221	85	80

Net interest income after provision for loan losses	11,727	10,965	10,558
Noninterest income:			
Gain on sale of loans, net	26	1	19
Gain on sale of foreclosed real estate	28	4	51
Fees and service charges	695	487	428
Trust operations	256	190	179
Other	61	-	8
Total noninterest income	1,066	682	685
Noninterest expense:			
Compensation and benefits	3,645	3,213	3,049
Occupancy and equipment	1,350	1,050	842
Federal insurance premium	163	1,979	536
Advertising	145	159	157
Data processing	368	299	272
Other	1,483	1,339	1,260
Total noninterest expense	7,154	8,039	6,116
Income before income taxes	5,639	3,608	5,127
Income tax expenses	2,223	1,419	2,026
Net income	$ 3,416	$ 2,189	$ 3,101
Earnings per common share	$ 2.47	$ 1.59	$ 2.25
Earnings per common share, assuming dilution	$ 2.45	$ 1.58	$ 2.24
Dividend declared per common share	$ 1.28	$ 1.15	$ 1.10

</TABLE>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF
CHANGES IN STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL EQUITY
<S>	<C>	<C>	<C>	<C>
Balance at January 1, 1995	$ 345	$ 2,914	$ 22,347	$ 25,606
Issuance of 1,352 shares of common stock at $8.57 - $21.25 per share, under stock option plan	-	14	-	14
Cash dividends, $1.10 per share	-	-	(1,517)	(1,517)

Net income	-	-	3,101	3,101
Balance at December 31, 1995	345	2,928	23,931	27,204
Issuance of 159 shares of common stock at $8.57 - $21.25 per share, under stock option plan	-	2	-	2
Cash dividends, $1.15 per share	-	-	(1,580)	(1,580)
Net income	-	-	2,189	2,189
Balance at December 31, 1996	345	2,930	24,540	27,815
Issuance of 1,877 shares of common stock at $8.57 - $21.25 per share, under stock option plan	-	18	-	18
Cash dividends, $1.28 per share	-	-	(1,767)	(1,767)
Net income	-	-	3,416	3,416
Balance at December 31, 1997	$ 345	$ 2,948	$ 26,189	$ 29,482

</TABLE>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

(DOLLARS IN THOUSANDS)	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 3,416	$ 2,189	$ 3,101
Adjustments to reconcile net income to net cash provided by operating activities:			
Origination of loans for sale	(1,732)	(700)	(1,247)
Sale of loans originated for sale	1,758	699	1,312
Depreciation and amortization, net of accretion	710	553	393
Net gains on sale of loans	(26)	(1)	(19)
Net gains on sale of fixed assets	(41)	-	-
Net gains on sale of foreclosed real estate	(28)	(4)	(51)
Provision for loan losses	221	85	80
Net change in unearned interest on loans	(5)	(1)	(12)
Change in deferred taxes	(88)	(61)	

			244
Change in deferred loan fees	(30)	(1)	(75)
Change in interest receivable	(42)	(61)	(272)
Change in other assets	556	(520)	(45)
Change in accrued expenses and other liabilities	486	239	(322)
Total adjustments	1,739	227	(14)
Net cash from operating activities	5,155	2,416	3,087
CASH FLOWS FROM INVESTING ACTIVITIES:			
Change in interest bearing time deposits in other financial institutions	-	-	493
Proceeds from maturities of securities held-to-maturity	10,748	12,671	8,000
Purchase of securities held-to-maturity	(549)	(15,164)	(12,772)
Principal collected on mortgage-backed securities	414	460	446
Loan participations purchased	(3,240)	-	(33)
Net change in loans receivable	(24,807)	(22,587)	(711)
Purchase of premises and equipment	(454)	(2,373)	(1,647)
Sale of premises and equipment	100	-	-
Proceeds from sale of foreclosed real estate	489	61	547
Net cash from investing activities	(17,299)	(26,932)	(5,677)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Change in deposits	15,670	8,475	13,306
Proceeds from FHLB advances	23,000	7,000	-
Repayment of FHLB advances	(22,000)	-	-
Change in other borrowed funds	1,367	2,121	(12)
Proceeds from issuance of capital stock	18	2	14
Dividends paid	(1,767)	(1,517)	(1,517)
Net cash from financing activities	16,288	16,081	11,791
Net change in cash and cash equivalents	4,144	(8,435)	9,201
Cash and cash equivalents at beginning of period	6,509	14,944	5,743
Cash and cash equivalents at end of period	$ 10,653	$ 6,509	$ 14,944
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest	$ 11,668	$ 11,314	$ 10,452
Income taxes	$ 1,790	$ 2,045	$

			1,815
Transfers from loans to foreclosed real estate.......	$ 531	$ 160	$ 423

</TABLE>

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED December 31, 1997, 1996 and 1995.

NOTE 1 - Summary of Significant Accounting Policies

Principles of Consolidation - The consolidated financial statements include the accounts of 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 PSA Insurance Corporation. Effective July 31, 1994, the Bancorp became a one-bank holding company for Peoples Bank SB, an Indiana savings bank resulting from the conversion of Peoples Bank from a federal stock savings bank to an Indiana stock savings bank. The formation of the Bancorp and the acquisition of Peoples Bank SB by the Bancorp was an internal reorganization accounted for at historical cost. 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 is inactive. At December 31, 1997, the Bank had an investment balance of $10,000 in Peoples Service Corporation. During 1997, PSA Insurance Corporation was dissolved. All significant inter-company accounts and transactions have been eliminated in consolidation. The parent only financial statements for NorthWest Indiana Bancorp are presented in Note 18. Substantially all operations are in the banking industry.

Use of Estimates - Preparing financial statements in conformity with 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. Areas involving the use of estimates and assumptions include the allowance for loan losses, fair values of securities and other financial instruments, determination and carrying value of impaired loans, the carrying value of loans held for sale, the accrued liability for deferred compensation, the realization of deferred tax assets, and the determination of depreciation of premises and equipment. Actual results could differ from those estimates. Estimates associated with the allowance for loan losses and the fair values of securities and other financial instruments 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 north west Indiana. Substantially all loans are secured by specific items of collateral including residences, business assets and consumer assets.

Cash Flow Reporting - For purposes of the statement of cash flows, the Bancorp considers cash on hand, non-interest 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.

Securities - The Bancorp classifies securities into held-to-maturity, available-for-sale, or trading categories. Held-to-maturity securities are those which the Bancorp has the positive intent and ability to hold to maturity, and are reported at amortized cost. Available-for-sale securities are those the Bancorp may decide to sell if needed for liquidity, asset-liability management or other reasons. Available-for-sale securities are reported at fair value, with unrealized gains and losses included as a separate component of equity, net of tax. Trading securities are bought principally for sale in the near term and are reported at fair value with unrealized gains and losses included in earnings. Other securities such as Federal Home Loan Bank stock are carried at cost. Realized gains and losses resulting from the sale of securities are computed by the specific identification method. Interest and dividend income, adjusted by amortization of premium or discount, is included in earnings. Securities are written down to fair value when a decline in fair value is not temporary.

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

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

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

Allowance for Loan Losses - Because some loans may not be repaid in full, an allowance for loan losses is maintained. Increases to the allowance are recorded by a provision for loan losses charged to expense. Estimating the risk of loss and the amount of loss on any loan is necessarily subjective. Accordingly, the allowance is maintained by management at a level considered adequate based on past loss experience, general economic conditions, information about specific borrower situations including their financial position and collateral values, and other factors and estimates which are subject to change over time. While management may periodically allocate portions of the allowance for specific problem loans, the whole allowance is available for any loan charge-offs that

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

Premises and Equipment - Premises and equipment are stated at cost less accumulated depreciation. Premises and related components are depreciated using the straight-line method with useful lives ranging from 26 to 40 years. Furniture and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 10 years. Maintenance and repairs are charged to expense and improvements are capitalized. The cost and accumulated depreciation applicable to assets retired or otherwise disposed of are eliminated from the accounts and the gain or loss on disposition is credited or charged to operations.

Recognition of Gains or Losses on the Sale of Loans - Loans are sold on a net yield basis, with servicing rights and obligations retained by the Bancorp, resulting in the recognition of gains or losses at the time of sale. The Bancorp uses the purchaser's normal servicing fee in computing these gains and losses. The resulting premiums or discounts, if any, are amortized or accreted in income over the estimated lives of these loans sold using the level yield method.

Loan Origination Fees - Loan fees are netted with certain direct loan origination costs, and are deferred and amortized into interest income as yield adjustments using the interest method over the term of the related loans.

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

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 held-to-maturity 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 - The Bancorp records income tax expense based on the amount of taxes due on its tax return, plus deferred taxes computed based on the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, using enacted tax rates.

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.

Earnings per Share - Earnings per common share is based on weighted-average common shares outstanding. Earnings per common share, assuming dilution considers the issue of any potentially dilutive common shares. The accounting standard for computing earnings per share was revised for 1997, and all earnings per share previously reported are restated to follow the new standard. On each of February 28, 1995 and December 2, 1996 , the Bancorp effected a two-for-one common stock split as a share dividend. All references in the accompanying financial statements to the number of shares and per share data have been restated to reflect the stock splits.

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.

Reclassification - Certain amounts appearing in the consolidated financial statements and notes thereto for the years ended December 31, 1996 and 1995, have been reclassified to conform to the December 31, 1997 presentation.

NOTE 2 - Securities

The amortized cost and fair value of securities held-to-maturity are summarized as follows:

<TABLE>
<CAPTION>

(DOLLARS IN THOUSANDS)

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
<S>	<C>	<C>	<C>	<C>
At December 31, 1997:				
Debt securities:				
U.S. government and federal agencies ...	$26,185	$ 131	$ (45)	$26,271
Mortgage-backed securities	1,531	50	-	1,581
Total debt securities	27,716	181	(45)	27,852
Other securities	1,646	-	-	1,646
Total	$29,362	$ 181	$ (45)	$29,498

</TABLE>

<TABLE>
<CAPTION>

(DOLLARS IN THOUSANDS)

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
<S>	<C>	<C>	<C>	<C>
AT DECEMBER 31, 1996:				
Debt securities:				
U.S. government and federal agencies	$ 36,483	$ 92	$ (217)	$ 36,358
Mortgage-backed securities	1,944	16	(6)	1,954
Total debt securities	38,427	108	(223)	38,312
Other securities	1,597	--	--	1,597
Total	$ 40,024	$ 108	$ (223)	$ 39,909

</TABLE>

The amortized cost and fair value of debt securities held-to-maturity at

December 31, 1997, by contractual maturity, are shown on the following schedule. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

<TABLE>
<CAPTION>

	(DOLLARS IN THOUSANDS) AMORTIZED COST	FAIR VALUE
<S>	<C>	<C>
Due in one year or less	$ 8,491	$ 8,481
Due after one year through five years	15,694	15,766
Due after five years through ten years	2,000	2,024
Mortgage-backed securities	1,531	1,581
Total	$27,716	$27,852

</TABLE>

There were no sales of securities during the years ended December 31, 1997, 1996 and 1995. Securities with carrying values of $10,091,000 and $6,671,000 were pledged as of December 31, 1997 and 1996 as collateral for public funds, repurchase agreements and for other purposes as permitted or required by law.

NOTE 3 - Loans Receivable

Loans are summarized below as of the dates indicated:

<TABLE>
<CAPTION>

	(DOLLARS IN THOUSANDS) 1997	1996
<S>	<C>	<C>
Loans secured by real estate:		
Construction and land development	$21,440	$13,248
Residential, including home equity	156,651	151,343
Commercial real estate and other dwelling	64,831	57,258
Total loans secured by real estate	242,922	221,849
Consumer loans	5,661	4,890
Commercial business and other	23,630	17,957
Loans receivable	$272,213	$244,696

</TABLE>

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

<TABLE>
<CAPTION>

	1997	(DOLLARS IN THOUSANDS) 1996	1995
<S>	<C>	<C>	<C>
Balance at beginning of period	$ 2,887	$ 2,830	$ 2,751
Provision charged to income	221	85	80
Loans charged off	(34)	(28)	(2)
Recoveries	--	--	1
Balance at end of period	$ 3,074	$ 2,887	$ 2,830

</TABLE>

At December 31, 1997 and 1996, no portion of the allowance for loan losses was allocated to impaired loan balances as the Bancorp had no loans it considered to be impaired loans as of or for the years ended December 31, 1997 and 1996.

NOTE 4 - Loan Servicing

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

<TABLE>
<CAPTION>

	(DOLLARS IN THOUSANDS) 1997	1996
Mortgage loan portfolios serviced for FHLMC	7,976	$7,152

Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately $125,000 and $128,000 at December 31, 1997 and 1996.

NOTE 5 - Premises and Equipment, Net Premises and equipment are summarized below:

	(DOLLARS IN THOUSANDS) 1997	1996
Cost:		
Land	$ 1,663	$ 1,721
Buildings and improvements	5,317	5,229
Furniture and equipment	3,470	3,104
Total cost	10,450	10,054
Less accumulated depreciation and amortization	(3,630)	(2,968)
Premises and equipment, net	$ 6,820	$ 7,086

NOTE 6 - Income Taxes

Components of the income tax expenses consist of the following for the years indicated:

	(DOLLARS IN THOUSANDS) 1997	1996	1995
Federal:			
Current	$ 1,824	$ 1,071	$ 1,377
Deferred	(71)	57	221
State:			
Current	487	287	405
Deferred	(17)	4	23
Income tax expenses	$ 2,223	$ 1,419	$ 2,026

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

	(DOLLARS IN THOUSANDS) 1997	1996	1995
Federal statutory rate	34%	34%	34%
Tax expense at statutory rate	$ 1,917	$ 1,227	$ 1,743
State tax, net of federal effect	310	195	283
Other	(4)	(3)	--
Total income tax expenses	$ 2,223	$ 1,419	$ 2,026

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

<TABLE>
<CAPTION>

<S>	(DOLLARS IN THOUSANDS) 1997 <C>	1996 <C>
Deferred tax assets:		
Bad debt	$ 363	$ 298
Deferred loan fees	169	174
Deferred compensation	463	430
Other	73	76
Total deferred tax assets	1,068	978
Deferred tax liabilities:		
Depreciation	(249)	(216)
Other	(25)	(56)
Total deferred tax liabilities	(274)	(272)
Valuation allowance	--	--
Net deferred tax assets	$ 794	$ 706

</TABLE>

The Bancorp has qualified under provisions of the Internal Revenue Code which permit it 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, 1997 and 1996 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, 1997. Tax legislation passed in August 1996 now requires the Bancorp to deduct a provision for bad debts for tax purposes based on actual loss experience and to recapture the excess bad debt reserve accumulated in tax years after 1986. The related amount of deferred tax which must be recaptured is $855,000 and is payable over a six year period beginning in 1998.

NOTE 7 - Deposits

The aggregate amount of certificates of deposit with a balance of $100,000 or more was $39,666,000 at December 31, 1997 and $26,100,000 at December 31, 1996.

At December 31, 1997, scheduled maturities of certificates of deposit were as follows:

<TABLE>
<CAPTION>

(Dollars in thousands) <S>	<C>
1998...........	$ 145,399
1999...........	15,810
2000...........	3,791
2001...........	855
Total......	$ 165,855

</TABLE>

NOTE 8 - Borrowed Funds Borrowed funds is summarized below:

<TABLE>
<CAPTION>

<S>	(DOLLARS IN THOUSANDS) 1997 <C>	1996 <C>
Repurchase agreements	$ 4,541	$ 3,993
Fixed rate advances from the FHLB	4,000	7,000
Putable advances from the FHLB	4,000	--
Other	2,087	1,268
Total	$14,628	$12,261

</TABLE>

Repurchase agreements generally mature within one year and are secured by FHLMC participation certificates or U.S. government securities, under the Bancorp's control. Information concerning these retail repurchase agreements is summarized below:

	(DOLLARS IN THOUSANDS) 1997	1996
Ending balance	$4,541	$3,993
Average balance during the year	4,308	3,599
Maximum month-end balance during the year	4,975	5,419
Securities underlying the agreements at year end:		
Carrying value	7,988	5,572
Fair value	8,014	5,559
Average interest rate during the year	5.43%	5.27%

At December 31, 1997, the following Federal Home Loan Bank advances were outstanding:

	(DOLLARS IN THOUSANDS) 1997
5.98% FHLB fixed advance, due October 12, 1999	$ 2,000
5.99% FHLB fixed advance, due October 28, 1999	2,000
5.71% FHLB putable advance, due December 16, 2002	2,000
5.35% FHLB putable advance, due December 30, 2002	2,000
Total	$ 8,000

The putable advance which carries an interest rate of 5.71%, is fixed for three years and may adjust quarterly to the three-month LIBOR two years thereafter. The putable advance which carries an interest rate of 5.35%, is fixed for one year and may adjust quarterly to the three-month LIBOR four years thereafter. Once the advance interest rate adjusts, the Bancorp has the option to prepay the putable advance on specified quarterly interest rate reset dates. Pursuant to collateral agreements with the Federal Home Loan Bank, advances are secured under a blanket lien arrangement by securities and mortgage loans with carrying values of approximately $157,019,000 at December 31, 1997.

NOTE 9 - Employees' Benefit Plans

The Bancorp maintains a Profit Sharing Plan and Trust for all employees who meet the plan qualifications. Employees are eligible to participate in the Employees' Profit Sharing Plan and Trust if they are 21 years of age or older and have completed one year of employment with more than 1,000 hours of service to the Bancorp. The plan 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 during the years ended December 31, 1997, 1996 and 1995 were based on 9.0% 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 $204,000, $185,000 and $203,000 for the years ended December 31, 1997, 1996 and 1995.

The Bancorp also maintains an Employee Stock Ownership Plan (ESOP). Eligibility and vesting requirements for the ESOP are the same as those for the Profit Sharing Plan and Trust. Contributions to the ESOP are made at the discretion of the Bancorp's Board of Directors. Contributions during the year ended December 31, 1997

were based on 1.0% of the participants total compensation excluding incentives. No contributions to the ESOP were made during the years ended December 31, 1996 and 1995. The ESOP held 1,094 shares of the Bancorp's common stock as of December 31, 1997, all of which have been allocated to participants. The ESOP expense amounted to $23,000, $0 and $0 for the years ended December 31, 1997, 1996 and 1995.

NOTE 10 - Defined Benefit Postretirement Plan

The Bancorp sponsors a defined benefit postretirement plan that provides comprehensive major medical benefits to all eligible retirees. Eligible retirees are those who have attained age 65, have completed at least 18 years of service and are eligible for coverage under the employee group medical plan as of the date of their retirement. Spouses of eligible retirees are covered if they were covered as of the employee's date of retirement. Surviving spouses are covered if they were covered at the time of the retiree's death. Dependent children of eligible retirees are generally covered to the later of age 19 or until the child ceases being a full-time student. Surviving dependent children are subject to the same eligibility restrictions if they were covered at the time of the retiree's death. The Bancorp pays 50% of any future premium increases for retiree medical coverage. Retirees pay 100% of the premiums for all dependent medical coverage.

The following table sets forth a reconciliation of the funded status of the plan with the amount reported in the Bancorp's consolidated balance sheet:

	(Dollars in thousands) 1997	1996
Accumulated postretirement benefit obligations (APBO):		
Retirees	$ 56	$ 58
Fully eligible active plan participants	--	--
Other active plan participants	63	54
Accumulated postretirement benefit obligation in excess of plan assets	119	112
Unrecognized net gain	64	70
Net postretirement benefit liability	$183	$182

Net periodic postretirement benefit expense for the periods indicated included the following components:

	(Dollars in thousands) 1997	1996	1995
Service cost-benefits attributed to service during the period	$ 4	$ 4	$4
Interest cost on accumulated postretirement benefit obligation	9	9	5
Amortization of unrecognized net gain	(6)	(5)	-
Net periodic postretirement benefit expense	$ 7	$ 8	$9

For measurement purposes, an 11.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for the fiscal year ended December 31, 1997, dropping to an annual rate of 5.5% after 4 years. The health care cost trend rate assumption has a significant effect on the amounts reported. The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 8%. A 1% increase in the health care cost trend rate assumption would not have a material impact on the APBO or expense.

NOTE 11 - Regulatory Capital

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

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

<TABLE>
<CAPTION>

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<S>	<C>	<C>	<C>	<C>	<C>	<C>
1997						
Total capital (to risk-weighted assets)	$ 32.2	15.0%	$ 17.1	8.0%	$ 21.4	10.0%
Tier I capital (to risk-weighted assets)	$ 29.5	13.8%	$ 8.6	4.0%	$ 12.8	6 .0
Tier I capital (to adjusted assets)	$ 29.5	9.2%	$ 9.6	3.0%	$ 16.0	5.0%
1996						
Total capital (to risk-weighted assets)	$ 30.2	16.0%	$ 15.1	8.0%	$ 18.9	10.0%
Tier I capital (to risk-weighted assets)	$ 27.8	14.7%	$ 7.6	4.0%	$ 11.3	6.0%
Tier I capital (to adjusted assets)	$27.8	9.3%	$ 9.0	3.0%	$15.0	5.0%

</TABLE>

The Bancorp and the Bank were categorized as well capitalized at December 31, 1997 and 1996. There are no conditions or events since December 31, 1997 that management believes have changed the Bancorp's or Bank's category.

The Bancorp's ability to pay dividends is entirely dependent upon the Bank's ability to pay dividends to the Bancorp. Under Indiana law, the Bank may pay dividends, no more often than quarterly, to the extent of its undivided profits (generally, earnings less losses, bad debts, taxes and other operating expenses). However, the Indiana Department of Financial Institutions approval is required to pay dividends in any year in excess of the Bank's net profits for the current year and retained net profits for the prior two years (approximately $3,842,000 at December 31, 1997).

Moreover, the FDIC and the Federal Reserve Board may prohibit the payment of dividends if it determines that the payment of dividends would constitute an unsafe or unsound practice in the light of the financial condition of the Bank.

NOTE 12 - Stock Option Plan

The Board of Directors has adopted the 1994 Stock Option and Incentive Plan (the "Incentive Plan"), which was approved by shareholders at the 1994 annual meeting. Pursuant to the Incentive Plan, an aggregate of 120,000 shares of the Bancorp's common stock were reserved for issuance in respect of incentive awards granted to officers and other employees of the Bancorp and the Bank. Awards granted under the Incentive Plan may be in the form of incentive stock options within the meaning of Section 422 of the Internal Revenue Code, or non-incentive stock options or restricted stock. The purposes of the Plan are to attract and retain the best available personnel, to provide additional incentives for all employees and to encourage their continued employment by facilitating employees' purchases of an equity interest in the Bancorp. Effective upon the July 31, 1994 holding company formation, all options then outstanding under the Bank's prior stock option plan became options to purchase an equal number of shares of the Bancorp's common stock under the Incentive Plan, on the same terms.

Financial Accounting Standard No. 123, which became effective for 1996, requires pro forma disclosures for companies that do not adopt its fair value accounting method for stock-based employee compensation. Accordingly, the following pro forma information presents net income and earnings per share had the fair value method been used to measure compensation cost
<TABLE>
<CAPTION>

(Dollars in thousands, except per share data)

	1997	1996	1995
<S>	<C>	<C>	<C>
Net income as reported	$ 3,416	$ 2,189	$ 3,101
Pro forma net income	3,405	2,182	3,096
Earnings per common share as reported	$ 2.47	$ 1.59	$ 2.25
Pro forma earnings per common share	$ 2.47	$ 1.58	$ 2.25

Earnings per common share, assuming dilution as reported	$ 2.45	$ 1.58	$ 2.24
Pro forma earnings per common share, assuming dilution	$ 2.44	$ 1.57	$ 2.23

</TABLE>

The fair value of options granted during 1997, 1996 and 1995 is estimated using the following weighted-average information: risk-free interest rate of 6.50%, 5.42% and 7.75%, expected life of 7 to 8 years, expected volatility of stock price of 5.62% for 1997 and 5.45% for 1996 and 1995, and expected dividends of 4.00%, 4.26% and 5.18% for 1997, 1996 and 1995. In future years, the pro forma effect of not applying this standard is expected to increase as additional options are granted.

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

<TABLE>
<CAPTION>

	Number of options	Weighted-average exercise price	Weighted-average fair value of grants
<S> <C>	<C>	<C>	<C>
Outstanding, January 1, 1995	9,224	$ 10.29	$
Granted.................	14,500	21.25	2.53
Exercised..............	1,352	10.30	
Forfeited..............	-	-	
Expired.................	-	-	
Outstanding, December 31, 1995	22,372	17.39	
Granted.................	3,400	27.00	2.06
Exercised..............	158	12.88	
Forfeited..............	-	-	
Expired.................	-	-	
Outstanding, December 31, 1996	25,614	18.70	
Granted.................	8,050	32.00	4.23
Exercised..............	1,877	9.85	
Forfeited..............	50	32.00	
Expired.................	-	-	
Outstanding, December 31, 1997	31,737	22.57	

</TABLE>

Options exerciseable at year-end are as follows:

	Number of options	Weighted-average exercise price
1995	7,912	$10.35
1996	7,794	$10.35
1997	5,957	$10.58

At December 31, 1997, options outstanding were as follows:

Number of options	31,737
Range of exercise price	$9.31 - $32.00
Weighted-average exercise price	$22.57
Weighted-average remaining option life	5.1 years

NOTE 13 - Earnings Per Share

A reconciliation of the numerators and denominators of the earnings per common share and earnings per common share assuming dilution computations for the years ended December 31, 1997, 1996 and 1995 is presented below.

<TABLE>
<CAPTION>

	1997	1996	1995
<S>	<C>	<C>	<C>
Earnings Per Common Share:			
Net income available to common stockholders	$3,416,000	$2,189,000	$3,101,000
Weighted average common shares outstanding	1,381,151	1,379,519	1,378,808

Earnings Per Common Share	$ 2.47	$ 1.59	$ 2.25
Earnings Per Common Share, Assuming Dilution:			
Net income available to common stockholders	$3,416,000	$2,189,000	$3,101,000
Weighted average common shares outstanding......1,381,151 .	1,379,519	1,378,808	
Add: dilutive effect of assumed stock option exercises	14,633	9,728	7,000
Weighted average common and dilutive potential shares outstanding........................	1,395,784	1,389,247	1,385,808
Earnings Per Common Share, assuming dilution	$ 2.45	$ 1.58	$ 2.24

</TABLE>

NOTE 14 - Related Party Transactions

The Bank had aggregate loans outstanding to directors and executive officers (with individual balances exceeding $60,000) of $3,138,000 at December 31, 1997 and $1,763,000 at December 31, 1996. For the year ended December 31, 1997, the following activity occurred on these loans:

	(Dollars in thousands)
Aggregate balance - December 31, 1996..	$ 1,763
New loans	2,034
Repayments	(659)
Aggregate balance - December 31, 1997..	$ 3,138

NOTE 15 - Commitments and Contingencies

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

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:
<TABLE>
<CAPTION>

	(Dollars in thousands)		
	Fixed Rate	Variable Rate	Total
<S>	<C>	<C>	<C>
December 31, 1997:			
Real estate...........	$ 6,457	$ 16,848	$ 23,305
Consumer loans.........	-	229	229
Commercial business....	-	18,120	18,120
Total.................	$ 6,457	$ 35,197	$ 41,654

</TABLE>

<TABLE>
<CAPTION>

	(Dollars in thousands)		
	Fixed Rate	Variable Rate	Total

<S> <C> <C> <C>

December 31, 1996:			
Real estate...........	$ 6,346	$ 12,606	$ 18,952
Consumer loans.........	-	281	281
Commercial business....	-	14,879	14,879
Total................	$ 6,346	$ 27,766	$ 34,112

</TABLE>

The $6,457,000 in fixed rate commitments outstanding at December 31, 1997 had interest rates ranging from 7.00% to 9.50%, for a period not to exceed forty-five days.

Standby letters of credit are conditional commitments issued by the Bancorp to guarantee the performance of a customer to a third party. At December 31, 1997 and 1996, the Bancorp had standby letters of credit totaling $501,000 and $519,000. The Bancorp evaluates each customer's creditworthiness on a case by case basis. The amount of collateral obtained, if deemed necessary by the Bancorp upon extension of credit, is based on management's credit evaluation of the borrower. Collateral obtained may include accounts receivable, inventory, property, land or other assets.

The Bancorp is a defendant in certain claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the consolidated financial position or results of operations of the Bancorp.

NOTE 16 - Fair Values of Financial Instruments

SFAS No. 107 "Disclosure about Fair Value of Financial Instruments" prescribes that the Bancorp disclose the estimated fair value of its financial instruments. The following table shows those values and the related carrying values as of the dates indicated. Items which are not financial instruments are not included.

	(Dollars in thousands) December 31, 1997	
	Carrying Value	Estimated Fair Value
Cash and cash equivalents	$ 10,653	$ 10,653
Securities held-to-maturity	29,362	29,498
Loans receivable, net....	269,139	268,886
Demand and savings deposits	(106,235)	(106,235)
Certificates of deposit..	(165,855)	(166,043)
Borrowed funds..........	(14,628)	(14,628)

	(Dollars in thousands) December 31, 1996	
	Carrying Value	Estimated Fair Value
Cash and cash equivalents	$ 6,509	$ 6,509
Securities held-to-maturity	40,024	39,909
Loans receivable, net....	241,809	241,702
Demand and savings deposits	(102,798)	(102,798)
Certificates of deposit..	(153,622)	(153,787)
Borrowed funds..........	(12,261)	(12,261)

For purposes of the above disclosures of estimated fair value, the following assumptions were used as of December 31, 1997 and 1996. The estimated fair value for cash and cash equivalents is considered to approximate cost. The estimated fair value for securities is based on quoted market values for the individual securities or equivalent securities. The estimated fair value for loans is based on estimates of the rate the Bancorp would charge for similar such loans at December 31, 1997 and 1996, applied for the time period until estimated repayment. The estimated fair value for demand and savings deposits is based on their carrying value. The estimated fair value for certificates of deposits is based on estimates of the rate the Bancorp would pay on such deposits at December 31, 1997 and 1996, applied for the time period until maturity. The estimated fair value for borrowed funds is considered to approximate cost. The estimated fair value of other financial instruments, including accrued interest receivable and payable, and off-balance sheet loan commitments approximate cost and are not considered significant to this presentation.

While these estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that were the Bancorp to have disposed of such items at December 31, 1997 and 1996, the estimated fair values would necessarily have been achieved at that date, since market values may differ depending on various circumstances. The estimated fair values at December 31, 1997 and 1996 should not necessarily be considered to apply at subsequent dates.

In addition, other assets and liabilities of the Bancorp that are not defined as financial instruments are not included in the above disclosures, such as premises and equipment. Also, non-financial instruments typically not recognized in financial statements nevertheless may have value but are not included in the above disclosures. These included, among other items, the estimated earnings power of core deposit accounts, the earnings potential of loan servicing rights, the earnings potential of the Bank's trust department, the trained work force, customer goodwill and similar items.

NOTE 17 - Selected Quarterly Financial Data (Unaudited)

Selected quarterly financial data are summarized below as follows:

Year ended December 31, 1997:
<TABLE>
<CAPTION>

(Dollars in thousands, except per share data)

	March 31, 1997	June 30, 1997	September 30, 1997	December 31, 1997
<S>	<C>	<C>	<C>	<C>
Total interest income	$ 5,669	$ 5,854	$ 5,978	$ 6,168
Total interest expense	2,790	2,898	2,963	3,070
Net interest income	2,879	2,956	3,015	3,098
Provision for loan losses	49	32	55	85
Net interest income after provision for loan losses	2,830	2,924	2,960	3,013
Total noninterest income	340	216	246	264
Total noninterest expense	1,772	1,746	1,807	1,829
Income before income taxes......	1,398	1,394	1,399	1,448
Income tax expenses	559	550	559	555
Net income.........	$ 839	$ 844	$ 840	$ 893
Earnings per share.	$ 0.61	$ 0.61	$ 0.61	$ 0.64
Earnings per share, assuming dilution.	$ 0.60	$ 0.61	$ 0 .60	$ 0.64

</TABLE>

Year ended December 31, 1996:
<TABLE>
<CAPTION>

(Dollars in thousands, except per share data)

	March 31, 1996	June 30, 1996	September 30, 1996	December 31, 1996
<S>	<C>	<C>	<C>	<C>
Total interest income	$ 5,447	$ 5,532	$5,633	$ 5,725
Total interest expense	2,809	2,777	2,817	2,884
Net interest income	2,638	2,755	2,816	2,841
Provision for loan losses	15	18	23	29
Net interest income after provision for loan losses	2,623	2,737	2,793	2,812
Total noninterest income	178	165	167	172
Total noninterest expense	1,629	1,632	3,200	1,578
Income before income taxes	1,172	1,270	(240)	1,406
Income tax expenses	467	507	(92)	537
Net income	$ 705	$ 763	$ (148)	$ 869
Earnings per share	$ 0.51	$ 0.56	$ (0.11)	$ 0.63
Earnings per share, assuming dilution	$ 0.51	$ 0.56	$ 0.12)	$ 0.63

</TABLE>

The net income for the quarter ended September 30, 1996, reflects the one-time special assessment required by the Deposit Insurance Funds Act of 1996 on SAIF-assessable deposits to capitalize SAIF. The SAIF assessment resulted in a pre-tax expense of $1.6 million during the third quarter.

NOTE 18 - Parent Company Only Statements

(Dollars in thousands)
NorthWest Indiana Bancorp
Condensed Balance Sheet

	December 31, 1997	December 31, 1996
Assets		
Cash on deposit with Peoples Bank	$ 13	$ 53
Investment in Peoples Bank	29,475	27,783
Dividends receivable from Peoples Bank	455	445
Other assets	5	4
Total assets	$29,948	$28,285
Liabilities and stockholders' equity		
Dividends payable	$ 442	$ 441
Other liabilities	24	29
Total liabilities	466	470
Common stock	345	345
Additional paid in capital	2,948	2,930
Retained earnings	26,189	24,540
Total stockholders' equity	29,482	27,815
Total liabilities and stockholders' equity	$ 29,948	$ 28,285

(Dollars in thousands)
NorthWest Indiana Bancorp
Condensed Statements of Income

	Year Ended December 31, 1997	Year Ended December 31, 1996	Year Ended December 31, 1995
Operating income			
Dividends from Peoples Bank	$ 1,770	$ 1,625	$ 1,552
Operating expenses	76	59	109
Income before income taxes and equity in undistributed income of Peoples Bank	1,694	1,566	1,443
Provision for income taxes	(30)	(23)	(44)
Income before equity in undistributed income of Peoples Bank	1,724	1,589	1,487
Equity in undistributed income of Peoples Bank	1,692	600	1,614
Net Income	$ 3,416	$ 2,189	$ 3,101

(Dollars in thousands)
NorthWest Indiana Bancorp
Condensed Statements of Cash Flows

	Year Ended December 31, 1997	Year Ended December 31, 1996	Year Ended December 31, 1995

Cash flows from operating activities			
Net income	$ 3,416	$ 2,189	$ 3,101
Adjustments to reconcile net income to net cash from operating activities			
Equity in undistributed net income of Peoples Bank	(1,692)	(600)	(1,614)
Change in other assets	(11)	(54)	4
Change in other liabilities	(4)	(7)	35
Total adjustments	(1,707)	(661)	(1,575)
Net cash from operating activities	1,709	1,528	1,526
Cash flows from investing activities	--	--	--
Cash flows from financing activities			
Dividends paid	(1,767)	(1,517)	(1,517)
Proceeds from issuance of capital stock	18	1	15
Net cash from financing activities	(1,749)	(1,516)	(1,502)
Net change in cash	(40)	12	24
Cash at beginning of year	53	41	17
Cash at end of year	$ 13	$ 53	$ 41

NOTE 19 - Current Accounting Issues

Statement of Financial Accounting Standard (SFAS) No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, was issued by the Financial Accounting Standards Board in 1997. It revises the accounting for transfers of financial assets, such as loans and securities, and for distinguishing between sales and secured borrowings. It is effective for some transactions in 1997 and others in 1998. Management does not believe the Standard will have a significant impact on the financial statements.

The Financial Accounting Standards Board (FASB) issued SFAS 130, Reporting Comprehensive Income, which is effective for fiscal years and interim periods beginning after December 15, 1997. The Statement provides standards for reporting and display of comprehensive income and its components. Comprehensive income is defined as all changes in equity other than those resulting from investments by owners or distributions by owners. Net income is, therefore, a component of comprehensive income. The most common items of other comprehensive income include unrealized gains or losses on securities available for sale, gains and losses on certain foreign currency transactions, and minimum pension liability adjustments. The Statement does not mandate a specific format for reporting comprehensive income. Companies will generally choose between adding the items of other comprehensive income to the income statement, adding them to the statement of changes in shareholders' equity or displaying a new financial statement, the Statement of Comprehensive Income. Adoption of this Statement will have no impact on net income.

In June 1997, the FASB issued SFAS 131, Disclosures About Segments of an Enterprise and Related Information. SFAS 131 provides new guidance for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about reportable segments in interim financial reports issued to shareholders. SFAS 131 supersedes the industry approach to segment disclosures previously required by SFAS 14, Financial Reporting for Segments of a Business Enterprise, replacing it with a method of segment reporting which is based on the structure of an enterprise's internal organization reporting. The Statement also establishes standards for related disclosures about products and services, geographic areas and major customers. This Statement is effective for financial statement periods beginning after December 15, 1997. Management does not anticipate that this statement will have a significant impact on reporting in future periods.

Market Information

The Bancorp's Common Stock is traded in the over-the-counter market and is quoted in the National Quotation Bureau's "Pink Sheets". The Bancorp's stock is not actively traded. As of February 28, 1998, the Bancorp had 1,381,512 shares of common stock outstanding, excluding fractional shares, and 592 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 fiscal years ended December 31, 1997 and December 31, 1996. The bid prices reflect inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions. Also set forth is information concerning the dividends declared by the Bancorp during the periods reported. Note 11 to the Financial Statements describes regulatory limits on the Bancorp's ability to pay dividends. All references to the number of shares and per share data have been restated to reflect the stock splits (see Note 1).

<TABLE>
<CAPTION>

		Per Share Prices High	Per Share Prices Low	Dividends Declared Per Common Share
Fiscal Year Ended				
<S>		<C>	<C>	<C>
December 31, 1997	1st Quarter	$ 36.00	$ 30.00	$ .320
	2nd Quarter	37.00	36.00	.320
	3rd Quarter	41.88	36.50	.320
	4th Quarter	42.50	40.00	.320
Fiscal Year Ended December 31, 1996	1st Quarter	$ 30.00	$ 25.50	$ .275
	2nd Quarter	31.13	30.00	.275
	3rd Quarter	31.13	30.00	.275
	4th Quarter	31.13	31.13	.320

</TABLE>

[THREE COMBINED GRAPHICS]

	1993*	1994	1995	1996	1997
Market Price Per share (1)	$15.88	$21.25	$27.00	$31.13	$42.13
Book Value Per Share (2)	$17.37	$18.58	$19.72	$20.16	$21.34
Earnings Per Common Share (3)	$ 1.33	$ 2.35	$ 2.25	$ 1.59	$ 2.47

(1) The market price per share represents the last sales price prior to the close of the periods indicated. The Bancorp's stock is not actively traded. At the present time the Bancorp's stock is traded in the over-the-counter market and is quoted in the National Quotation Bureau's "Pink Sheets".
(2) The Bank's earnings have increased the book value of the Bancorp's stock from $17.37 at December 31,1993 to $21.34 per share at December 31, 1997.
(3) Earnings for 1997 totaled $3.4 million resulting in an earnings per share (EPS) of $2.47.
*Six month period due to change in fiscal year end.

[GRAPHIC OMITTED]

5 YEAR TOTAL RETURN

CRSP Market Index	$240
CRSP Bank Index	$377
Bancorp	$367

The management of Northwest Indiana Bancorp is committed to maximizing shareholder value. The Bancorp's stock performance on a total return basis compares favorably with the total returns of the CRSP (Center for Research in Securities Prices at the University of Chicago) Index for the Nasdaq Stock Market (CRSP Market Index) and for Nasdaq Bank Stocks (CRSP Bank Index). The total return is measured using both stock price appreciation and the effect of the continuous reinvestment of dividend payments. The graph shows that an initial $100 investment in the Bancorp stock on December 31, 1992, would be worth $367 on December 31, 1997.

==

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1997
Annual
Report

Leadership
Group

Board of Directors

Corporate Information

Meeting the
Challenge
of Community Banking

"Customers... want to do business with people they know, trust, and who are empowered to make decisions at the local level."

NORTHWEST INDIANA
===================
BANCORP

Leadership
Group

[PHOTO OF LEADERSHIP TEAM]

Standing left to right: Robert T. Lowry, Vice President, Controller, David W. Homrich, Assistant Vice President, Munster Branch Manager, Mary D. Mulroe, Assistant Vice President, Manager of Loan Administration, Joel Gorelick, Vice President, Chief Lending Officer, Terry R. Gadberry, Assistant Vice President, Commercial Loan Officer, Rodney L. Grove, Vice President Retail Banking, David A. Bochnowski, Chairman and Chief Executive Officer, Daniel W. Moser, Vice President for Housing Finance, Frank J. Bochnowski, Senior Vice President, General Counsel, Trust Officer and Corporate Secretary, Edward J. Furticella, Vice President, Chief Financial Officer, Marilyn K. Repp, Assistant Vice President, Merrillville/Taft Branch Manager, Jill M. Knight, Assistant Vice President, Merrillville/Broadway Branch Manager, Robert J. Soohey, Assistant Vice President, Manager of Housing Finance, and Stephan A. Ziemba, Assistant Vice President, Trust Officer

Seated left to right: Barbara J. Zura, Assistant Vice President, Woodmar Branch Manager, Arlene M. Wohadlo, Assistant Vice President, Manager of Accounting, and Linda L. Kollada, Assistant Vice President, Human Resource Manager.

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BOARD OF DIRECTORS

The Board of Directors brings 211 years of combined community banking experience to our shareholders.

<TABLE>

<S>	<C>	<C>
photo of chairman of the board	photo of board member	photo of chairman emeritus
DAVID A. BOCHNOWSKI - 21 Years Chairman and Chief Executive Officer Experience	LEROY F. CATALDI - 21 Years Manager of Cataldi Prescription Shop, Dyer, Indiana	BENJAMIN A. BOCHNOWSKI Chairman Emeritus, Advisory Director 45 years Community Banking
photo of	photo of	photo of

board member	board member	director emeritus
GLORIA GRAY - 15 Years Retired Vice President and Treasurer of Career Development Consultants, Munster, Indiana	LOURDES M. DENNISON - 14 Years Administrative Director, Dennison Surgical Corp. Merrillville, Indiana	HAROLD G. REUTH Director Emeritus 30 Years Community Banking Experience
photo of board member	photo of board member	
JOHN J. WADAS, JR. - 13 Years Dentist practicing in Munster and East Chicago, Indiana	JEROME F. VRABEL - 13 Years Vice President, ED&F Man International Inc. Chicago, Illinois	
photo of board member	photo of board member	
JAMES J. CRANDALL - 40 Years Retired Attorney	STANLEY E. MIZE - 1 Year President of Towne & Countree Auto Sales and Co-owner of Lake Shore Ford	

</TABLE>

Corporate Information

<TABLE>
<S> <C> <C>

CORPORATE HEADQUARTERS
9204 COLUMBIA AVENUE
MUNSTER, INDIANA 46321

TELEPHONE
219/836-9690

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

INDEPENDENT AUDITORS
Crowe, Chizek and Company LLP
330 East Jefferson Boulevard
P.O. Box 7
South Bend, Indiana 46624

SPECIAL LEGAL COUNSEL
Baker & Daniels
300 North Meridian Street
Suite 2700
Indianapolis, Indiana 46204

PEOPLES BANK SB OFFICERS
David A. Bochnowski
Chairman and Chief Executive Officer*
Joel Gorelick
Vice President, Chief Lending Officer*
Edward J. Furticella
Vice President, Chief Financial Officer*
Frank J. Bochnowski
Senior Vice President, General Counsel, Trust Officer and Corporate Secretary*
Daniel W. Moser
Vice President for Housing Finance
Rodney L. Grove
Vice President, Retail Banking
Robert T. Lowry
Vice President, Controller
*Holds similar office with NorthWest Indiana Bancorp

DIRECTORS OF NORTHWEST INDIANA BANCORP AND PEOPLES BANK SB
David A. Bochnowski
Chairman and Chief Executive Officer of the Bancorp
Munster, Indiana

Leroy R. Cataldi
Manager of Cataldi Prescription Shop,
Dyer, Indiana

Gloria C. Gray
Retired Vice President and Treasurer of Career Development Consultants,
Munster, Indiana

Lourdes M. Dennison
Administrative Director,
Kumpol Dennison Surgical Corporation,
Merrillville, Indiana

PEOPLES BANK SB MANAGEMENT PERSONNEL

Accounting
Arlene M. Wohadlo, Assistant Vice President

Branches
Shannon E. Franko, Schererville
Catherine L. Gonzalez, East Chicago
Christopher A. Grencik, Dyer
David W. Homrich, Assistant Vice President, Munster
Jill M. Knight, Assistant Vice President, Merrillville (Broadway)
Marilyn K. Repp, Assistant Vice President, Merrillville (Taft Street)
Barbara J. Zura, Assistant Vice President, Woodmar

Commercial Lending
Terry R. Gadberry, Assistant Vice President
Todd M. Scheub

Consumer Lending
James P. Lehr
Clovese R. Robinson
Sharon V. Vacendak

Housing Finance
Robert J. Soohey, Assistant Vice President
Sylvia Magallanez
Marvin O. Tucker

Human Resource
Linda L. Kollada, Assistant Vice President

Information Services
Tanya A. Mathews

ANNUAL SHAREHOLDERS MEETING
President

The Annual Meeting of Shareholders of NorthWest Indiana Bancorp will be held at the Wicker Park Social Center, Rts. 41 & 6, Highland, Indiana, on Wednesday, April 22, 1998 at 8:30 a.m.

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

John J. Wadas, Jr.
Dentist practicing in Munster and East Chicago, Indiana

Jerome F. Vrabel
Vice President, ED&F Man International Inc., Chicago, Illinois, a commodities brokerage firm on the Chicago Board of Trade

James J. Crandall
Retired Attorney

Stanley E. Mize
President of Towne & Countree Auto Sales and Co-owner of Lake Shore Ford

Chairman Emeritus, Advisory Director
Benjamin A. Bochnowski

Directors Emeriti
Harold G. Rueth
Albert J. Lesniak

Loan Administration
Mary D. Mulroe, Assistant Vice

Management Development
Meredith L. Rolewski
Michael J. Shimala

Staff Internal Auditor
Stacy A. Januszewski

Trust
Stephan A. Ziemba, Assistant Vice President

NorthWest Indiana
BANCORP

CORPORATE HEADQUARTERS,
9204 Columbia Avenue
Munster, Indiana 46321

219/836-9690

Peoples Bank
SINCE 1910

EAST CHICAGO, 4901 Indianapolis Blvd., 397-5010
HAMMOND, 7120 Indianapolis Blvd., 844-7210
DYER, 1300 Sheffield Avenue, 322-2530
MUNSTER, 9204 Columbia Avenue, 836-9690
SCHERERVILLE, 141 W. Lincoln Highway, 865-4300
MERRILLVILLE, 7915 Taft Street, 769-8452
8600 Broadway, 685-8600

FDIC Insured

EXHIBIT 21

Subsidiary of the Bancorp

	State of Incorporation
Peoples Bank SB*	Indiana

* Peoples Bank SB is wholly-owned by the Bancorp and the operations of the Bank are included in the Consolidated Financial Statements.

<TABLE> <S> <C>

<ARTICLE> 9
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<PERIOD-TYPE>	YEAR
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<CASH>	7,083
<INT-BEARING-DEPOSITS>	3,570
<FED-FUNDS-SOLD>	0
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<INVESTMENTS-CARRYING>	29,362
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<LOANS>	272,213
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<TOTAL-ASSETS>	319,609
<DEPOSITS>	272,090
<SHORT-TERM>	14,628
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<COMMON>	345
<OTHER-SE>	29,137
<TOTAL-LIABILITIES-AND-EQUITY>	319,609
<INTEREST-LOAN>	21,370
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<LOAN-LOSSES>	221
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<EXPENSE-OTHER>	7,154
<INCOME-PRETAX>	5,639
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<NET-INCOME>	3,416
<EPS-PRIMARY>	2.47
<EPS-DILUTED>	2.45
<YIELD-ACTUAL>	4.12
<LOANS-NON>	966
<LOANS-PAST>	226
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<ALLOWANCE-OPEN>	2,887
<CHARGE-OFFS>	34
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<ALLOWANCE-CLOSE>	3,074
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