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, 1998

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, 1999, 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 $41,109,054.

There were 2,763,156 shares of the registrant's Common Stock, without par value, outstanding at February 28, 1999 (as adjusted to reflect a two-for-one stock split effected as a share dividend to shareholders of record as of that date).

DOCUMENTS INCORPORATED BY REFERENCE

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

1. 1998 Annual Report to Shareholders. (Parts II and IV)

2. Definitive Proxy Statement for the 1999 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 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 within a one year time period. Further discussion of interest rate risk can be found under the caption "Asset/Liability Management and Market Risk" in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the Bancorp's 1998 Annual Report to Shareholders.

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

LENDING ACTIVITIES

GENERAL. The Bancorp's product offerings include residential mortgage loans, construction loans, commercial real estate loans, consumer loans and commercial business loans. Over the years, the Bancorp 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 Bancorp 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, on a case-by-case basis, in the secondary market as part of the Bancorp's efforts to manage interest rate risk. All loan sales are made to the Federal Home Loan Mortgage Corporation ("FHLMC"). Loans are sold in the secondary market with servicing retained by the Bancorp. All loans held for sale are recorded at the lower of cost or market value.

Under Indiana Law, an Indiana stock savings bank generally may not make any loan to a borrower or its related entities if the total of all such loans by the savings bank exceeds 15% of its unimpaired capital and unimpaired surplus (plus up to an additional 10% of unimpaired capital and unimpaired surplus, in the case of loans fully collateralized by readily marketable collateral); provided, however, that certain specified types of loans are exempted from these limitations or subject to different limitations. The maximum amount which the Bank could have loaned to one borrower and the borrower's related entities at December 31, 1998, under the 15% of capital and surplus limitation was approximately $5,167,000. At December 31, 1998, the Bank had no loans that exceeded the regulatory limitations.

At December 31, 1998, there were no concentrations of loans in any type of industry that exceeded 10% of total loans that were not otherwise disclosed as a loan category.

LOAN PORTFOLIO. The following table sets forth selected data relating

to the composition of the Bancorp's loan portfolio by type of loan and type of collateral at the end of each of the last five years. The amounts are in thousands (000's).
<TABLE>
<CAPTION>

	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Type of loan:					
Conventional real estate loans:					
Construction and development loans	$ 19,211	$ 21,440	$ 13,248	$ 8,913	$ 8,451
Loans on existing properties (1)	220,755	221,482	208,601	194,779	196,468
Consumer loans	10,187	5,661	4,890	3,527	3,172
Commercial business, other(2)	23,280	23,630	17,957	15,074	13,839
Loans receivable(3)	$273,433	$272,213	$244,696	$222,293	$221,930
Type of collateral:					
Real estate:					
1-to-4 family	$172,949	$178,091	$164,590	$152,485	$152,208
Other dwelling units, land and commercial real estate	67,018	64,831	57,259	51,207	52,711
Consumer loans	9,887	5,410	4,619	3,335	2,960
Commercial business, other(2)	21,433	21,712	16,306	13,893	13,288
Loans receivable (4)	$271,287	$270,044	$242,774	$220,920	$221,167
Average loans outstanding during the period (3)	$271,406	$254,219	$232,465	$221,352	$213,349

<FN>

(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.
</TABLE>

LOAN ORIGINATIONS, PURCHASES AND SALES. Set forth below is a table showing loan origination, purchase and sale activity for each of the last three years.
The amounts are in thousands (000's).
<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Loans originated:			
Conventional real estate loans:			
Construction and development loans	$ 9,683	$ 13,168	$ 16,244
Loans on existing property	29,448	23,461	26,811
Loans refinanced	10,961	14,824	10,253
Total conventional real estate loans originated	50,092	51,453	53,308
Commercial business loans	59,646	60,944	53,580
Consumer loans	6,519	4,591	7,290
Total loans originated	$116,257	$116,988	$114,178
Loan participations purchased	$ 5,238	$ 3,240	$ --
Whole loans and participations sold	$ 3,785	$ 1,820	$ 2,011

</TABLE>

LOAN MATURITY SCHEDULE. The following table sets forth certain information at December 31, 1998, regarding the dollar amount of loans in the Bancorp's portfolio based on their contractual terms to maturity. Demand loans, loans having no schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. Contractual principal repayments of loans do not necessarily reflect the actual term of the loan portfolio. The average life of mortgage loans is substantially less than their contractual terms because of loan prepayments and because of enforcement of due-on-sale clauses, which give the Bancorp the right to declare a loan immediately due and payable in the event, among other things, that the borrower sells the property subject to the mortgage and the loan is not repaid. The amounts are stated in

thousand's (000's).

	Maturing			
	Within one year	After one but within five years	After five years	Total
Real estate loans	$ 39,110	$ 57,587	$143,270	$239,967
Consumer loans	6,986	2,997	204	10,187
Commercial business loans	13,879	7,620	1,780	23,279
Total loans receivable	$ 59,975	$ 68,204	$145,254	$273,433

The table below sets forth the dollar amount of all loans due after one year from December 31, 1998, which have predetermined interest rates or have floating or adjustable interest rates. The amounts are stated in thousands (000's).

	Predetermined rates	Floating or adjustable rates	Total
Real estate loans	$ 92,868	$107,990	$200,858
Consumer loans	3,192	8	3,200
Commercial business loans	5,015	4,385	9,400
Total	$101,075	$112,383	$213,458

LENDING AREA. The primary lending area of the Bancorp encompasses all of Lake County in northwest Indiana, where a majority of loan activity is concentrated. The Bancorp is also an active lender in Porter, 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, 1998, the housing vacancy rate in the Bancorp's primary lending area was below 5%.

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

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

Designated officers have authorities, established by the Board of Directors, to approve loans. Loans from $600,000 to $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 Board of Directors. Loans to directors and principal shareholders must be approved by a disinterested majority of the 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 Bancorp 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 Bancorp's exposure to 80% or less of the appraised value of the property. Loans insured by private mortgage insurance companies can be made for up to 97% of value. During 1998, over 90% of mortgage loans closed were conventional loans with borrowers having 20% or more equity in the property. This type of loan does not require private mortgage insurance because of the borrower's level of equity investment.

Fixed-rate loans currently being originated, generally 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 15 year mortgage loan program has gained wide acceptance in the Bancorp'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.

The Bancorp has offered Adjustable Rate Mortgage Loans ("ARMs") since 1984. The "Mini-Fixed ARM" has been very popular with Bancorp customers. The "Mini-Fixed" mortgage reprices annually after a three, five or seven year period. ARM originations totaled $16.9 million for 1998, $23.6 million for 1997, and $26.1 million during 1996. During 1998, ARMs represented 34% of total mortgage loan originations. The ability of the Bancorp to successfully market ARM's depends upon loan demand, prevailing interest rates, volatility of interest rates, public acceptance of such loans, and terms offered by competitors.

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

Loans are also made for the construction of commercial properties. All such loans are made in accordance with well defined underwriting standards, subject to prior lease of the mortgaged property and a confirmed end-loan takeout. In most cases, these loans are personally guaranteed by the borrower. In general, loans made do not exceed 75% of the appraised value of the property. Commercial construction loans are typically made for periods 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 with an amortizing term exceeding twenty years normally 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 Bancorp the opportunity to restructure the loan if economic conditions so warrant. Commercial real estate loans include loans secured by commercial rental units, apartments, condominium developments, small shopping centers, commercial/industrial properties, and other retail and commercial developments.

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

Loans for the construction of commercial 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 Bancorp's primary lending area generally involve borrowers and guarantors who are or were previous customers of the Bancorp.

CONSUMER LOANS. The Bancorp offers consumer loans to individuals for most personal, household or family purposes. Consumer loans are either secured

by adequate collateral, or unsecured. Unsecured loans are based on the strength of the applicant's financial condition. All borrowers must meet current underwriting standards. The consumer loan program includes both fixed and variable rate products. The Bancorp purchases indirect dealer paper from various well established businesses in its immediate banking area.

HOME EQUITY LINE OF CREDIT. The Bancorp offers "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 Bancorp's priority in extending various types of commercial business loans changes from time to time, the basic considerations in determining the makeup of the commercial business loan portfolio are economic factors, regulatory requirements and money market conditions. The Bancorp seeks commercial loan relationships from the local business community and from its present customers. Conservative lending policies based upon sound credit analysis governs the extension of commercial credit. The following loans, although not inclusive, are considered preferable for the Bancorp's commercial loan portfolio: loans collateralized by liquid assets; loans secured by general use machinery and equipment; secured short-term working capital loans to established businesses; short-term loans with established sources of repayment and secured by sufficient equity and real estate; and unsecured loans to customers whose character and capacity to repay are firmly established.

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

The table that follows sets forth information with respect to the Bancorp's non-performing assets at December 31, for the periods indicated. During the periods shown, the Bancorp had no troubled debt restructurings which involve forgiving a portion of interest or principal on any loans or making loans at a rate materially less than market rates. The amounts are stated in thousands (000's).

	1998	1997	1996	1995	1994
Loans accounted for on a non-accrual basis:					
Real estate:					
Residential	$636	$715	$583	$361	$786
Commercial	131	44	45	--	82
Commercial business	69	56	111	--	--
Consumer	18	151	49	11	6
Total	$854	$966	$788	$372	$874
Accruing loans which are contractually past due 90 days or more:					
Real estate:					
Residential	$ 429	$ 220	$ 373	$ 637	$ 575
Commercial	--	--	--	--	--
Commercial business	188	--	5	--	104
Consumer	--	6	1	46	6
Total	$ 617	$ 226	$ 379	$ 683	$ 685
Total of non-accrual and 90 days past due	$1,471	$1,192	$1,167	$1,055	$1,559
Ratio of non-performing loans to total assets	0.43%	0.37%	0.39%	0.38%	0.59%
Ratio of non-performing loans to total loans	0.54%	0.44%	0.48%	0.47%	0.70%
Foreclosed real estate	$ 32	$ 259	$ 189	$ 86	$ 160
Ratio of foreclosed real estate to total assets	0.01%	0.08%	0.06%	0.03%	0.06%

During 1998, gross interest income of $109,888 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 $69,068.

Federal regulations require savings banks to classify their own loans and to establish appropriate general and specific allowances, subject to regulatory review. These regulations are designed to encourage management to evaluate loans on a case-by-case basis and to discourage automatic classifications. Loans classified as substandard or doubtful must be evaluated by management to determine loan loss reserves. Loans classified as

loss must either be written off or reserved for by a specific allowance. Amounts reported in the general loan loss reserve are included in the calculation of the Bancorp's total risk-based capital requirement (to the extent that the amount does not exceed 1.25% of total risk-based assets), but are not included in tier-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, 1998, $1.2 million of the Bancorp's loans were classified as substandard. The total represents 26 loans. There was 1 loan for $4 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 the ALL 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, 1998, 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, 1998, 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 that follows sets forth the allowance for loan losses and related ratios for the periods indicated. There were no charge-offs or recoveries of real estate construction loans or commercial real estate loans during the periods presented. The amounts are in thousands (000's).
<TABLE>
<CAPTION>

	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Balance at beginning of period	$ 3,074	$ 2,887	$ 2,830	$ 2,751	$ 2,583
Loans charged-off:					
Real estate - residential	(38)	(9)	(28)	--	--
Commercial business	(20)	(19)	--	--	(7)
Consumer	(10)	(6)	--	(2)	(3)
Total charge-offs	(68)	(34)	(28)	(2)	(10)
Recoveries:					
Commercial business	9	--	--	--	1
Consumer	7	--	--	1	33
Total recoveries	16	--	--	1	34
Net (charge-offs)/recoveries	(52)	(34)	(28)	(1)	24
Provision for loan losses	110	221	85	80	144
Balance at end of period	$ 3,132	$ 3,074	$ 2,887	$ 2,830	$ 2,751
ALL to loans outstanding	1.14%	1.13%	1.18%	1.27%	1.24%
ALL to nonperforming loans	212.9%	257.8%	247.4%	268.3%	160.0%
Net charge-offs/recoveries to average loans outstanding during the period	0.02%	0.01%	0.01%	0.00%	0.01%

</TABLE>

The table below shows the allocation of the allowance for loan losses at December 31, for 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>

	1998		1997		1996		1995		1994	
	$	%	$	%	$	%	$	%	$	%
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Real estate loans:										
Residential	302	56.7	322	57.5	372	61.8	372	64.6	387	64.8
Commercial and other dwelling	953	24.0	932	23.8	880	23.4	860	23.0	834	23.8
Construction and development	268	7.1	268	7.9	153	5.4	130	4.0	105	3.8
Consumer loans	196	3.7	153	2.1	110	2.0	110	1.6	111	1.4
Commercial business and other	630	8.5	630	8.7	650	7.4	650	6.8	626	6.2
Unallocated	783		769		722		708		688	
Total	3,132	100.0	3,074	100.0	2,887	100.0	2,830	100.0	2,751	100.0

</TABLE>

INVESTMENT ACTIVITIES

The primary objective of the investment portfolio is to provide for the liquidity needs of the Bancorp and to contribute to profitability by providing a stable flow of dependable earnings. Securities are classified as either held-to-maturity (HTM) or available-for-sale (AFS) at the time of purchase. No securities are classified as trading investments. At December 31, 1998, AFS securities totaled $20.5 million or 56.3% of total securities. The AFS portfolio permits the active management of the Bancorp's liquidity position. On October 1, 1998, the Bancorp adopted Statement of Financial Accounting Standard (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, and as permitted transferred $12.2 million from the HTM portfolio to the AFS portfolio. During 1998, the Bancorp did not have derivative instruments and was not involved in hedging activities as defined by SFAS No. 133. It has been the policy of the Bancorp to invest its excess cash in U.S. government securities and federal agency obligations. In addition, short-term funds are generally invested as interest-bearing balances in financial institutions and federal funds. At December 31, 1998, the Bancorp's investment portfolio totaled $36.4 million. In addition, the Bancorp had $10.1 million in interest-bearing balances at the FHLB and $4.5 million in federal funds sold.

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

<TABLE>
<CAPTION>

	1998	1997	1996
U.S. government securities:			
Available-for-sale	$ 7,669	$ --	$ --
Held-to-maturity	--	6,537	11,549
U.S. government agencies:			
Available-for-sale	12,853	--	--
Held-to-maturity	13,074	19,648	24,934
Mortgage-backed securities (1)	1,059	1,531	1,944
FHLB stock	1,695	1,646	1,597
Totals	$36,350	$29,362	$40,024

<FN>

(1) Mortgage-backed securities are classified as held-to-maturity.

</TABLE>

The contractual maturities and weighted average yields for the U.S. government securities, agency securities and mortgaged-backed securities at December 31, 1998, are summarized as follows. The carrying values 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
U.S. government Securities:								
AFS	$ 3,037	6.03%	$ 4,632	5.54%	$ --	-%	$ --	-%
U.S. government Agencies:								
AFS	3,532	5.86	9,321	5.69	--	--	--	--
HTM	--	--	13,074	6.18	--	--	--	--
Mortgaged-backed securities	--	--	3	7.04	888	7.98	168	10.52
Totals	$ 6,569	5.94%	$27,030	5.90%	$ 888	7.98%	$ 168	10.52%

</TABLE>

SOURCES OF FUNDS

GENERAL. Deposits are the major source of the Bancorp's funds for lending and other investment purposes. In addition to deposits, the Bancorp derives funds from maturing investment securities and certificates of deposit, dividend receipts from the investment portfolio, loan principal repayments, repurchase agreements, advances from the Federal Home Bank of Indianapolis (FHLB) and other borrowings. Loan repayments are a relatively stable source of

funds, while deposit inflows and outflows are significantly influenced by general interest rates and money market conditions. Borrowings may be used on a short-term basis to compensate for reductions in the availability of other sources of funds. They may also be used on a longer-term basis for general business purposes. The Bancorp uses repurchase agreements and advances from the FHLB for borrowings. At December 31, 1998, the Bancorp had $3.9 million in repurchase agreements. Other borrowings totaled $13.4 million, of which $12.0 million represents FHLB advances.

DEPOSITS. Retail and commercial deposits are attracted principally from within the Bancorp's primary market area through the offering of a broad selection of deposit instruments including savings accounts, 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 Bancorp to be more competitive in obtaining funds and to be flexible in meeting the threat of net deposit outflows. The Bancorp does not obtain funds through brokers.

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

	1998		1997		1996	
	Amount	rate %	Amount	rate %	Amount	rate %
Demand deposits	$ 18,957	--	$ 14,836	--	$ 13,122	--
NOW accounts	26,290	1.96	23,451	2.13	23,034	2.29
MMDA accounts	26,898	3.49	23,115	3.30	22,495	3.27
Savings accounts	46,179	2.86	43,673	3.01	43,521	3.02
Certificates of deposit	160,805	5.37	158,041	5.52	153,433	5.53
Total deposits	$279,129	4.09	$263,116	4.30	$255,605	4.33

</TABLE>

Maturities of time certificates of deposit and other time deposits of $100,000 or more at December 31, 1998 are summarized as follows. The amounts are in thousands (000's).
<TABLE>
<CAPTION>

3 months or less	$16,795
Over 3 months through 6 months	9,944
Over 6 months through 12 months	6,784
Over 12 months	2,791
Total	$36,314

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

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

<CAPTION>

	1998	1997	1996
Repurchase agreements	$ 3,937	$ 4,541	$ 3,993
FHLB line of credit	--	--	7,000
Fixed rate advances from the FHLB	4,000	4,000	--
Putable advances from the FHLB	8,000	4,000	--
Limited partnership obligation	500	--	--
Other borrowings	883	2,087	1,268
Total borrowings	$17,320	$14,628	$12,261

</TABLE>

The limited partnership obligation represents an investment interest in a partnership formed for the construction, ownership and management of affordable housing projects. The amount of the note is $500,000 with funding to begin during 1999 and to continue over a nine year period. Payments are required within ten days of written demand. The obligation to make payment is absolute and unconditional. The note requires no payment of interest.

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

	At December 31,		
	1998	1997	1996
Balance	$3,937	$4,541	$3,993
Securities underlying the agreements:			
Ending book value	6,460	7,988	5,572
Ending market value	6,483	8,014	5,559
Weighted average rate paid (1)	5.13%	5.54%	5.19%

<CAPTION>

	For year ended December 31,		
	1998	1997	1996
Highest month-end balance	$6,154	$4,975	$5,419
Approximate average outstanding balance	4,693	4,308	3,599
Approximate weighted average rate paid on securities sold under agreements to repurchase (2)	5.62%	5.43%	5.27%

<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 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, 1998, the market value of the trust department's assets totaled $111.4 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 Bancorp depend primarily upon the "spread" (difference) between (a) the income it receives from its loan portfolio and other investments and (b) its cost of money, consisting principally of the interest paid on savings accounts and on other borrowings.

The following table presents the weighted average yields on loans and investment securities, the weighted average cost of interest-bearing deposits and other borrowings, and the interest rate spread at December 31, 1998.
<TABLE>

Weighted average yield:	

Interest-bearing balances in financial institutions	4.64%
Securities	6.22
Net loans receivable	8.31
Total interest-earning assets	7.91
Weighted average cost:	
Interest bearing deposits	3.76
Borrowed funds	5.38
Total interest-bearing liabilities	3.85
Interest rate spread:	
Weighted average yield on interest-earning assets minus the weighted average cost of interest-bearing funds	4.06

</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,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Return on average assets	1.14%	1.13%	0.75%
Return on average equity	12.35	11.87	7.90
Average equity-to-average assets ratio	9.23	9.49	9.51
Dividend payout ratio	54.33	51.76	72.17

<CAPTION>

	At December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Total stockholders' equity to total assets	9.07%	9.22%	9.29%

</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, 1998			Year ended December 31, 1997		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
Assets:						
Interest bearing balances						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
in financial institutions	$ 7,867	$ 505	6.42%	$ 2,282	$ 139	6.09%
Federal funds sold	3,844	206	5.36	102	5	5.32
Securities	32,199	1,981	6.15	33,454	2,155	6.44

Total investments	43,910	2,692	6.13	35,838	2,299	6.42
Loans:*						
Real estate mortgage loans	240,670	19,747	8.21	230,420	19,128	8.30
Commercial business loans	22,350	2,071	9.27	18,380	1,780	9.68
Consumer loans	8,386	725	8.65	5,419	462	8.52
Total loans	271,406	22,543	8.31	254,219	21,370	8.41
Total interest-earning assets	315,316	25,235	8.00	290,057	23,669	8.16
Allowance for loan losses	(3,101)			(2,959)		
Cash and due from banks	7,616			6,005		
Premises and equipment	6,722			6,992		
Other assets	3,603			3,220		
Total assets	$ 330,156			$ 303,315		
Liabilities:						
Demand deposit	$ 18,957	-	0.00%	$ 14,836	-	0.00%
NOW accounts	26,290	515	1.96	23,451	500	2.13
Money market demand accounts	26,898	940	3.49	23,115	762	3.30
Savings accounts	46,179	1,321	2.86	43,673	1,315	3.01
Certificates of deposit	160,805	8,629	5.37	158,041	8,730	5.52
Total interest-bearing deposits	279,129	11,405	4.09	263,116	11,307	4.30
Borrowed funds	16,736	905	5.41	8,082	414	5.13
Total interest-bearing liabilities	295,865	12,310	4.16	271,198	11,721	4.32
Other liabilities	3,807			3,343		
Total liabilities	299,672			274,541		
Stockholders' equity	30,484			28,774		
Total liabilities and stockholders' equity	$ 330,156			$ 303,315		
Net interest income		$ 12,925			$ 11,948	
Net interest spread			3.84%			3.84%
Net interest margin**			3.91%			3.94%

<CAPTION>

	Year ended December 31, 1996		
	Average Balance	Interest Income/ Expense	Average Rate
Assets:			
<S>	<C>	<C>	<C>
Interest bearing balances in financial institutions	$ 3,846	$ 266	6.92%
Federal funds sold	1,068	58	5.43
Securities	42,513	2,605	6.13
Total investments	47,427	2,929	6.18
Loans:*			
Real estate mortgage loans	212,161	17,523	8.26
Commercial business loans	16,014	1,522	9.50
Consumer loans	4,290	363	8.46
Total loans	232,465	19,408	8.35

Total interest-earning assets	279,892	22,337	7.98
Allowance for loan losses	(2,854)		
Cash and due from banks	4,994		
Premises and equipment	6,153		
Other assets	3,098		
Total assets	$ 291,283		
Liabilities:			
Demand deposit	$ 13,122	-	0.00%
NOW accounts	23,034	528	2.29
Money market demand accounts	22,495	736	3.27
Savings accounts	43,521	1,315	3.02
Certificates of deposit	153,433	8,487	5.53
Total interest-bearing deposits	255,605	11,066	4.33
Borrowed funds	4,780	221	4.62
Total interest-bearing liabilities	260,385	11,287	4.32
Other liabilities	3,191		
Total liabilities	263,576		
Stockholders' equity	27,707		
Total liabilities and stockholders' equity	$ 291,283		
Net interest income		$ 11,050	
Net interest spread			3.66%
Net interest margin**			3.79%

<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, 1998 vs. 1997			Year Ended December 31, 1997 vs. 1996		
	Increase/(Decrease) Due To			Increase/(Decrease) Due To		
	Volume	Rate	Total	Volume	Rate	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest income:						
Loans receivable	$ 1,430	$ (257)	$ 1,173	$ 1,840	$ 122	$ 1,962
Securities	(79)	(95)	(174)	(578)	128	(450)
Other interest-earning assets	566	1	567	(146)	(34)	(180)

Total interest-earning assets	1,917	(351)	1,566	1,116	216	1,332
Interest Expense:						
Deposits	669	(571)	98	289	(48)	241
Federal Home Loan Bank Advances and other borrowings	467	24	491	167	26	193
Total interest-bearing liabilities	1,136	(547)	589	456	(22)	434
Net change in net interest income/(expense)	$ 781	$ 196	$ 977	$ 660	$ 238	$ 898

<CAPTION>

	Year Ended December 31, 1996 vs. 1995 Increase/(Decrease) Due To		
	Volume	Rate	Total
<S>	<C>	<C>	<C>
Interest income:			
Loans receivable	$ 930	$ (245)	$ 685
Securities	448	102	550
Other interest-earning assets	(48)	27	(21)
Total interest-earning assets	1,330	(116)	1,214
Interest Expense:			
Deposits	651	47	698
Federal Home Loan Bank Advances and other borrowings	106	(2)	104
Total interest-bearing liabilities	757	45	802
Net change in net interest income/(expense)	$ 573	$ (161)	$ 412

</TABLE>

INSERT TABLE

BANK SUBSIDIARY ACTIVITIES

The Bank's wholly owned subsidiary Peoples Service Corporation which is incorporated under the laws of the State of Indiana, is inactive. At December

31, 1998, the Bank had an investment balance of $10,000 in Peoples Service Corporation. During 1997, the Bank dissolved its wholly owned subsidiary PSA Insurance Corporation, which had been inactive.

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

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

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

The Bancorp 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, 1998, the Bank had 98 full-time and 23 part-time employees. The employees are not represented by a collective bargaining agreement. Management believes its employee relations are good. The Bancorp has four officers (listed below under "Executive Officers of the Bancorp"), but has no other employees. The Bancorp's officers also are full-time employees of the Bank, and are compensated by the Bank.

REGULATION AND SUPERVISION

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

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

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

SAVINGS BANK REGULATION. As an Indiana stock savings bank, the Bank is subject to federal regulation and supervision by the FDIC and to state regulation and supervision by the 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 disclosures, equal credit opportunity, fair credit reporting, trading in securities and other aspects of banking operations. Current federal law also requires savings banks, among other things, to make deposited funds available within specified time periods.

Under FDICIA, insured state chartered banks are prohibited from engaging as principal in activities that are not permitted for national banks, unless: (i) the FDIC determines that the activity would pose no significant risk to the appropriate deposit insurance fund, and (ii) the bank is, and continues to be, in compliance with all applicable capital standards. 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 Bancorp is subject to approval of the DFI and FDIC and geographic limits established by state laws. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Riegle-Neal Act") facilitates the interstate expansion and consolidation of banking organizations by permitting, among other things,(i) bank holding companies that are adequately capitalized and managed to acquire banks located in states outside their home state regardless of whether such acquisitions are authorized under the law of the host state, (ii) the interstate merger of banks, subject to the right of individual states to "opt out" of this authority, and (iii) banks to establish new branches on an

interstate basis provided that such action is specifically authorized by the law of the host state. The effect of this law may be to increase competition in the Bancorp'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% or greater, and is not subject to a regulatory order, agreement or directive to meet and maintain a specific capital level for any capital measure.

The following table shows that, at December 31, 1998, the Bancorp's capital exceeded all regulatory capital requirements. At December 31, 1998, the Bancorp's and the Bank's regulatory capital ratios were substantially the same. At December 31, 1998, the Bancorp and the Bank were categorized as well capitalized. The dollar amounts are in millions.

	Actual		Required for adequate capital		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets	$ 34.1	15.3%	$ 17.8	8.0%	$ 22.3	10.0%
Tier I capital to risk-weighted assets	$ 31.3	14.1%	$ 8.9	4.0%	$ 13.4	6.0%
Tier I capital to adjusted average assets	$ 31.3	9.2%	$ 10.2	3.0%	$ 17.0	5.0%

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 of so much of its undivided profits (generally, earnings less losses, bad debts, taxes and other operating expenses) as is considered expedient by the Bank's Board of Directors. However, the Bank must obtain the approval of the Indiana Department of Financial Institutions for the payment of a dividend if the total of all dividends declared by the Bank during the current year, including the proposed dividend, would exceed the sum of retained net income for the year to date plus its retained net income for the previous two years (approximately $3,863,000 at December 31, 1998). For this purpose, "retained net income" means net income as calculated for call report purposes, less all dividends declared for the applicable period. Also, the FDIC has the authority to prohibit the Bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice in light of the financial condition of the Bank. 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. For example, the regulations specify that a bank's CRA performance will be considered in its expansion (e.g., branching) proposals and may be the basis for approving, denying or conditioning the approval of an application. As of the date of its most recent regulatory examination, the Bank was rated "satisfactory" with respect to its CRA compliance.

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 Bancorp 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 Bancorp.

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 Bancorp, the base-year reserves are the balances as of December 31, 1987. Recapture of the excess reserves will occur over a six-year period that began for the Bancorp for its tax year ending December 31, 1998. Commencement of the recapture period was delayed for two years because the Bancorp met certain residential lending requirements. The Bancorp 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 Bancorp'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 Bancorp 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 Bancorp 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 environmental 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 open returns would not result in a deficiency that 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 1998 Annual Report to Stockholders attached hereto as Exhibit 13.

The Bancorp is subject to Indiana's Financial Institutions Franchise Tax ("FIT"), that 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, 1998, the Bancorp's consolidated total deferred tax assets were $1,240 thousand and the consolidated total deferred tax liabilities were $363 thousand, resulting in a consolidated net deferred tax asset of $877 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 Bancorp owns all of its office properties.

The table below sets forth additional information with respect to the Bank's offices as of December 31, 1998. 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
<S>	<C>	<C>	<C>	<C>
9204 Columbia Avenue Munster, In 46307	1985	$1,204,175	11,640	$2,342,776
141 W. Lincoln Highway Schererville, In 46375	1990	1,275,079	9,444	1,942,781
7120 Indianapolis Blvd. Hammond, In 46324	1978	308,675	2,600	738,136
1300 Sheffield Dyer, In 46311	1976	185,733	2,100	575,730
7915 Taft Merrillville, In 46410	1968	133,921	2,750	485,792
8600 Broadway Merrillville, In 46410	1996	2,058,808	8,800	2,526,030
4901 Indianapolis Blvd. East Chicago, In 46312	1995	1,098,703	4,300	1,429,280

</TABLE>

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, 1998, 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 lines 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 $6.7 million at December 31, 1998.

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 1998.

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 1999 Annual Meeting of Shareholders:

The executive officers of the Bancorp are as follows:

	AGE AT DECEMBER 31, 1998	POSITION
David A. Bochnowski	53	Chairman and Chief Executive Officer
Joel Gorelick	51	Vice President and Chief Lending Officer
Edward J. Furticella	51	Vice President, Chief Financial Officer and Treasurer
Frank J. Bochnowski	60	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 the Second Vice-Chairman of America's Community Bankers (ACB) and a director of ACB Partners, Inc., the operating subsidiaries of America's Community Banker. He is 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 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 and member of the School of Management's Advisory Group 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 Chairman and Chief Executive Officer.

PART II

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

The information contained under the captions "Business" and "Market Information" in the 1998 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 1998 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 1998 Annual Report to Shareholders is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information contained in the section captioned "Asset/Liability Management and Market Risk" in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the 1998 Annual Report to Shareholders is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements contained in the 1998 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 under the section captioned "Security Ownership by Certain Beneficial Owners and Management -- Section 16(a) Beneficial Ownership Reporting Compliance" in the Bancorp's definitive Proxy Statement for the 1999 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 1999 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 1999 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 1999 Annual Meeting of Shareholders, and in the footnote captioned "Related Party Transactions" in the 1998 Annual Report to Shareholders, is incorporated herein by reference.

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 1998 Annual Report to Shareholders, filed as Exhibit 13 to this report:

(a) Report of Independent Auditors

(b) Consolidated Balance Sheets, December 31, 1998 and 1997

(c) Consolidated Statements of Income for the years ended December 31, 1998, 1997 and 1996

(d) Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 1998, 1997 and 1996

(e) Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997 and 1996

(f) Notes to Consolidated Financial Statements

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

(3) EXHIBITS:

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

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 19, 1999

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 23, 1999:

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 Jerome F. Vrabel	Director
/s/James L. Wieser James L. Wieser	Director

EXHIBIT INDEX

Exhibit	Description	Page

3.iv.	Amendment of By-Laws adopted January 21, 1999
13.	1998 Annual Report to Shareholders
21.	Subsidiaries of the Bancorp
27.	Financial Data Schedule

EXHIBIT 3.iv

Amendment of By-Laws Adopted January 21, 1999

The first sentence of Section 2.1 of the By-Laws is hereby amended to read in its entirety as follows:

> "The business and affairs of the Corporation shall be managed under the direction of a Board of Directors consisting of nine Directors."

EXHIBIT 13

1998
Annual
Report

photo of bank customer

photo of bank customer with Peoples employee at computer

photo of bank
customer with Peoples employee

photo of
bank
customer

What your financial
resource should be.

[Peoples Bank LOGO]

NorthWest Indiana
BANCORP

1998
ANNUAL
REPORT

What your financial resource should be

DEAR SHAREHOLDERS:

1998 was a record year for the NorthWest Indiana Bancorp and our subsidiary, Peoples Bank. Our results occurred in an increasingly competitive environment, especially from regional banks determined to gain market share often at the cost of market value.

The rapid pace of change provides opportunity for all sectors of the local financial services industry. The NorthWest Indiana Bancorp has taken a proactive approach to these events resulting in increased value for our shareholders.

The Bancorp's earnings of $3.8 million were our highest ever and a 10.2% increase over the prior year. Our financial statistics were equally strong with our return on assets at 1.14% and return on equity at 12.35%.

The fundamentals of banking drove this year's results with core income and high asset quality leading the way. During 1998 the Bancorp's net interest income, the difference between interest income from earning assets and interest expense paid to depositors, rose 8.2% to $12.9 million. The ratio of non-performing loans to total loans was .54%

[photo of bank customer]

["Peoples Bank has provided quality financial services both personally and for my business for over 10 years. I consider them a valuable financial resource."]

Aleksandar Desancic
Progress Pump and Machine Services, Inc.

1998 Entrepreneurial Excellence Award
Small Business Person
of The Year

[photo of bank customer with bank employee]

["As a financial advisor I've worked with Peoples Bank for over 15 years. Their experienced trust officers emphasize personal service and we have developed a great relationship. I use them for all my trust services including land trusts, probate, investments, and more."]

Dennis Churilla
Financial Advisor

[PHOTO]
Left to right:
Dennis Churilla,
and Frank Bochnowski,
Senior Vice President and
Trust Officer

(fifty-four hundredths of 1%) a figure well below industry norms and indicative of high asset quality.

Also fueling our success was an asset growth rate of 8.1% and a 26.4% increase in non-interest income from banking operations. At the end of 1998 our assets were $345.4 million with a capital ratio of 9.2%.

The Bancorp's consistent performance has permitted our directors to reward shareholders for their investment in a locally-owned community bank. Dividends in 1998 were up 15.6% over 1997 and in February of 1999 the Board approved a 13.5% dividends increase as well as a two-for-one stock split. Our stock previously split two-for-one in 1995 and again in 1996. The Bancorp now has 2.8 million shares outstanding providing greater liquidity in the market and affordability to our investors.

Banking mergers in 1998 created bigger and bigger competitors, but also reduced the number of locally-owned banks in our community. Our challenge as a community bank centers on meeting the competition by providing a financial resource for our customers along with filling the vacuum created by the takeover of our former local competitors.

[photo of bank customer with bank employee]

["When I needed a loan for another truck for my business, other banks wouldn't give me the time of day. But when I brought my paperwork into Peoples, they took care of me right away. I won't go to another bank but Peoples."]

Stanley Bell
S & S Sales Inc.

Left to right:
Stanley Bell,
and Jim Lehr,
Assistant Vice President,
Manager, Consumer
Loan Department

To attract and maintain customers, local banks must do more than tout their local ownership and community orientation. Our philosophy links community awareness and responsive local decision making to competitive pricing that meets customer demand for high quality products and services. Rather than build market share, the Bancorp focuses on creating relationships with customers who add value to our presence as a financial resource in our community.

Lending has become a battle ground of banking with fierce competition for high quality credits. In addition to traditional consumer loans, the Bank has sought to attract small business customers with a package that meets asset management and lending needs while providing high quality, responsive service. Because our decision makers are locally based, the Bank can make timely determinations on loan requests and efficiently close transactions.

We have responded to the highly competitive banking environment with a customer-friendly approach to both traditional and electronic banking services. The Bank welcomes, without charge, customers who want to transact business with our tellers.

[photo of bank customer]

"We do business with Peoples because it is a locally-owned community bank. I value the fact that their banking family and our family-owned business have long standing community roots in Northwest Indiana. This fosters a commonality and a basis for trust."

Joseph "Bud" Newell
American Medical Oxygen Sales

[photo of bank customer with bank employee]

["I know why I bank with Peoples -- the people are the reason! They are always

friendly and extremely helpful. No matter what question or concern I have they are always available to help me."]

Jackie Larson
PC Checking Customer

Left to right:
Jackie Larson,
and Jill M. Knight,
Assistant Vice President, Merrillville (Broadway)

The Bank also recognizes that for some customers, service means transacting business without coming to the bank. We have invested in technologies which permit consumers to bank by phone and personal computer as well as access their accounts by ATM and debit cards. To meet the need for both convenience and safety, the Bank offers a variety of electronic delivery systems including wire transfers, electronic tax payments, direct deposits, electronic data interchange (EDI) and other electronic funds transfer services.

The Bancorp cannot be a financial resource for our community if operations are disrupted by technology issues associated by the year 2000 date change. Since 1997 the Board of Directors and management have been committed to readiness for the year 2000 through involvement with the Year 2000 project. The Bancorp believes it has made, and is positioned to continue to make, timely decisions to avoid disruptions to customer services at the turn of the century.

Left to right:
Tanya Mathews and Donna Germek,
Information Services Department

[photo of bank employees at computer]

["Preparing for Y2K is a top priority at Peoples Bank. We are testing, monitoring and modifying our computer systems to ensure a smooth transition into the year 2000."]

Tanya Mathews
Peoples Bank, Assistant Vice President,
Manager Information Services

Left to right:
Scott E. Hicko,
and Stephan A. Ziemba,
Assistant Vice President,
Trust Officer

[photo of bank customer with bank employee]

["Planning for the financial security of my clients is serious business. That's why I use Peoples Bank's Trust Department. They meet my customers needs with the professionalism and expertise you would expect from only the best."]

Scott E. Hicko, CPA
The Hicko CPA and
Financial Consulting Group

The Bancorp recognizes that customer financial investments extend beyond traditional banking products to equities, annuities, mutual funds and government obligations. Our trust department provides asset management services by experienced professionals who emphasize personal service and customized

portfolios. The department was relocated to Schererville in 1998 to improve our market presence and we are pleased to report that the book value of assets under management grew 11% during the year to $83.4 million.

As a financial resource the Bank offers more than products and services to our community. During 1998 our directors and management were involved in the leadership of fourteen major organizations in our community. In addition, over one hundred forty groups benefited from our human and financial resources during the year.

The excitement of the year's activity was marred by the untimely passing of Dr. John J. Wadas, Jr. The Wadas family has been associated with Peoples Bank since 1910 with John joining our Board in 1984. Dr. John was a strong proponent of shareholder value and his voice, while leaving a lasting impression, will be missed by his friends and colleagues at Peoples Bank. In his honor and memory, the Board has determined to leave John's board seat vacant at this time.

Left to right:
Edward Malloy,
and Barbara J. Zura,
Assistant Vice President,
Senior Branch Manager, Woodmar

[photo of bank customer with bank employee]

"I've been a customer of Peoples Bank for over 30 years and they have always treated me fairly. It's great to have a neighborhood bank that's so convenient with such wonderful people."

Edward Malloy
Savings Customer

In early 1999, we learned that a twenty eight year employee, Barbara J. Zura, would retire in March. During her years with the Bank, Barb worked in all departments and rose from part-time teller to assistant vice president and senior branch manager. Known for her caring personality, Barb endeared herself to her customers and all of us who were privileged to work with her. We thank her for making a substantial difference in our effort.

Also during February 1999 the Board created a ninth director's position and we welcome our newest director, Jim Wieser to the NorthWest Indiana Bancorp and Peoples Bank.

The competitive banking forces which emerged in 1998 will intensify this year and into the new millennium. As a financial resource, the Bancorp will meet these challenges by assisting our shareholders, consumer and business customers in attaining their financial goals.

Sincerely,

/s/ David A. Bochnowski

David A. Bochnowski
Chairman & CEO

1998

ANNUAL
REPORT

FINANCIAL
INFORMATION

Our philosophy links community awareness and responsive local decision making to competitive pricing that meets customer demand for high quality products and services. Rather than build market share, the Bancorp focuses on creating relationships with customers who add value to our presence as a financial resource in our community.

[LOGO]

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

Fiscal Year Ended	December 31, 1998	December 31, 1997	December 31, 1996	December 31, 1995	December 31, 1994	December 31, 1993 (1)
Statement of Income:						
Total interest income	$25,235	$23,669	$22,337	$21,123	$19,122	$ 9,360
Total interest expense	12,310	11,721	11,287	10,484	8,079	4,015
Net interest income	12,925	11,948	11,050	10,639	11,043	5,345
Provision for loan losses	110	221	85	80	145	319
Net interest income after provision for loan losses	12,815	11,727	10,965	10,559	10,898	5,026
Noninterest income	1,347	1,066	682	685	493	253
Noninterest expense	7,938	7,154	8,039	6,117	6,031	3,011
Net noninterest expense	6,591	6,088	7,357	5,432	5,538	2,758
Income tax expenses	2,461	2,223	1,419	2,026	2,132	902
Cumulative effect of changes in accounting	--	--	--	--	--	450
Net income	$ 3,763	$ 3,416	$ 2,189	$ 3,101	$ 3,228	$ 1,816
Basic earnings per common share (3)	$ 1.36	$ 1.24	$ 0.80	$ 1.13	$ 1.18	$ 0.67
Diluted earnings per common share (3)	$ 1.35	$ 1.23	$ 0.79	$ 1.12	$ 1.17	$ 0.66
Cash dividends declared per common share (3)	$ 0.74	$ 0.64	$ 0.58	$ 0.55	$ 0.55	$ 0.25

	December 31, 1998	December 31, 1997	December 31, 1996	December 31, 1995	December 31, 1994	December 31, 1993
Balance Sheet:						
Total assets..................	$ 345,417	$ 319,609	$ 299,419	$ 280,911	$ 266,343	$ 251,481
Loans receivable.............	273,433	272,213	244,696	222,293	221,930	204,205
Investment securities.........	36,350	29,362	40,024	38,001	33,678	33,639
Deposits.....................	293,222	272,090	256,420	247,945	234,639	222,945
Borrowed funds...............	17,320	14,628	12,261	3,139	3,151	2,087
Total stockholders' equity....	31,316	29,482	27,815	27,204	25,606	23,874

Fiscal Year Ended	December 31, 1998	December 31, 1997	December 31, 1996	December 31, 1995	December 31, 1994	December 31, 1993 (1) (2)
Interest Rate Spread During Period:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Average effective yield on loans and investment securities	8.00%	8.16%	7.98%	8.06%	7.66%	7.75%
Average effective cost of deposits and borrowings	4.16%	4.32%	4.32%	4.33%	3.48%	3.63%
Interest rate spread	3.84%	3.84%	3.66%	3.73%	4.18%	4.12%
Net interest margin	3.91%	3.94%	3.79%	3.91%	4.25%	4.27%
Return on average assets	1.14%	1.13%	0.75%	1.14%	1.24%	1.45%
Return on average equity	12.35	11.87%	7.90%	11.74%	13.04%	15.51%

	December 31, 1998	December 31, 1997	December 31, 1996	December 31, 1995	December 31, 1994	December 31, 1993
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Tier I capital to risk-weighted assets........	14.1%	13.8%	14.7%	15.8%	15.9%	15.5%
Total capital to risk-weighted assets........	15.3%	15.0%	16.0%	17.1%	17.2%	16.8%
Tier I capital leverage ratio	9.2%	9.2%	9.3%	9.7%	9.6%	9.5%
Allowance for loan losses to total loans.................	1.14%	1.13%	1.18%	1.27%	1.24%	1.26%
Allowance for loan losses to non-performing loans........	212.88%	257.84%	247.40%	268.25%	176.46%	454.75%
Non-performing loans to total loans.................	0.54%	0.44%	0.48%	0.47%	0.70%	0.27%
Total loan accounts...........	4,625	4,764	4,404	4,606	4,671	4,654
Total deposit accounts........	26,172	25.443	24,666	23,730	22,738	21,204
Total branches (all full service)	7	7	7	6	6	6

</TABLE>

(1) Six month period due to change in fiscal year end.
(2) Data for six months ended December 31, 1993 has been annualized.
(3) Adjusted for a two-for-one stock split effected as a share dividend to shareholders of record as of February 28, 1999.

SELECTED CONSOLIDATED FINANCIAL DATA
(In Thousands of Dollars, except Per Share Data)
<TABLE>
<CAPTION>

Fiscal Year Ended	June 30, 1993	June 30, 1992	June 30, 1991	June 30, 1990
Statement of Income:				
<S>	<C>	<C>	<C>	<C>
Total interest income	$19,035	$19,744	$20,709	$20,042
Total interest expense	8,485	10,698	12,896	13,145
Net interest income	10,550	9,046	7,813	6,897

Provision for loan losses	711	665	238	130
Net interest income after provision for loan losses	9,839	8,381	7,575	6,767
Noninterest income	749	726	757	622
Noninterest expense	5,378	4,795	4,625	4,357
Net noninterest expense	4,629	4,069	3,868	3,735
Income tax expenses	2,158	1,849	1,505	992
Cumulative effect of changes in accounting	--	--	--	--
Net income	$ 3,052	$ 2,463	$ 2,202	$ 2,040
Basic earnings per common share (3)	$ 1.13	$ 0.93	$ 0.83	$ 0.77
Diluted earnings per common share (3)	$ 1.10	$ 0.88	$ 0.79	$ 0.74
Cash dividends declared per common share (3)	$ 0.40	$ 0.34	$ 0.11	$ 0.08

<CAPTION>

	June 30, 1993	June 30, 1992	June 30, 1991	June 30, 1990
Balance Sheet:				
<S>	<C>	<C>	<C>	<C>
Total assets................	$ 246,180	$ 227,183	$ 220,053	$ 208,796
Loans receivable............	202,083	183,366	177,421	173,244
Investment securities.......	28,910	28,910	25,160	24,983
Deposits....................	219,133	202,823	196,880	188,621
Borrowed funds..............	993	609	799	604
Total stockholders' equity..	22,691	20,667	18,972	16,955

<CAPTION>

Fiscal Year Ended	June 30, 1993	June 30, 1992	June 30, 1991	June 30, 1990
Interest Rate Spread During Period:				
<S>	<C>	<C>	<C>	<C>
Average effective yield on loans and investment securities	8.24%	9.20%	10.08%	10.28%
Average effective cost of deposits and borrowings....................	4.04%	5.39%	6.75%	7.25%
Interest rate spread................	4.20%	3.81%	3.33%	3.03%
Net interest margin......................	4.44%	4.04%	3.80%	3.42%
Return on average assets.................	1.28%	1.10%	1.03%	1.01%
Return on average equity.................	14.00%	12.38%	12.31%	12.82%

<CAPTION>

	June 30, 1993	June 30, 1992	June 30, 1991	June 30, 1990
<S>	<C>	<C>	<C>	<C>
Tier I capital to risk-weighted assets.............	14.9%	14.7%	14.1%	13.1%
Total capital to risk-weighted assets............	16.1%	15.9%	14.8%	13.7%
Tier I capital leverage ratio	9.2%	9.1%	8.6%	8.1%
Allowance for loan losses to total loans......................	1.15%	0.88%	0.53%	0.42%
Allowance for loan losses to non-performing loans.............	382.34%	231.51%	117.96%	155.93%
Non-performing loans to total loans......................	0.30%	0.38%	0.45%	0.27%
Total loan accounts................	4,661	4,755	4,793	4,428
Total deposit accounts.............	21,330	20,834	21,200	21,492
Total branches (all full service) ..	6	6	6	6

</TABLE>

Business

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

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

The Bancorp's common stock is traded in the over-the-counter market and quoted in the National Quotation Bureau's "Pink Sheets". On December 2, 1996 and again on February 28, 1999, the Bancorp effected a two-for-one common stock split as a share dividend. Earnings and dividends per share and other share related information is restated for all stock splits and dividends through the date of issue of the financial statements. On February 28, 1999, the Bancorp had 2,763,156 shares of common stock outstanding and 484 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]

TOTAL ASSETS (DOLLARS IN MILLIONS)

1994	1995	1996	1997	1998
$266.3	$280.9	$299.4	$319.6	$345.4

Total assets have increased from $266.3 million at December 31, 1994 to $345.4 million at December 31, 1998. Growth during 1998 totaled $25.8 million or 8.1%.

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, 1998, the Bancorp had total assets of $345.4 million and total deposits of $293.2 million. The Bancorp'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, 1998, stockholders' equity totaled $31.3 million, with book value per share at $11.34. Net income for 1998 was $3.8 million, or $1.36 per common share and $1.35, assuming dilution. The return on average assets (ROA) was 1.14%, while the return on average stockholders' equity (ROE) was 12.35%.

[GRAPHIC]

TOTAL ASSET COMPOSITION (DOLLARS IN MILLIONS)

Commercial Real Estate and Multifamily - $67.0 (19.4%)
Commercial Business and Other - $23.3 (6.7%)
Consumer - $10.2 (2.9%)
Other Assets - $22.7 (6.6%)
Investments and Interest Bearing Liabilities - $49.3 (14.3%)
Construction and Land Development - $19.2 (5.6%)

Residential Real Estate, including Home Equity - $153.7 (44.5%)

At December 31, 1998, the Bancorp had total assets of $345.4 million. Interest-earning assets totaled $325.0 million and represented 94.1% of total assets.

- --

Asset/Liability Management and Market Risk

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

The Bancorp 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, on a case-by-case basis, in the secondary market as part of the Bancorp's efforts to manage interest rate risk. The Bancorp retains the servicing on all loans sold in the secondary market.

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

The Bancorp's cost of funds reacts rapidly to changes in market interest rates due to the relatively short-term nature of its deposit liabilities. Consequently, the levels of short-term interest rates have influenced the Bancorp's results of operations. In order to reduce exposure to interest rate risk, core deposits (checking, savings and money market accounts) have been aggressively marketed and certificate accounts have been competitively priced. Account activity 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 FHLB. FHLB advances with maturities ranging from one to ten years are used to fund securities and loans of comparable duration, as well as, to reduce the impact that movements in short-term interest rates have on the Bancorp's overall cost of funds. The Bancorp does not obtain funds through brokers.

The Bancorp's primary market risk exposure is interest rate risk. Interest rate risk (IRR) is the risk that the Bancorp's earnings and capital will be adversely affected by changes in interest rates. The primary approach to IRR management is one that focuses on adjustments to the Bancorp'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 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.

Because the Bancorp 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 focus on investments and loans of short duration, adjustable rate

loans, core deposit growth, and a cost-effective mix of deposits and borrowed funds. Increasing the amount of interest-earning assets that are rate sensitive, extending the maturities of customer deposits, increasing the balances of core deposit accounts and utilizing cost effective borrowings are all part of management's commitment toward reducing the Bancorp's overall vulnerability to interest rate risk. While these steps may reduce the overall vulnerability to interest rate risk, the Bancorp will still be adversely affected by a rising or high interest rate environment, and is beneficially affected by a falling or low interest rate environment because rate sensitive liabilities exceed rate

sensitive assets maturing or repricing within a one year time period.

The table that follows provides forward-looking information about the Bancorp's financial instruments that are sensitive to changes in interest rates as of December 31, 1998. The Bancorp had no derivative financial instruments or trading portfolio as of December 31, 1998. The table that follows incorporates the Bancorp'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. From a risk management perspective, however, the Bancorp believes that adjusting cash flows to reflect the impact that interest rate fluctuations have on the prepayment of loans, and using repricing dates, as opposed to contractual maturity dates, may be more relevant in analyzing the value of financial instruments. The table does not include demand deposits, and for other core deposits (NOWs, savings, and money market deposit accounts) that have no contractual maturity, the table presents principal balances and related weighted-average interest rates in the column dated 1999. 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 Bancorp believes that such adjustments may be more relevant in analyzing the impact of changing interest rates on the value of these financial instruments.

Tabular Presentation: Quantitative Disclosures of Market Risk
<TABLE>
<CAPTION>

(Dollars in thousands)	Principal Amount Maturing in:					
	1999	2000	2001	2002	2003	Thereafter
Rate-sensitive assets:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Fixed-interest-rate loans (1)	$ 19,200	$ 10,863	$ 13,633	$ 7,747	$ 7,204	$ 51,107
Average interest rate	8.50%	7.90%	7.95%	7.73%	7.64%	7.45%
Variable-interest-rate loans	40,775	9,087	6,342	6,300	7,028	94,745
Average interest rate	8.58%	8.35%	8.22%	8.18%	8.19%	7.86%
Total loans	59,975	19,950	19,975	14,047	14,232	145,852
Average interest rate	8.54%	8.10%	8.04%	7.93%	7.91%	7.74%
Securities available-for-sale	6,569	5,623	4,757	2,068	1,505	--
Average interest rate	5.94%	5.96%	5.55%	5.08%	5.36%	0.00%
Securities held-to-maturity	--	497	3,584	2,502	6,494	1,056
Average interest rate	0.00%	5.75%	6.15%	5.95%	6.37%	8.38%
Federal Home Loan Bank stock	--	--	--	--	--	1,695
Average interest rate	0.00%	0.00%	0.00%	0.00%	0.00%	8.00%
Other interest-bearing assets	14,611	--	--	--	--	--
Average interest rate	4.64%	0.00%	0.00%	0.00%	0.00%	0.00%
Total rate-sensitive assets	81,155	26,070	28,316	18,617	22,231	148,603
Average interest rate	7.63%	7.60%	7.38%	7.35%	7.29%	7.75%
Rate-sensitive liabilities:						
NOW accounts	28,246	--	--	--	--	--
Average interest rate	1.29%	0.00%	0.00%	0.00%	0.00%	0.00%
Savings and money market accounts ..	82,302	--	--	--	--	--
Average interest rate	2.76%	0.00%	0.00%	0.00%	0.00%	0.00%
Certificates of deposit	137,327	19,410	2,567	1,024	--	--

Average interest rate	5.07%	5.28%	5.49%	5.36%	0.00%	0.00%
Total interest bearing deposits	247,875	19,410	2,567	1,024	--	--
Average interest rate	3.87%	5.28%	5.49%	5.36%	0.00%	0.00%
Fixed-interest-rate borrowings	8,432	490	76	4,061	2,061	2,200
Average interest rate	5.43%	4.51%	0.00%	5.45%	5.19%	4.80%
Total rate-sensitive liabilities	256,307	19,900	2,643	5,085	2,061	2,200
Average interest rate	3.92%	5.26%	5.33%	5.43%	5.19%	4.80%

<CAPTION>

(Dollars in thousands)	Principal Amount Maturing in:	
	Total	Fair Value 12/31/98
Rate-sensitive assets:		
<S>	<C>	<C>
Fixed-interest-rate loans (1)	$ 109,754	$102,449
Average interest rate	7.77%	
Variable-interest-rate loans	164,277	174,440
Average interest rate	8.10%	
Total loans	274,031	276,889
Average interest rate	7.98%	
Securities available-for-sale	20,522	20,522
Average interest rate	5.72%	
Securities held-to-maturity	14,133	14,236
Average interest rate	6.37%	
Federal Home Loan Bank stock	1,695	1,695
Average interest rate	8.00%	
Other interest-bearing assets	14,611	14,611
Average interest rate	4.64%	
Total rate-sensitive assets	324,992	327,953
Average interest rate	7.62%	
Rate-sensitive liabilities:		
NOW accounts	28,246	28,246
Average interest rate	1.29%	
Savings and money market accounts	82,302	82,302
Average interest rate	2.76%	
Certificates of deposit	160,328	160,688
Average interest rate	5.10%	
Total interest bearing deposits	270,876	271,236
Average interest rate	3.99%	
Fixed-interest-rate borrowings	17,320	17,373
Average interest rate	5.27%	
Total rate-sensitive liabilities	288,196	288,609
Average interest rate	4.07%	

</TABLE>

(1) Includes loans held for sale of $598 thousand.

Financial Condition

During the year ended December 31, 1998, total assets increased by $25.8 million (8.1%), with interest-earning assets increasing by $19.8 million

(6.5%). At December 31, 1998, interest-earning assets totaled $325.0 million and represented 94.1% of total assets. Loans (comprised of loans receivable and loans held for sale) totaled $274.0 million and represented 84.3% of interest-earning assets, 79.3% of total assets and 93.5% of total deposits. The loan portfolio includes $19.2 million (7.0%) in construction and land development loans, $154.3 (56.4%) in residential real estate loans, $67.0 million (24.4%) in commercial and multifamily real estate loans, $10.2 million (3.7%) in consumer loans and $23.3 million (8.5%) in commercial business and other loans. During 1998, loans increased by $1.8 million (0.7%). Adjustable rate loans comprised 67% of total loans at year-end. While the local economy remained strong throughout the year, the low interest rate environment resulted in increased refinance activity and some large loan payoffs. In addition, increased price competition within the Bancorp's market area has made loan growth more difficult. Assuming the continuation of the current strength of the local economy, the current interest rate environment, and an aggressive marketing and call program effort, management anticipates loan growth to increase during 1999. Management expects to fund loan growth with a mix of deposits and borrowed funds.

[GRAPHIC]
<TABLE>
<CAPTION>

TOTAL LOANS (DOLLARS IN MILLIONS)

1994	1995	1996	1997	1998
<C>	<C>	<C>	<C>	<C>
$221.9	$222.3	$244.7	$272.2	$273.4

</TABLE>

Total loans have increased from $221.9 million at December 31, 1994 to $273.4 million at December 31, 1998.

- --

During 1998, the Bancorp sold $3.7 million in fixed rate mortgages compared to $1.7 million in 1997 and $699 thousand in 1996. The amounts include 41 loans for 1998, 23 loans for 1997 and 10 loans for 1996. All loans sold had contractual maturities of thirty years. Net gains realized from the sales totaled $111 thousand, $26 thousand and $1 thousand for 1998, 1997 and 1996. Net mortgage loan servicing income totaled $16 thousand for 1998 and $21 thousand for 1997 and 1996. At December 31, 1998, the Bancorp had four loans totaling $598 thousand classified as held for sale. During 1999, the Bancorp expects to continue to sell future originations of thirty year fixed rate mortgage loans on a case-by-case basis as part of its efforts to manage interest rate risk.

[GRAPHIC]

LOAN COMPOSITION (DOLLARS IN MILLIONS)

Commercial Real Estate and Multifamily - $67.0 (24.4%)
Commercial Business and Other - $23.3 (8.5%)
Consumer - $10.2 (3.7%)
Construction and Land Development - $19.2 (7.0%)
Residential Real Estate, including Home Equity - $154.3 (56.4%)

At December 31, 1998, loans receivable and loans held for sale totaled $274.0 million and represented 84.3% of interest-earning assets.

- --

At December 31, 1998, the Bancorp's investment portfolio totaled $36.4 million and was invested as follows: 71.3% in U.S. government agency debt securities, 21.1% in U.S. government debt securities, 2.9% in U.S. government agency mortgage-backed securities and 4.7% in FHLB common stock. At December 31, 1998, securities available-for-sale totaled $20.5 million or 56.3% of total securities. The available-for-sale portfolio permits the active management of the Bancorp's liquidity position. On October 1, 1998, the Bancorp adopted Statement of Financial Accounting Standard (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, and as permitted transferred $12.2 million from the held-to-maturity portfolio to the available-for-sale portfolio. During 1998, the Bancorp did not have derivative instruments and was not involved in hedging activities as defined by SFAS No. 133. During 1998, investment securities increased by $7.0 million (23.8%) due to deposit growth and the slowdown in lending. In addition, the Bancorp had $10.1 million in interest-bearing balances at the FHLB and $4.5 million in federal funds sold.

[GRAPHIC]

NON-PERFORMING LOANS TO TOTAL LOANS

1994	1995	1996	1997	1998
0.70%	0.47%	0.48%	0.44%	0.54%

Management believes that the credit risk profile of the loan portfolio is relatively low. At December 31, 1998, the Bancorp's ratio of non-performing loans to total loans was 0.54% (fifty-four hundredths of one percent) which was below the industry norm.

- --

Management believes that the credit risk profile of the earning asset portfolio is relatively low. At December 31, 1998, the Bancorp had $1.5 million in non-performing loans. The December 31, 1998 balance includes $854 thousand in loans accounted for on a nonaccrual basis and $617 thousand in accruing loans which were contractually past due 90 days or more. The total of these nonperforming loans represents 0.54% of the total loan portfolio and 0.43% of total assets. The amount of non-accruing loans includes 19 loans. The amount of accruing loans, which are contractually past due 90 days or more includes 12 loans. At December 31, 1998, $1.2 million of the Bancorp's loans were classified as substandard. The total represents 26 loans. There was 1 loan for $4 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, 1998, there were no material credits that would cause management to have serious doubts as to the ability of such borrowers to comply with loan repayment terms.

At December 31, 1998, the Bancorp had $32 thousand in foreclosed real estate. The total includes 1 residential property and represents 0.01% of total assets.

Because some loans may not be repaid in accordance with contractual agreements, an allowance for loan losses (ALL) is 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 1998, amounts provided to the ALL account totaled $110 thousand compared to $221 thousand for 1997 and $85 thousand for 1996. The amount provided during 1998 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 $52 thousand during 1998.

ALLOWANCE FOR LOAN LOSSES TO TOTAL LOANS

[GRAPH]

<TABLE>

<S>	<C>
1994	1.24%
1995	1.27%
1996	1.18%
1997	1.13%
1998	1.14%

</TABLE>

At December 31, 1998, the Bancorp had $3.1 million in the Allowance for Loan Losses account. The amount represents 1.14% of loans outstanding and 212.9% of non-performing loans.

- --

At December 31, 1998, 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 performance and growth trends within the various loan categories, as well as, consideration of the facts and circumstances that affect the repayment of individual loans, as well as, loans which have been evaluated on a pooled basis. During 1998, additions to the ALL were allocated to the commercial real estate loans and consumer loans due to the growth in these portfolios and the additional risk related to these products. At December 31, 1998, no portion of the ALL was allocated to impaired loan balances as the Bancorp had no individual loans considered to be impaired loans as of, or for the year ended December 31, 1998.

[GRAPH]

TOTAL DEPOSITS
(DOLLARS IN MILLIONS)

<TABLE>
<S> <C>

1994	$234.6
1995	$247.9
1996	$256.4
1997	$272.1
1998	$293.2

Deposits are the major source of funds for lending and other investment purposes. During 1998, deposits increased by $21.1 million or 7.8%.

Deposits are the major source of funds for lending and other investment purposes. At December 31, 1998, deposits totaled $293.2 million. During 1998, deposit growth totaled $21.1 million (7.8%). Savings accounts increased $5.4 million (12.5%), money market deposit accounts (MMDAs) increased $11.0 million (49.3%), NOW accounts increased $4.6 million (19.4%), checking accounts increased $5.6 million (33.9%) and certificates of deposit decreased by $5.5 million (3.3%). The growth in core deposits was a result of competitive product offerings and an aggressive marketing program. At December 31, 1998, the deposit base was comprised of 16.7% savings accounts, 11.3% MMDAs, 9.6% NOW accounts, 7.6% checking accounts and 54.8% certificates of deposit. The decrease in certificates of deposit was caused by management's decision to replace municipal funds with FHLB advances having more favorable rates and longer terms to maturity. At December 31, 1998, repurchase agreements totaled $3.9 million. Other short-term borrowings totaled $1.4 million. The Bancorp had $12 million in FHLB advances with a weighted-average maturity of 3.9 years.

Liquidity and Capital Resources

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

[GRAPH]

CAPITAL TO TOTAL ASSETS

<S>	<C>
1994	9.6%
1995	9.7%
1996	9.3%
1997	9.2%
1998	9.2%

Management firmly believes that the safety and soundness of the Bancorp is enhanced by maintaining a high level of capital. At December 31, 1998, the Bancorp's capital exceeded all regulatory requirements. The Bancorp is categorized as "well capitalized". The ratio of Tier I capital to adjusted average assets reflects the change 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 14.1% and total capital to risk-weighted assets was 15.3%.

During 1998, cash and cash equivalents increased by $16.7 million compared to a $4.1 million increase for 1997 and a $8.4 million decrease for 1996. During 1998, cash provided by operating activities totaled $4.0 million, compared to $5.2 million for 1997 and $2.4 million for 1996. The decrease during 1998 was

due to cash flows from loan sales and the increase in other assets. Cash flows from investing activities reflect a slowdown in loan production during 1998. The net change in loans receivable and loans held for sale totaled $1.8 million during 1998, compared to $24.8 million for 1997 and $22.6 million for 1995. Cash flows from financing activities totaled $21.3 million during 1998, compared to $16.3 million for 1997 and $16.1 million for 1996. During 1998, the Bancorp paid dividends on common stock of $2.0 million. Deposit growth during 1998 totaled $21.1 million, compared to $15.7 million for 1997 and $8.5 million for 1996. The increase in borrowed funds totaled $2.2 million during 1998, compared to $2.3 million for 1997 and $9.1 million for 1996. The increased use of borrowed funds was due to favorable interest rates.

At December 31, 1998, outstanding commitments to fund loans totaled $40.0 million. Approximately 87% of the commitments were at variable rates. Management believes that the Bancorp has sufficient cash flow and borrowing capacity to fund all outstanding commitments and to maintain proper levels of liquidity.

Management strongly believes that safety and soundness is enhanced by maintaining a high level of capital. During 1998, stockholders' equity increased by $1.8 million (6.2%). The increase resulted primarily from earnings of $3.8 million for 1998. In addition, $2 thousand represents proceeds from the exercise of 214 stock options. The Bancorp paid $2.0 million in cash dividends during 1998. The net unrealized gain on available-for-sale securities was $114 thousand. At December 31, 1998, book value per share was $11.34 compared to $10.67 at December 31, 1997.

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 average assets) of 3% for financial institutions that meet certain specified criteria, including that they have the highest regulatory rating and are not experiencing or anticipating significant growth. All other financial institutions are required to maintain a Tier I leverage ratio of 3% plus an additional cushion of at least one to two percent.

The following table shows that, at December 31, 1998, the Bancorp's capital exceeded all regulatory capital requirements. At December 31, 1998, 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	$34.1	15.3%	$17.8	8.0%	$22.3	10.0%
Tier I capital to risk-weighted assets	$31.3	14.1%	$ 8.9	4.0%	$13.4	6.0%
Tier I capital to adjusted average assets .	$31.3	9.2%	$10.2	3.0%	$17.0	5.0%

</TABLE>

Results of Operations - Comparison of 1998 to 1997

Net income for 1998 was $3.8 million, compared to $3.4 million for 1997, an increase of $347 thousand (10.2%). The earnings represent a return on average assets of 1.14% for 1998 compared to 1.13% for 1997. The return on average equity was 12.35% for 1998 compared to 11.87% for 1997.

Net interest income for 1998 was $12.9 million, up $977 thousand (8.2%) from $11.9 million for 1997. The increase in net interest income was due to the growth in average interest-earning assets and a decrease in the cost of funds. Interest-earning assets averaged $315.3 million for 1998, up $25.3 million (8.7%) from $290.1 million for 1997. The weighted-average yield on interest-earning assets was 8.00% for 1998 compared to 8.16% for 1997. The weighted-average cost of funds was 4.16% for 1998 compared to 4.32% for 1997. The impact of the 8.00% return on interest-earning assets and the 4.16% cost of funds resulted in an interest rate spread of 3.84% for 1998, which equaled the 1997 interest rate spread. During 1998, total interest income increased by $1.6

million (6.6%) while total interest expense increased by $589 thousand (5.0%). The net interest margin was 3.91% for 1998 compared to 3.94% for 1997.

[GRAPH]

NET INTEREST MARGIN

1994	4.25%
1995	3.91%
1996	3.79%
1997	3.94%
1998	3.91%

The net interest margin is total interest income minus total interest expense stated as a percentage of average total assets. During 1998, the decrease was due to the impact that lower market interest rates had on interest-earning assets.

During 1998, interest income from loans increased by $1.2 million (5.5%) compared to 1997. The weighted-average yield on loans outstanding was 8.31% for 1998 compared to 8.41% for 1997. Higher average loan balances have contributed to the increase in interest income as loans averaged $271.4 million for 1998, up $17.2 million (6.8%) from $254.2 million for 1997. During 1998, interest income on investments and other deposits increased by $393 thousand (17.1%) compared to 1997. The increase was due to higher average daily balances. The weighted-average yield on investments and other deposits was 6.13% for 1998 compared to 6.42% for 1997. Securities and other deposits averaged $43.9 million for 1998, up $8.1 million (22.6%) from $35.8 million for 1997.

Interest expense for deposits increased by $98 thousand (0.9%) during 1998 compared to 1997. The increase was due to an increase in average daily balances. The weighted-average rate paid on deposits for 1998 was 4.09% compared to 4.30% for 1997. Deposit balances averaged $279.1 million for 1998, up $16.0 million (6.1%) from $263.1 million for 1997. Interest expense on borrowed funds increased by $491 thousand (118.6%) during 1998 due to the increased cost of borrowed funds and higher average daily balances. The weighted-average cost of borrowed funds was 5.41% for 1998 compared to 5.13% for 1997. The increase was due to lengthening the average maturities of borrowed funds. Borrowed funds averaged $16.7 million during 1998, up $8.6 million (107.1%) from $8.1 million for 1997. Borrowed funds have provided a cost-effective supplement to certificates of deposit, as deposit pricing within the Bancorp's local market area has been very competitive.

Noninterest income was $1.3 million for 1998, up $281 thousand (26.4%) from $1.1 million during 1997. During 1998, management focused on initiatives designed to review and enhance noninterest income. During 1998, income from fees and service charges increased $176 thousand (25.3%) and income from Trust operations increased by $40 thousand (15.6%) due to increased fees from services provided and growth. In addition, increased gains from the sale of fixed rate loans ($85 thousand) and foreclosed real estate ($37 thousand) contributed to the increase in noninterest income.

Noninterest expense for 1998 was $7.9 million, up $784 thousand (11.0%) from $7.2 million for 1997. The increase in compensation and benefits was due to additional staffing, annual salary increases and the increased cost of employee benefits. Other expense changes were due to standard increases in bank operations. The Bancorp's efficiency ratio for 1998 was 55.6% compared to 55.0% for 1997. The ratio is calculated by dividing total noninterest expense by the sum of net interest income and total noninterest income for the period.

Income tax expenses for 1998 totaled $2.5 million compared to $2.2 million for 1997, an increase of $238 thousand (10.7%). The increase was due to an increase in pretax earnings during 1998. The combined effective federal and state tax rates for the Bancorp were 39.5% for 1998 and 39.4% for 1997.

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 represented 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 reflected 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 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 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 average 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 Bancorp 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, the increase in noninterest expense for 1997 was $674 thousand (10.4%) compared to 1996. In general, increases in non-interest expense 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 additional staffing for the Merrillville facility and annual salary increases. Other expense changes were due to standard increases in bank operations. 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 efficiency ratio excludes the special SAIF assessment.

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-reoccurrence 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.

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 Bancorp are monetary in nature. As a result, interest rates have a more significant impact on the Bancorp's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or magnitude as the prices of goods and services.

Year 2000

GENERAL. 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.

STATE OF READINESS AND PROJECTED COSTS. The Federal Financial Institutions Examination Council (FFIEC) has outlined five phases for institutions to effectively manage the Year 2000 challenge.

Awareness - Gain executive support and commit resources to the Year 2000 challenge.
Assessment - Identify all critical business processes and elements of information technology (IT) and non-IT systems that must be modified.
Renovation - Convert, replace or eliminate software and databases as necessary, according to the risk-based priorities established during assessment.
Validation - Test and verify systems, databases and utilities by simulating data conditions for the Year 2000. Implementation - Put renovated systems, databases and utilities into production.

In April 1997, the Bancorp 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. Management believes this plan meets all FFIEC guidelines and the Bancorp is on schedule to meet all plan deadlines. A project leader and a team of employees have analyzed daily operations, business forms, software, hardware and equipment for Year 2000 compliance.

At December 31, 1998 the awareness and assessment phases have been completed. The renovation, validation and implementation phases for mission critical systems are in process and will be completed within the FFIEC guidelines. In addition, management has assessed its credit and liquidity risk by evaluating the Year 2000 preparedness of significant customers. At this time, management believes that the overall risk rating for deposit and loan customers is low. Management has identified customers of moderate or high risk and is monitoring their efforts to be Year 2000 ready.

The current estimate of total Year 2000 program costs is approximately $300 thousand. Management expects to invest approximately $225 thousand in new computers and software that will provide significantly enhanced functionality over the systems that are currently being used. The remaining $75 thousand represents customer communications concerning Year 2000, as well as, modifications and upgrades to existing systems and equipment. Purchased hardware and software will be capitalized in accordance with Bancorp policy while other remediation costs will be expensed as incurred. At December 31, 1998, the investment in new computers and software totaled approximately $142,000, while costs for customer communications, and system modifications and upgrades totaled $21 thousand. 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.

RISKS. The Bancorp relies heavily on computer technology and third party vendors for computer processing and its business activities. The Year 2000 issue has created risk for the Bancorp from unforeseen problems that could arise internally, as well as, from third parties whom the Bancorp uses to process information. If not adequately addressed, the failure of the Bancorp's computer systems and/or third party's computer systems could have a material impact on the Bancorp's ability to conduct its business. To mitigate this risk, the Board of Directors and management have made a total commitment to resolving all Year 2000 issues. Ongoing communication with third party vendors has been established to monitor their Year 2000 efforts. The Bancorp's primary third party processors have stated that they have completed the renovation and testing of their systems for Year 2000 readiness. All systems and interfaces are being tested internally to confirm reported compliance.

CONTINGENCY PLANS. The Bancorp has designed its contingency plan to mitigate risks associated with the failure of systems, equipment and forms. The plan identifies and prioritizes systems, equipment and forms needed for Bancorp operations and customer service; lists individuals responsible for monitoring Year 2000 efforts for each operational area of the Bancorp; lists alternative actions available for systems failing to achieve Year 2000 readiness; provides for target dates for implementation of contingency strategies; assesses the risk of various components of the plan; and provides for independent review of the plan. The Board of Directors and management understand in a recovery situation, the Bancorp may not be able to continue operations at the same level that it currently maintains. However, because the Board of Directors and management have been proactive in their involvement with the Year 2000 project, the Bancorp believes it is well positioned to make timely decisions related to the need to invoke the contingency plan and avoid disruptions to customer service and business operations.

FORWARD-LOOKING STATEMENTS. When used in this report and in future filings by the Bancorp with the Securities and Exchange Commission, in the Bancorp's press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words

or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties, including but not limited to changes in economic conditions in the Bancorp's market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Bancorp's market area and competition, all or some of which could cause actual results to differ materially from historical earnings and those presently anticipated or projected.

The Bancorp wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and advise readers that various factors, including regional and national economic conditions, substantial changes in levels of market interest rates, credit and other risks of lending and investment activities and competitive and regulatory factors, could affect the Bancorp's financial performance and could cause the Bancorp's actual results for future periods to differ materially from those anticipated or projected.

The Bancorp does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

RETURN ON ASSETS

[GRAPH]

1994	1.24%
1995	1.14%
1996	0.75%
1997	1.13%
1998	1.14%

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 1998 was due to increases in net interest income, noninterest income and high asset quality. The 1996 results include the one-time special assessment on SAIF-assessable deposits to recapitalize SAIF.

RETURN ON EQUITY

[GRAPH]

1994	13.04%
1995	11.74%
1996	7.90%
1997	11.87%
1998	12.35%

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 1998 reflects record earnings. The 1996 results include the one-time special assessment on SAIF-assessable deposits to recapitalize SAIF.

[CROWE CHIZEK LOGO]

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 Bancorp) as of December 31, 1998 and 1997 and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Bancorp'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, 1998 and 1997 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

/s/ Crowe, Chizek and Company LLP

Crowe, Chizek and Company LLP

South Bend, Indiana
January 8, 1999, except for Note 1, Earnings
Per Share, which is dated February 28, 1999

CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

(Dollars in thousands)	December 31, 1998	December 31, 1997
ASSETS		
Cash and non-interest bearing balances in financial institutions	$ 12,729	$ 7,083
Interest bearing balances in financial institutions	10,111	3,570
Federal funds sold	4,500	-
Total cash and cash equivalents	27,340	10,653
Securities available-for-sale	20,522	-
Securities held-to-maturity (fair value: 1998 - $14,236, 1997 - $27,852)	14,133	27,716
Loans held for sale	598	-
Loans receivable	273,433	272,213
Less: allowance for loan losses	(3,132)	(3,074)
Net loans receivable	270,301	269,139
Federal Home Loan Bank stock	1,695	1,646
Accrued interest receivable	2,298	2,195
Premises and equipment	6,715	6,820
Foreclosed real estate	32	259
Deferred income taxes	877	794
Other assets	906	387
Total assets	$ 345,417	$ 319,609
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 22,346	$ 16,685
Interest bearing	270,876	255,405
Total	293,222	272,090
Borrowed funds	17,320	14,628
Accrued expenses and other liabilities	3,559	3,409
Total liabilities	314,101	290,127
Commitments and contingencies	-	-
Stockholders' Equity:		
Preferred stock, no par or stated value; 10,000,000 shares authorized, none outstanding	-	-
Common stock, no par or stated value; 10,000,000 shares authorized; issued and outstanding: 1998 - 1,381,578 shares, 1997 - 1,381,472 shares	345	345
Additional paid in capital	2,950	2,948
Accumulated other comprehensive income	114	-
Retained earnings - substantially restricted	27,907	26,189

Total stockholders' equity	31,316	29,482
Total liabilities and stockholders' equity	$ 345,417	$ 319,609

</TABLE>

See accompanying notes to consolidated financial statements.

<TABLE>
<CAPTION>

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)	Year Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Interest income:			
Loans receivable			
Real estate loans	$19,747	$19,128	$17,523
Commercial loans	2,071	1,780	1,522
Consumer loans	725	462	363
Total loan interest	22,543	21,370	19,408
Securities held-to-maturity	1,981	2,155	2,605
Other interest earning assets	711	144	324
Total interest income	25,235	23,669	22,337
Interest expense:			
Deposits	11,405	11,307	11,066
Borrowed funds	905	414	221
Total interest expense	12,310	11,721	11,287
Net interest income	12,925	11,948	11,050
Provision for loan losses	110	221	85
Net interest income after provision for loan losses	12,815	11,727	10,965
Noninterest income:			
Fees and service charges	871	695	487
Trust operations	296	256	190
Gain on sale of loans, net	111	26	1
Gain on sale of foreclosed real estate	65	28	4
Other	4	61	-
Total noninterest income	1,347	1,066	682
Noninterest expense:			
Compensation and benefits	4,130	3,645	3,213
Occupancy and equipment	1,454	1,350	1,050
Federal insurance premium	164	163	1,979
Advertising	128	145	159
Data processing	428	368	299
Other	1,634	1,483	1,339
Total noninterest expense	7,938	7,154	8,039
Income before income taxes	6,224	5,639	3,608
Income tax expenses	2,461	2,223	1,419
Net income	$ 3,763	$ 3,416	$ 2,189
Earnings per common share:			
Basic	$ 1.36	$ 1.24	$ 0.80
Diluted	$ 1.35	$ 1.23	$ 0.79
Dividends declared per common share	$ 0.74	$ 0.64	$ 0.58

</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	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
<S>	<C>	<C>	<C>	<C>	<C>
Balance at January 1, 1996	$ 345	$ 2,928	$ -	$ 23,931	$ 27,204
Net income and comprehensive income	-	-	-	2,189	2,189
Issuance of 318 shares of common stock at $4.29 - $10.63 per share, under stock option plan	-	2	-	-	2
Cash dividends, $0.58 per share	-	-	-	(1,580)	(1,580)
Balance at December 31, 1996	345	2,930	-	24,540	27,815
Net income and comprehensive income	-	-	-	3,416	3,416
Issuance of 3,754 shares of common stock at $4.29 - $10.63 per share, under stock option plan	-	18	-	-	18
Cash dividends, $0.64 per share	-	-	-	(1,767)	(1,767)
Balance at December 31, 1997	345	2,948	-	26,189	29,482
Comprehensive income:					
Net income	-	-	-	3,763	3,763
Net unrealized gain/(loss) on securities available-for-sale, net of tax effects	-	-	(3)	-	(3)
Comprehensive income before cumulative effect of change in accounting policy	-	-	-	-	3,760
Cumulative effect of change in adopting SFAS No. 133	-	-	117	-	117
Comprehensive income	-	-	-	-	3,877
Issuance of 214 shares of common stock at $5.75 - $10.63 per share, under stock option plan	-	2	-	-	2
Cash dividends, $0.74 per share	-	-	-	(2,045)	(2,045)
Balance at December 31, 1998	$ 345	$ 2,950	$ 114	$ 27,907	$ 31,316

</TABLE>

See accompanying notes to consolidated financial statements.

<TABLE>

<CAPTION>

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Year Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 3,763	$ 3,416	$ 2,189
Adjustments to reconcile net income to net cash provided by operating activities:			
Origination of loans for sale	(4,259)	(1,732)	(700)
Sale of loans originated for sale	3,691	1,758	699
Depreciation and amortization, net of accretion	901	710	553
Amortization of mortgage servicing rights	6	-	-
Net gains on sale of loans	(111)	(26)	(1)
Net gains on sale of fixed assets	-	(41)	-
Net gains on sale of foreclosed real estate	(65)	(28)	(4)
Provision for loan losses	110	221	85
Net change in:			
Deferred taxes	(159)	(88)	(61)
Interest receivable	(103)	(42)	(61)
Other assets	56	556	(520)
Accrued expenses and other liabilities	150	486	239
Total adjustments	217	1,774	229
Net cash from operating activities	3,980	5,190	2,418
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of securities available-for-sale	(8,175)	-	-
Proceeds from maturities of securities held-to-maturity	11,000	10,748	12,671
Purchase of securities held-to-maturity	(10,110)	(500)	(15,164)
Principal collected on mortgage-backed securities	472	414	460
Purchase of Federal Home Loan Bank Stock	(49)	(49)	-
Loan participations purchased	(5,238)	(3,240)	-
Net change in loans receivable	3,506	(24,842)	(22,589)
Purchase of premises and equipment, net	(732)	(354)	(2,373)
Proceeds from sale of foreclosed real estate	752	489	61
Net cash from investing activities	(8,574)	(17,334)	(26,934)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Change in deposits	21,132	15,670	8,475
Proceeds from FHLB advances	4,000	23,000	7,000
Repayment of FHLB advances	-	(22,000)	-
Change in other borrowed funds	(1,808)	1,367	2,121
Proceeds from issuance of capital stock	2	18	2
Dividends paid	(2,045)	(1,767)	(1,517)
Net cash from financing activities	21,281	16,288	16,081
Net change in cash and cash equivalents	16,687	4,144	(8,435)
Cash and cash equivalents at beginning of period	10,653	6,509	14,944
Cash and cash equivalents at end of period	$ 27,340	$ 10,653	$ 6,509
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest	$ 12,371	$ 11,668	$ 11,314
Income taxes	$ 2,526	$ 1,790	$ 2,045
Transfers from securities held-to-maturity to available-for-sale	$ 12,241	$ -	$ -
Transfers from loans to foreclosed real estate	$ 460	$ 531	$ 160
Investment in limited partnership	$ 500	$ -	$ -

</TABLE>

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1998, 1997 and 1996.

NOTE 1 - Summary of Significant Accounting Policies

Principles of Consolidation - The consolidated financial statements include NorthWest Indiana Bancorp (the Bancorp), its wholly-owned subsidiary, Peoples

Bank SB (the Bank), and the Bank's wholly-owned subsidiaries, Peoples Service Corporation and PSA Insurance Corporation. 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. During 1997, PSA Insurance Corporation was dissolved. All significant inter-company accounts and transactions have been eliminated in consolidation. 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, fair values of financial instruments and status of contingencies are particularly susceptible to material change in the near term.

Concentrations of Credit Risk - The Bancorp grants residential, commercial real estate, commercial business and installment loans to customers primarily of Lake County, in northwest Indiana. Substantially all loans are secured by specific items of collateral including residences, 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. The Bancorp does not have a trading portfolio. Realized gains and losses resulting from the sale of securities are computed by the specific identification method. Interest and dividend income, adjusted by amortization of premium or discount, is included in earnings. Securities are written down to fair value when a decline in fair value is not temporary.

During June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities. On October 1, 1998, the Bancorp adopted SFAS No. 133 and as permitted transferred securities from the held-to-maturity portfolio to the available-for-sale portfolio. At the date of transfer, these securities had an amortized cost of $12,241,000, and the transfer increased the unrealized appreciation on securities available-for-sale by $194,000 and increased stockholders equity by $117,000, net of tax of $77,000.

During 1998, the Bancorp did not have derivative instruments and was not involved in hedging activities as defined by SFAS No. 133.

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

Allowance for Loan Losses - 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.

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

Premises and Equipment - Premises and equipment are stated at cost less accumulated depreciation. Premises and related components are depreciated using the straight-line method with useful lives ranging from 26 to 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.

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

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

Long-term Assets - These assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at 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 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. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

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

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

On December 2, 1996 and again on February 28, 1999, the Bancorp effected a two-for-one common stock split as a share dividend. Earnings and dividends per share and other share related information (other than the number of shares outstanding as set forth in the accompanying consolidated balance sheets) is restated for all stock splits and dividends through the date of issue of the financial statements.

Comprehensive Income - Comprehensive income consists of net income and

other comprehensive income. Other comprehensive income for the Bancorp includes unrealized gains and losses on securities available-for-sale, which are also recognized as separate components of equity. The accounting standard that requires reporting comprehensive income first applies for 1998, with prior information restated to be comparable.

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, 1997 and 1996, have been reclassified to conform to the December 31, 1998 presentation.

NOTE 2 - Securities

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

<TABLE>
<CAPTION>

(Dollars in thousands)

<S>	Amortized Cost <C>	Gross Unrealized Gains <C>	Gross Unrealized Losses <C>	Fair Value <C>
1998				
U.S. government and federal agencies	$20,332	$202	$ (12)	$20,522

</TABLE>

For the year ended December 31, 1997 no securities were classified as available-for-sale.

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

<TABLE>
<CAPTION>

(Dollars in thousands)

<S>	Amortized Cost <C>	Gross Unrealized Gains <C>	Gross Unrealized Losses <C>	Fair Value <C>
1998				
U.S. government and federal agencies	$13,074	$68	$ (5)	$13,137
Mortgage-backed securities	$ 1,059	$40	$ -	$ 1,099
Total debt securities ...	$14,133	$108	$ (5)	$14,236
1997				
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

</TABLE>

The amortized cost and fair value of debt securities by contractual maturity at December 31, 1998, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

<TABLE>
<CAPTION>

(Dollars in thousands)

	Available-for-sale		Held-to-maturity	
<S>	Amortized Cost <C>	Fair Value <C>	Amortized Cost <C>	Fair Value <C>
Due in one year or less	$ 6,526	$ 6,569	$ -	$ -

Due from one to five years..........	13,806	13,953	13,074	13,137
Mortgage-backed securities............	-	-	1,059	1,099
Total....................	$20,332	$20,522	$14,133	$14,236

</TABLE>

There were no sales of securities during the years ended December 31, 1998, 1997 and 1996. Securities with carrying values of $34,716,000 and $27,715,000 were pledged as of December 31, 1998 and 1997 as collateral for borrowings from the FHLB, repurchase agreements and public funds 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) 1998	1997
<S>	<C>	<C>
Loans secured by real estate:		
Construction and land development	$ 19,211	$ 21,440
Residential, including home equity	154,076	157,019
Commercial real estate and other dwelling	67,018	64,831
Total loans secured by real estate ...	240,305	243,290
Consumer loans	10,187	5,661
Commercial business and other	23,374	23,737
	273,866	272,688
Less:		
Net deferred loan origination fees	(374)	(410)
Undisbursed loan funds	(59)	(65)
Loans receivable	$ 273,433	$ 272,213

</TABLE>

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

<TABLE>
<CAPTION>

	(Dollars in thousands) 1998	1997	1996
<S>	<C>	<C>	<C>
Balance at beginning of period	$ 3,074	$ 2,887	$ 2,830
Provision charged to income	110	221	85
Loans charged off	(68)	(34)	(28)
Recoveries	16	-	-
Balance at end of period	$ 3,132	$ 3,074	$ 2,887

</TABLE>

At December 31, 1998 and 1997, no portion of the allowance for loan losses was allocated to impaired loan balances as the Bancorp had no loans individually it considered to be impaired as of or for the years ended December 31, 1998 and 1997.

NOTE 4 - Secondary Market Mortgage Activities

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

<TABLE>
<CAPTION>

	(Dollars in thousands) 1998	1997
<S>	<C>	<C>
Mortgage loan portfolios serviced for FHLMC	$8,889	$7,976

</TABLE>

Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately $169,000 and $125,000 at December 31, 1998 and 1997.

Activity for capitalized mortgage servicing rights was as follows:

	(Dollars in thousands) 1998	1997
Servicing rights:		
Beginning of year	$ -	$ -
Additions	81	-
Amortized to expense	(6)	-
End of year	$ 75	$ -

NOTE 5 - Premises and Equipment, Net

Premises and equipment are summarized below:

	(Dollars in thousands) 1998	1997
Cost:		
Land	$ 1,663	$ 1,663
Buildings and improvements	5,482	5,317
Furniture and equipment	3,497	3,470
Total cost	10,642	10,450
Less accumulated depreciation and amortization	(3,927)	(3,630)
Premises and equipment, net	$ 6,715	$ 6,820

NOTE 6 - Income Taxes

Components of the income tax expenses consist of the following:

	(Dollars in thousands) 1998	1997	1996
Federal:			
Current	$ 2,092	$ 1,824	$1,071
Deferred	(153)	(71)	57
State:			
Current	528	487	287
Deferred	(6)	(17)	4
Income tax expenses	$ 2,461	$ 2,223	$1,419

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) 1998	1997	1996
Federal statutory rate	34%	34%	34%
Tax expense at statutory rate	$2,116	$ 1,917	$ 1,227
State tax, net of federal effect	344	310	195
Other	1	(4)	(3)
Total income tax expenses	$2,461	$ 2,223	$ 1,419

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

<TABLE>
<CAPTION>

	(Dollars in thousands) 1998	1997
Deferred tax assets:		
Bad debt	$ 528	$ 363
Deferred loan fees	143	169
Deferred compensation	506	463
Other	63	73
Total deferred tax assets	1,240	1,068
Deferred tax liabilities:		
Unrealized appreciation on securities available for sale	(76)	-
Depreciation	(241)	(249)
Other	(46)	(25)
Total deferred tax liabilities	(363)	(274)
Valuation allowance	-	-
Net deferred tax assets	$ 877	$ 794

The deferred tax asset will be realized, therefore no allowance is necessary.

The Bancorp had qualified under provisions of the Internal Revenue Code to deduct from taxable income a provision for bad debts in excess of the provision for such losses charged to income in the financial statements, if any. Accordingly, retained earnings at December 31, 1998 and 1997 includes approximately $6,000,000 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 $2,000,000 at December 31, 1998. 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 $36,314,000 at December 31, 1998 and $39,666,000 at December 31, 1997.

At December 31, 1998, scheduled maturities of certificates of deposit were as follows:

	(Dollars in thousands)
1999	$ 137,327
2000	19,410
2001	2,567
2002	1,024
Total	$ 160,328

NOTE 8 - Borrowed Funds

Borrowed funds are summarized below:

	(Dollars in thousands) 1998	1997
Repurchase agreements	$ 3,937	$ 4,541
Fixed rate advances from the FHLB	4,000	4,000
Putable advances from the FHLB	8,000	4,000
Limited partnership obligation	500	-
Other	883	2,087
Total	$17,320	$14,628

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

	(Dollars in thousands) 1998	1997
Ending balance	$3,937	$4,541
Average balance during the year	4,693	4,308
Maximum month-end balance during the year	6,154	4,975
Securities underlying the agreements at year end:		
Carrying value	6,460	7,988
Fair value	6,483	8,014
Average interest rate during the year	5.62%	5.43%

Advances from the Federal Home Loan Bank were as follows

	(Dollars in thousands) 1998	1997
Fixed advances, maturing October 1999, at rates of 5.98% and 5.99%	$4,000	$4,000
Putable advances, maturing December 2002, through July 2008, at rates from 5.28% to 5.71%, average rate: 1998 - 5.42%; 1997 - 5.53%	$8,000	$4,000

Fixed rate advances are payable at maturity, with a prepayment penalty. Putable advances are fixed for a period of one to three years and then may adjust quarterly to the three-month London Interbank Offered Rate until maturity. Once the putable advance interest rate adjusts, the Bancorp has the option to prepay the advance on specified quarterly interest rate reset dates. The advances were collateralized by $159,915,000 and $157,019,000 of securities and mortgage loans under a blanket lien arrangement at December 31, 1998 and 1997.

The limited partnership obligation represents an investment interest in a partnership formed for the construction, ownership and management of affordable housing projects. The amount of the note is $500,000 with funding to begin during 1999 and to continue over a nine year period. Payments are required within ten days of written demand. The obligation to make payment is absolute and unconditional. The note requires no payment of interest.

At December 31, 1998, scheduled maturities of borrowed funds were as follows:

	(Dollars in thousands)
1999	$ 8,432
2000	490
2001	76
2002	4,061
2003	2,061
Thereafter	2,200
Total	$ 17,320

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 year ended December 31, 1998 were based on 10% of the participants' total compensation excluding incentives. Contributions during the years ended December 31, 1997 and 1996 were based on 9% 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 $274,000, $204,000 and $185,000 for the years ended December 31, 1998, 1997 and 1996.

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. No contributions were made to the ESOP during the years ended December 31, 1998 and 1996. Contributions during

the year ended December 31, 1997 were based on 1% of the participants total compensation excluding incentives. The ESOP held 2,188 shares of the Bancorp's common stock as of December 31, 1998, all of which have been allocated to participants. The ESOP expense amounted to $0, $23,000 and $0 for the years ended December 31, 1998, 1997 and 1996. During 1999, the ESOP will be terminated as directed by the Bancorp's Board of Directors.

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

<TABLE>
<CAPTION>

	(Dollars in thousands) 1998	1997
<S>	<C>	<C>
Change in postretirement benefit obligation:		
Beginning postretirement benefit obligation	$ 119	$ 112
Unrecognized net actuarial gain	-	-
Service cost	5	4
Interest cost	9	9
Benefits paid	(7)	(6)
Ending postretirement benefit obligation	126	119
Change in plan assets	-	-
Funded status	126	119
Unrecognized net actuarial gain	58	64
Prepaid benefit cost	$ 184	$ 183

</TABLE>

<TABLE>
<CAPTION>

	(Dollars in thousands) 1998	1997	1996
<S>	<C>	<C>	<C>
Assumptions used:			
Discount rate	8.0%	8.0%	8.0%
Annual increase in health care cost trend rate:			
Years one through three	11.5%	11.5%	11.5%
Thereafter	5.5%	5.5%	5.5%
Components of net periodic postretirement benefit cost:			
Service cost	$ 5	$ 4	$ 4
Interest cost	9	9	9
Unrecognized net actuarial gain	(6)	(6)	(5)
Net periodic postretirement benefit cost	$ 8	$ 7	$ 8

</TABLE>

A 1% increase or decrease in the health care cost trend rate assumptions would not have a material impact on the postretirement benefit obligation 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>
1998						
Total capital (to risk-weighted assets)	$34.1	15.3%	$17.8	8.0%	$22.3	10.0%
Tier I capital (to risk-weighted assets)	$31.3	14.1%	$ 8.9	4.0%	$13.4	6.0%
Tier I capital (to adjusted average assets)	$31.3	9.2%	$10.2	3.0%	$17.0	5.0%
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 average assets)	$29.5	9.2%	$ 9.6	3.0%	$16.0	5.0%

</TABLE>

The Bancorp and the Bank were categorized as well capitalized at December 31, 1998 and 1997. There are no conditions or events since December 31, 1998 that management believes have changed the Bancorp's or Bank's category.

The Bancorp's ability to pay dividends is entirely dependent upon the Bank's ability to pay dividends to the Bancorp. Under Indiana law, the Bank may pay dividends of so much of its undivided profits (generally, earnings less losses, bad debts, taxes and other operating expenses) as is considered expedient by the Bank's Board of Directors. However, the Bank must obtain the approval of the Indiana Department of Financial Institutions for the payment of a dividend if the total of all dividends declared by the Bank during the current year, including the proposed dividend, would exceed the sum of retained net income for the year to date plus its retained net income for the previous two years (approximately $3,863,000 at December 31, 1998). For this purpose, "retained net income" means net income as calculated for call report purposes, less all dividends declared for the applicable period. Moreover, the FDIC and the Federal Reserve Board may prohibit the payment of dividends if it determines that the payment of dividends would constitute an unsafe or unsound practice in the light of the financial condition of the Bank.

NOTE 12 - Stock Option Plan

Pursuant to a stock option plan (the "Plan"), an aggregate of 240,000 shares of the Bancorp's common stock were reserved for issuance in respect of incentive awards granted to officers and other employees of the Bancorp and the Bank. Awards granted under the Plan may be in the form of incentive stock options within the meaning of Section 422 of the Internal Revenue Code, or non-incentive stock options or restricted stock. The purposes of the Plan are to attract and retain the best available personnel, to provide additional incentives for all employees and to encourage their continued employment by facilitating employees' purchases of an equity interest in the Bancorp.

Financial Accounting Standard No. 123 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 for stock option plans. No compensation cost was recognized for stock options during 1998, 1997 and 1996.

<TABLE>
<CAPTION>

(Dollars in thousands, except per share data)

	1998	1997	1996

Net income as reported	$3,763	$3,416	$2,189
Pro forma net income	$3,747	$3,405	$2,182
Earnings per common share as reported	$ 1.36	$ 1.24	$ 0.80
Pro forma earnings per common share	$ 1.36	$ 1.23	$ 0.79
Earnings per common share, assuming dilution as reported .	$ 1.35	$ 1.23	$ 0.79
Pro forma earnings per common share, assuming dilution	$ 1.34	$ 1.22	$ 0.79

The fair value of options granted during 1998, 1997 and 1996 is estimated using the following weighted-average information: risk free interest rate of 5.73%, 6.50%, and 5.42%; expected life of 7 to 8 years; expected volatility of stock price of 5.57% for 1998, 5.62% for 1997 and 5.45% for 1996; and expected dividends of 3.61%, 4.00%, and 4.26% for 1998, 1997 and 1996. 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 exercisable. Options granted since 1995 generally are exercisable upon completion of five years of service after the date of grant. Information about option grants is provided in the following schedule:

	Number of options	Weighted-average exercise price	Weighted-average fair value of grants
Outstanding, January 1, 1996	44,744	$ 8.70	
Granted	6,800	13.50	$ 1.03
Exercised	316	6.44	
Forfeited	-	-	
Expired	-	-	
Outstanding, December 31, 1996	51,228	9.35	
Granted	16,100	16.00	2.12
Exercised	3,754	4.93	
Forfeited	100	16.00	
Expired	-	-	
Outstanding, December 31, 1997	63,474	11.29	
Granted	17,300	20.50	2.42
Exercised	214	7.57	
Forfeited	400	18.25	
Expired	-	-	
Outstanding, December 31, 1998	80,160	13.25	

Options exerciseable at year-end are as follows:

	Number of options	Weighted-average exercise price
1996	15,588	$5.18
1997	11,914	$5.29
1998	11,780	$5.29

At December 31, 1998, options outstanding were as follows:

Number of options	80,160
Range of exercise price	$4.66 - $20.50
Weighted-average exercise price	$13.25
Weighted-average remaining option life	7.2 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, 1998, 1997 and 1996 is presented below.

	1998	1997	1996
<S>	<C>	<C>	<C>
Basic Earnings Per Common Share:			
Net income available to common stockholders	$3,763,000	$3,416,000	$2,189,000
Weighted-average common shares outstanding	2,763,066	2,762,302	2,759,038
Basic Earnings Per Common Share	$ 1.36	$ 1.24	$ 0.80
Diluted Earnings Per Common Share:			
Net income available to common stockholders	$3,763,000	$3,416,000	$2,189,000
Weighted-average common shares outstanding	2,763,066	2,762,302	2,759,038
Add: dilutive effect of assumed stock option exercises	29,092	29,266	19,456
Weighted-average common and dilutive potential shares outstanding	2,792,158	2,791,568	2,778,494
Diluted Earnings Per Common Share	$ 1.35	$ 1.23	$ 0.79

</TABLE>

NOTE 14 - Related Party Transactions

The Bank had aggregate loans outstanding to directors and executive officers (with individual balances exceeding $60,000) of $4,169,000 at December 31, 1998 and $3,138,000 at December 31, 1997. For the year ended December 31, 1998, the following activity occurred on these loans:

<TABLE>
<CAPTION>

	(Dollars in thousands)
<S>	<C>
Aggregate balance - December 31, 1997..	$ 3,138
New loans	2,755
Repayments	(362)
Other changes	(1,362)
Aggregate balance - December 31, 1997..	$ 4,169

</TABLE>

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, 1998:			
Real estate	$5,193	$15,361	$20,554
Consumer loans	-	468	468
Commercial business	-	18,946	18,946
Total	$5,193	$34,775	$39,968

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>

The $5,193,000 in fixed rate commitments outstanding at December 31, 1998 had interest rates ranging from 7.50% to 8.75%, for a period not to exceed forty-five days.

Standby letters of credit are conditional commitments issued by the Bancorp to guarantee the performance of a customer to a third party. At December 31, 1998 and 1997, the Bancorp had standby letters of credit totaling $1,945,000 and $501,000. The Bancorp evaluates each customer's creditworthiness on a case by case basis. The amount of collateral obtained, if deemed necessary by the Bancorp upon extension of credit, is based on management's credit evaluation of the borrower. Collateral obtained may include accounts receivable, inventory, property, land or other assets.

NOTE 16 - Fair Values of Financial Instruments

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.

<TABLE>
<CAPTION>

	(Dollars in thousands) December 31, 1998	
	Carrying Value	Estimated Fair Value
<S>	<C>	<C>
Cash and cash equivalents	$ 27,340	$ 27,340
Securities available-for-sale	20,522	20,522
Securities held-to-maturity	14,133	14,236
Federal Home Loan Bank stock	1,695	1,695
Loans held for sale	598	600
Loans receivable, net	270,301	273,157
Demand and savings deposits	(132,895)	(132,895)
Certificates of deposit	(160,328)	(160,688)
Borrowed funds	(17,320)	(17,373)

</TABLE>

<TABLE>
<CAPTION>

	(Dollars in thousands) December 31, 1997	
	Carrying Value	Estimated Fair Value
<S>	<C>	<C>
Cash and cash equivalents	$ 10,653	$ 10,653
Securities held-to-maturity	27,716	27,852
Federal Home Loan Bank stock	1,646	1,646
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)

</TABLE>

For purposes of the above disclosures of estimated fair value, the following assumptions were used as of December 31, 1998 and 1997. The estimated fair value for cash and cash equivalents and Federal Home Loan Bank stock 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, 1998 and 1997, 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, 1998 and 1997, applied for the time period until maturity. The estimated fair value for borrowed funds is based on current rates for similar financing. The estimated fair value of other financial instruments, 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, 1998 and 1997, 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, 1998 and 1997 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 include, 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 as follows:

YEAR ENDED DECEMBER 31, 1998:

<TABLE>
<CAPTION>

(Dollars in thousands, except per share data)

	March 31, 1998	June 30, 1998	September 30, 1998	December 31, 1998
Total interest income	$6,264	$6,322	$6,340	$6,309
Total interest expense	3,105	3,118	3,098	2,989
Net interest income	3,159	3,204	3,242	3,320
Provision for loan losses	25	15	25	45
Net interest income after provision for loan losses	3,134	3,189	3,217	3,275
Total noninterest income	320	356	300	371
Total noninterest expense	1,967	2,002	1,946	2,023
Income before income taxes	1,487	1,543	1,571	1,623
Income tax expenses	593	612	626	630
Net income	$ 894	$ 931	$ 945	$ 993
Basic earnings per share	$ 0.33	$ 0.34	$ 0.34	$ 0.35
Diluted earnings per share	$ 0.32	$ 0.34	$ 0.34	$ 0.35

</TABLE>

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
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
Basic earnings per share	$ 0.31	$ 0.31	$ 0.31	$ 0.31
Diluted earnings per share	$ 0.30	$ 0.31	$ 0.31	$ 0.31

</TABLE>

NOTE 18 - Parent Company Only Statements

<TABLE>
<CAPTION>

(Dollars in thousands)
NORTHWEST INDIANA BANCORP
CONDENSED BALANCE SHEETS
DECEMBER 31,

<S>	1998 <C>	1997 <C>
Assets		
Cash on deposit with Peoples Bank	$ 43	$ 13
Investment in Peoples Bank	31,275	29,475
Dividends receivable from Peoples Bank	535	455
Other assets	2	5
Total assets	$31,855	$29,948
Liabilities and stockholders' equity		
Dividends payable	$ 511	$ 442
Other liabilities	28	24
Total liabilities	539	466
Common stock	345	345
Additional paid in capital	2,950	2,948
Accumulated other comprehensive income	114	
Retained earnings	27,907	26,189
Total stockholders' equity	31,316	29,482
Total liabilities and stockholders' equity	$31,855	$29,948

</TABLE>

<TABLE>
<CAPTION>

(Dollars in thousands)
NORTHWEST INDIANA BANCORP
CONDENSED STATEMENTS OF INCOME

<S>	Dec. 31, 1998 <C>	Dec. 31, 1997 <C>	Dec. 31, 1996 <C>
Dividends from Peoples Bank	$ 2,129	$ 1,770	$ 1,625
Operating expenses	86	76	59
Income before income taxes and equity in undistributed income of Peoples Bank	2,043	1,694	1,566
Provision for income taxes	(34)	(30)	(23)
Income before equity in undistributed income of Peoples Bank	2,077	1,724	1,589
Equity in undistributed income of Peoples Bank	1,686	1,692	600
Net Income	$ 3,763	$ 3,416	$ 2,189

</TABLE>

<TABLE>
<CAPTION>

(Dollars in Thousands)
NORTHWEST INDIANA BANCORP
CONDENSED STATEMENTS OF CASH FLOWS

<S>	Dec. 31, 1998 <C>	Dec. 31, 1997 <C>	Dec. 31, 1996 <C>
Cash flows from operating activities:			
Net income	$ 3,763	$ 3,416	$ 2,189
Adjustments to reconcile net income to net cash from operating activities			
Equity in undistributed net income of Peoples Bank	(1,686)	(1,692)	(600)
Change in other assets	(77)	(11)	(54)
Change in other liabilities	73	(4)	(7)
Total adjustments	(1,690)	(1,707)	(661)
Net cash from operating activities	2,073	1,709	1,528
Cash flows from investing activities	-	-	-
Cash flows from financing activities:			
Dividends paid	(2,045)	(1,767)	(1,517)
Proceeds from issuance of capital stock	2	18	1
Net cash from financing activities	(2,043)	(1,749)	(1,516)

Net change in cash	30	(40)	12
Cash at beginning of year	13	53	41
Cash at end of year	$ 43	$ 13	$ 53

</TABLE>

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, 1999, the Bancorp had 2,763,156 shares of common stock outstanding and 484 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, 1998 and December 31, 1997. 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		DIVIDENDS DECLARED PER COMMON SHARE
		HIGH	LOW	
<S>	<C>	<C>	<C>	<C>
Fiscal Year Ended December 31, 1998	1st Quarter	$21.07	$19.50	$.185
	2nd Quarter	21.25	20.50	.185
	3rd Quarter	21.25	20.63	.185
	4th Quarter	21.00	20.00	.185
Fiscal Year Ended December 31, 1997	1st Quarter	$18.00	$15.00	$.16
	2nd Quarter	18.50	18.00	.16
	3rd Quarter	20.94	18.25	.16
	4th Quarter	21.25	20.00	.16

</TABLE>

[Graph]

MARKET PRICE PER SHARE

1994	1995	1996	1997	1998
$10.63	$13.50	$15.57	$21.07	$21.00

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". ON FEBRUARY 28, 1999, THE BANCORP EFFECTED A TWO-FOR-ONE STOCK SPLIT AS A SHARE DIVIDEND. MARKET PRICE PER SHARE HAS BEEN RESTATED FOR ALL PERIODS PRESENTED TO REFLECT THE SPLIT.

[Graph]

BOOK VALUE PER SHARE

<TABLE>
<CAPTION>

1994	1995	1996	1997	1998

$9.29	$9.86	$10.08	$10.67	$11.34

THE BANK'S EARNINGS HAVE INCREASED THE BOOK VALUE OF THE BANCORP'S STOCK FROM $9.29 AT DECEMBER 31, 1994 TO $11.34 PER SHARE AT DECEMBER 31, 1998. ON FEBRUARY 28, 1999, THE BANCORP EFFECTED A TWO-FOR-ONE STOCK SPLIT AS A SHARE DIVIDEND. BOOK VALUE PER SHARE HAS BEEN RESTATED FOR ALL PERIODS PRESENTED TO REFLECT THE SPLIT.

[Graph]

BASIC EARNINGS PER COMMON SHARE

1994	1995	1996	1997	1998
$1.18	$1.13	$0.80	$1.24	$1.36

EARNINGS FOR 1998 TOTALED $3.8 MILLION RESULTING IN BASIC EARNINGS PER COMMON SHARE OF $1.36. ON FEBRUARY 28, 1999, THE BANCORP EFFECTED A TWO-FOR-ONE STOCK SPLIT AS A SHARE DIVIDEND. BASIC EARNINGS PER COMMON SHARE HAS BEEN RESTATED FOR ALL PERIODS PRESENTED TO REFLECT THE SPLIT.

[Graph]

5 YEAR TOTAL RETURN

SNL Market Index	$293
SNL Bank Asset-Size Index	$293
Bancorp	$325

MANAGEMENT OF THE BANCORP IS COMMITTED TO MAXIMIZING STOCKHOLDER VALUE. THE BANCORP'S STOCK PERFORMANCE ON A TOTAL RETURN BASIS IS COMPARED WITH THE TOTAL RETURNS OF THE SNL SECURITIES INDEX FOR THE NASDAQ COMPOSITE (SNL MARKET INDEX) AND FOR BANK STOCKS WITH ASSETS RANGING FROM $250 MILLION TO $500 MILLION (SNL BANK ASSET-SIZE 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, 1993, WOULD BE WORTH $325 ON DECEMBER 31, 1998.

1998
BOARD OF
DIRECTORS

PHOTO OF
BOARD MEMBER

DAVID A. BOCHNOWSKI
22 Years
Chairman and Chief Executive Officer

PHOTO OF
BOARD MEMBER

GLORIA GRAY

16 Years
Retired Vice President and Treasurer of Career Development Consultants,
Munster, Indiana

- ----------------

PHOTO OF
BOARD MEMBER

- ----------------
LEROY F. CATALDI
22 Years
Pharmacist,
Dyer, Indiana

- ----------------

PHOTO OF
BOARD MEMBER

- ----------------
STANLEY E. MIZE
2 Years
President of Towne & Countree
Auto Sales and Co-owner
of Lake Shore Ford

- ----------------

PHOTO OF
BOARD MEMBER

- ----------------
JAMES J. CRANDALL
41 Years
Retired Attorney

- ----------------

PHOTO OF
BOARD MEMBER

- ----------------
JEROME F. VRABEL
14 Years
Vice President, ED&F Man
International Inc.
Chicago, Illinois

- ----------------

PHOTO OF
BOARD MEMBER

- ----------------
LOURDES M. DENNISON
15 Years
Administrative Director, Dennison Surgical Corp.
Merrillville, Indiana

- ----------------

PHOTO OF
BOARD MEMBER

- ----------------

JAMES L.WIESER
February 1999
Attorney, Wieser and Sterba
Attorneys at Law
Schererville, Indiana

- ----------------

PHOTO OF
BOARD MEMBER

- ----------------

BENJAMIN A. BOCHNOWSKI
Chairman Emeritus,
Advisory Director
43 years Community Banking Experience

- ----------------

PHOTO OF
BOARD MEMBER

- ----------------

HAROLD G. REUTH
Director Emeritus
30 Years Community Banking Experience

CORPORATE INFORMATION

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

ANNUAL SHAREHOLDERS MEETING
The Annual Meeting of Stockholders of NorthWest Indiana Bancorp will be held at the Center for Visual & Performing Arts at 1040 Ridge Road, Munster, Indiana, on Wednesday, April 21, 1999 at 8:30 a.m.

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

Directors of NorthWest Indiana Bancorp and Peoples Bank SB
David A. Bochnowski
Chairman and Chief Executive Officer of the Bancorp
Munster, Indiana

Leroy F. Cataldi
Pharmacist
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

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
Schererville, Indiana

James L. Wieser
Attorney with Wieser & Sterba
Schererville, Indiana

Chairman Emeritus, Advisory Director
Benjamin A. Bochnowski

Directors Emeriti
Harold G. Rueth
Albert J. Lesniak

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

PEOPLES BANK SB
MANAGEMENT PERSONNEL

Accounting
Arlene M. Wohadlo,
Assistant Vice President

Branches
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)
Meredith L. Rolewski, Schererville
Barbara J. Zura, Assistant Vice President,
Senior Branch Manager, Woodmar

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

Consumer Lending
James P. Lehr, Assistant Vice President
Clovese R. Robinson
Sharon V. Vacendak

Credit Administration
Christine M. Friel

Housing Finance
Sylvia Magallanez
Marvin O. Tucker

Human Resource
Linda L. Kollada, Assistant Vice President

Information Services
Tanya A. Mathews, Assistant Vice President

Loan Administration
Mary D. Mulroe, Assistant Vice President

Management Development
Michael J. Shimala

Marketing Project Manager
Shannon E. Franko

Staff Internal Auditor
Stacy A. Januszewski

Trust
Stephan A. Ziemba,
Assistant Vice President

DEDICATED TO
THE MEMORY OF

photo of past
board member

John J. Wadas, Jr.
1939 - 1998

[NorthWest Indiana Bancorp Logo]

CORPORATE HEADQUARTERS,
9204 Columbia Avenue
Munster, Indiana 46321

219/836-9690

[Peoples Bank Logo]

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, 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
<MULTIPLIER> 1,000

<S>	<C>
<PERIOD-TYPE>	YEAR
<FISCAL-YEAR-END>	DEC-31-1998
<PERIOD-START>	JAN-01-1998
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<INCOME-PRETAX>	6,224
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<EPS-PRIMARY>	1.36
<EPS-DILUTED>	1.35
<YIELD-ACTUAL>	4.10
<LOANS-NON>	854
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<RECOVERIES>	16
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