SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)
☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **December 31, 2011**

OR

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

For the transition period from __________ to __________

Commission file number 0-26128

NorthWest Indiana Bancorp

(Exact name of registrant as specified in its charter)

Indiana (State or other jurisdiction of incorporation or organization)	**35-1927981** (I.R.S. Employer Identification No.)
9204 Columbia Avenue **Munster, Indiana** (Address of principal executive offices)	**46321** (Zip Code)

(219) 836-4400
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: **None**
Securities registered pursuant to Section 12(g) of the Act: **Common Stock, without par value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes☐ No ☒

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act:
Large accelerated filer: ☐ Accelerated filer: ☐ Non-Accelerated filer: ☐ Smaller reporting company ☒
(Do not check if a smaller reporting company)
Based on the average bid and ask prices for the registrant's Common Stock at June 30, 2011, 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 $32,319,369.

There were 2,828,977 shares of the registrant's Common Stock, without par value, outstanding at January 31, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents have been incorporated by reference into this Annual Report on Form 10-K:
1. 2011 Annual Report to Shareholders. (Part II)
2. Definitive Proxy Statement for the 2011 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, an Indiana savings bank (the “Bank”). The Bank is a wholly owned subsidiary of the Bancorp. The Bancorp has no other business activity other than being the holding company for the Bank and the Bank's wholly owned subsidiaries.

The Bank is primarily engaged in the business of attracting deposits from the general public and the origination of loans, mostly upon the security of single family residences and commercial real estate, as well as, construction loans and various types of consumer loans, commercial business loans and municipal loans, within its primary market area of Lake and Porter Counties, in northwest Indiana. In addition, the Bancorp's Wealth Management Group provides estate and retirement planning, guardianships, land trusts, profit sharing and 401(k) retirement plans, IRA and Keogh accounts, investment agency accounts, and serves as the personal representative of estates and acts as trustee for revocable and irrevocable trusts.

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

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

Recent Developments

The Current Economic Environment. We continue to operate in a challenging and uncertain economic environment, including generally uncertain national conditions and local conditions in our markets. Overall economic growth continues to be slow and national and regional unemployment rates remain at elevated levels. The risks associated with our business remain acute in periods of slow economic growth and high unemployment. Moreover, financial institutions continue to be affected by a sluggish real estate market and constrained financial markets. While we are continuing to take steps to decrease and limit our exposure to problem loans, we nonetheless retain direct exposure to the residential and commercial real estate markets, and we are affected by these events.

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

Impact of Legislation. Over the last three-and-a-half years, Congress and the U.S. Department of the Treasury have enacted legislation and taken actions to address the disruptions in the financial system, declines in the housing market, and the overall regulation of financial institutions and the financial system. In this regard, on July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which significantly changed the regulation of financial institutions and the financial services industry. The Dodd-Frank Act includes provisions affecting large and small financial institutions alike, including several provisions that profoundly affect the regulation of community banks, thrifts, and small bank and thrift holding companies, such as the Bancorp. Among other things, the Dodd-Frank Act abolished the Office of Thrift Supervision effective July 21, 2011 and transferred its functions to the Office of the Comptroller of the Currency, FDIC, and Federal Reserve. The Dodd-Frank Act also relaxes rules regarding interstate branching, allows financial institutions to pay interest on business checking accounts, changes the scope of federal deposit insurance coverage, imposes new capital requirements on bank and thrift holding companies, and imposes limits on debit card interchange fees charged by issuer banks (commonly known as the Durbin Amendment). The Dodd-Frank Act also established the Bureau of Consumer Financial Protection (the "BCFP") within the Federal Reserve, which has broad authority to regulate consumer financial products and services and entities offering such products and services, including banks. In July 2011, many of the consumer financial protection functions formerly assigned to the federal banking and other designated agencies transferred to the BCFP. The BCFP has a large budget and staff, and has broad rulemaking authority over providers of credit, savings, and payment services and products. In this regard, the BCFP has the authority to implement regulations under federal consumer protection laws and enforce those laws against, and examine, financial institutions. State officials also will be authorized to enforce consumer protection rules issued by the BCFP. This bureau also is authorized to collect fines and provide consumer restitution in the event of violations, engage in consumer financial education, track consumer complaints, request data, and promote the availability of financial services to underserved consumers and communities. The BCFP also is directed to prevent "unfair, deceptive or abusive practices" and ensure that all consumers have access to markets for consumer financial products and services, and that such markets are fair, transparent, and competitive. Because the BCFP was only recently established and its director has been only recently appointed, there is significant uncertainty as to how the BCFP actually will exercise its regulatory, supervisory, examination, and enforcement authority. However, the BCFP's authority to change regulations adopted in the past by other regulators (i.e., regulations issued under the Truth in Lending Act, for example), or to rescind or ignore past regulatory guidance, could increase the Bancorp's compliance costs and litigation exposure.

Additionally, the Dodd-Frank Act includes a series of provisions covering mortgage loan origination standards affecting, among other things, originator compensation, minimum repayment standards, and pre-payments. Moreover, the Dodd-Frank Act requires public companies like the Bancorp to hold shareholder advisory "say-on-pay" votes on executive compensation at least once every three years and submit related proposals to a vote of shareholders. However, the SEC has provided a temporary exemption for smaller reporting companies, such as the Bancorp, from the requirement to hold "say-on-pay" votes until the first annual or other shareholder meeting occurring on or after January 21, 2013. The Dodd-Frank Act contains numerous other provisions affecting financial institutions of all types, many of which may have an impact on the operating environment of the Bancorp in substantial and unpredictable ways. Consequently, the Dodd-Frank Act is expected to increase our cost of doing business, it may limit or expand our permissible activities, and it may affect the competitive balance within our industry and market areas. The Bancorp's management continues to actively monitor the implementation of the Dodd-Frank Act and the regulations promulgated thereunder and assess its probable impact on the business, financial condition, and results of operations of the Bancorp. However, the ultimate effect of the Dodd-Frank Act on the financial services industry in general, and the Bancorp in particular, continues to be uncertain.

Difficult Market Conditions Have Adversely Affected Our Industry. We are particularly exposed to downturns in the U.S. housing market. Dramatic declines in the housing market over the past four years, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of mortgage and construction loans and securities and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities, major commercial and investment banks, and regional financial institutions. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, especially in light of the recent European sovereign debt crisis, many lenders and institutional investors have continued to observe tight lending standards, including with respect to other financial institutions. These market conditions have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, and increased market volatility. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on the Bancorp and others in the financial institutions industry. In particular, the Bancorp may face the following risks in connection with these events:

- We are experiencing, and expect to continue experiencing increased regulation of our industry, particularly as a result of the Dodd-Frank Act. Compliance with such regulation is expected to increase our costs and may limit our ability to pursue business opportunities.

- Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage and underwrite our customers become less predictive of future behaviors.

- The process we use to estimate losses inherent in our credit exposure requires difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of our borrowers to repay their loans, which may no longer be capable of accurate estimation which may, in turn, impact the reliability of the process.

- Our ability to borrow from other financial institutions on favorable terms or at all could be adversely affected by disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations.

- Competition in our industry could intensify as a result of the increasing consolidation of financial services companies in connection with current market conditions.

- We may be required to pay significantly higher deposit insurance premiums because market developments have significantly depleted the insurance fund of the Federal Deposit Insurance Corporation (FDIC) and reduced the ratio of reserves to insured deposits.

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

Concentrations of Real Estate Loans Subjects the Bancorp to Increased Risks as a result of a Protracted Real Estate Recession A significant portion of the Bancorp's loan portfolio is secured by real estate. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. While real estate values in almost all regions of the country, including the Midwest, have shown signs of stabilizing, the overall real estate market on a national level continues to show weakness indicative of a protracted real estate recession. A further weakening of the real estate market could result in an increase in the number of borrowers who default on their loans and a reduction in the value of the collateral securing their loans, which in turn could have an adverse effect on our profitability and asset quality. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected

Forward-Looking Statements

Statements contained in this filing on Form 10-K that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions are also intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act. The Bancorp cautions readers that forward-looking statements, including without limitation those relating to the Bancorp's future business prospects, interest income and expense, net income, liquidity, and capital needs are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements due to a number of factors, including those set forth above in "Recent Developments" and below in "Regulation and Supervision" of this Form 10-K.

Lending Activities

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

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

Under Indiana Law, an Indiana stock savings bank generally may not make any loan to a borrower or its related entities if the total of all such loans by the savings bank exceeds 15% of its unimpaired capital and unimpaired surplus (plus up to an additional 10% of unimpaired capital and unimpaired surplus, in the case of loans fully collateralized by readily marketable collateral); provided, however, that certain specified types of loans are exempted from these limitations or subject to different limitations. The maximum amount that the Bank could have loaned to one borrower and the borrower's related entities at December 31, 2011, under the 15% of capital and surplus limitation was approximately $10,591,000. At December 31, 2011, the Bank had no loans that exceeded the regulatory limitations.

At December 31, 2011, 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 theBancorp's loan portfolio by type of loan and type of collateral at the end of each of the last five years. The amounts are stated in thousands (000's).

	2011	2010	2009	2008	2007
Type of loan:					
Conventional real estate loans:					
Construction and development loans	$ 21,143	$ 46,371	$ 53,288	$ 54,975	$ 46,289
Loans on existing properties (1)	307,850	298,993	325,880	368,476	361,154
Consumer loans	472	763	1,504	1,966	2,399
Commercial business	63,293	61,726	63,099	49,309	46,953
Government and other (2)	8,643	10,380	14,474	14,783	11,664
Loans receivable (3)	$ 401,401	$ 418,233	$ 458,245	$ 489,509	$ 468,459
Type of collateral:					
Real estate:					
1-to-4 family	$ 154,135	$ 152,881	$ 184,437	$ 225,936	$ 229,012
Other dwelling units, land and commercial real estate	174,859	192,482	194,731	197,514	178,431
Consumer loans	472	763	1,446	1,879	2,290
Commercial business	63,293	60,232	61,522	47,523	45,441
Government	8,526	10,269	14,385	14,688	11,551
Loans receivable (4)	$ 401,285	$ 416,627	$ 456,521	$ 487,540	$ 466,725
Average loans outstanding during the period (3)	$ 409,787	$ 446,551	$ 472,541	$ 484,854	$ 472,212

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

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

	2011	2010	2009
Loans originated:			
Conventional real estate loans:			
Construction and development loans	$ 583	$ 2,058	$ 1,704
Loans on existing property	29,054	34,782	43,594
Loans refinanced	12,909	17,473	28,559
Total conventional real estate loans originated	42,546	54,313	73,857
Commercial business loans	87,943	93,909	134,302
Consumer loans	265	400	1,077
Total loans originated	$ 130,754	$ 148,622	$ 209,236
Loan participations purchased	$ 999	$ 974	$ -
Whole loans and participations sold	$ 10,647	$ 42,364	$ 61,133

Loan Maturity Schedule. The following table sets forth certain information at December 31, 2011 regarding the dollar amount of loans in the Bancorp's portfolio based on their contractual terms to maturity. Demand loans, loans having no schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. Contractual principal repayments of loans do not necessarily reflect the actual term of the loan portfolio. The average life of mortgage loans is substantially less than their contractual terms because of loan prepayments and because of enforcement of due-on-sale clauses, which give the Bancorp the right to declare a loan immediately due and payable in the event, among other things, that the borrower sells the property subject to the mortgage. The amounts are stated in thousands (000's).

	Maturing Within one year	After one but within five years	After five years	Total
Real estate loans	$ 53,124	$ 64,427	$ 211,442	$ 328,993
Consumer loans	91	382	-	473
Commercial business, other loans	38,160	25,135	8,640	71,935
Total loans receivable	$ 91,375	$ 89,944	$ 220,082	$ 401,401

The following table sets forth the dollar amount of all loans due after one year from December 31, 2011, 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	$ 84,985	$ 190,884	$ 275,869
Consumer loans	382	-	382
Commercial business, other loans	24,719	9,056	33,775
Total	$ 110,086	$ 199,940	$ 310,026

Lending Area. The primary lending area of the Bancorp encompasses all of Lake and Porter Counties in northwest Indiana, where a majority of loan activity is concentrated. To a lesser extent, the Bancorp also has lending activity in LaPorte, Newton and Jasper counties in Indiana, and Lake, Cook and Will counties in Illinois. The communities of Munster, Crown Point, Dyer, St. John, Merrillville, Schererville and Cedar Lake have experienced consistent growth and, therefore, have provided the greatest lending opportunities.

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

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

Designated officers have authorities, established by the Board of Directors, to approve loans. Loans up to $2,000,000 are approved by the loan officers loan committee. Loans from $2,000,000 to $3,000,000 are approved by the senior officers loan committee. All loans in excess of $3,000,000, up to the legal lending limit of the Bank, must be approved by the Bank's Board of Directors or its Executive Committee. (All members of the Bank's Board of Directors and Executive Committee are also members of the Bancorp's Board of Directors and Executive Committee, respectively.)
The maximum in-house legal lending limit as set by the Board of Directors is $5,000,000. Requests that exceed this amount will be considered on a case-by-case basis, after taking into consideration the legal lending limit, by specific Board action. Peoples Bank will not extend credit to any of its executive officers, directors, or principal shareholders or to any related interest of that person, except in compliance with the insider lending restrictions of Regulation O under the Federal Reserve Act and in an amount that, when aggregated with all other extensions of credit to that person, exceeds $500,000 unless: (1) the extension of credit has been approved in advance by a majority of the entire Board of Directors of the Bank, and (2) the interested party has abstained from participating directly or indirectly in the voting.

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

The Current Lending Programs

Residential Mortgage Loans. The primary lending activity of the Bancorp has been the granting of conventional mortgage loans to enable borrowers to purchase existing homes, refinance existing homes, or construct new homes. Conventional loans are made up to a maximum of 95% of the purchase price or appraised value, whichever is less. For loans made in excess of 80% of value, private mortgage insurance is generally required in an amount sufficient to reduce the Bancorp's exposure to 80% or less of the appraised value of the property. Loans insured by private mortgage insurance companies can be made for up to 95% of value. During 2011, 87% of mortgage loans closed were conventional loans with borrowers having 20% or more equity in the property. This type of loan does not require private mortgage insurance because of the borrower's level of equity investment.

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

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

The Bancorp's Adjustable Rate Mortgage Loans ("ARMs") include offerings that reprice annually or are "Mini-Fixed." The "Mini-Fixed" mortgage reprices annually after a one, three, five or seven year period. ARM originations totaled $5.8 million for 2011 and $5.9 million for 2010. During 2011, ARMs represented 15.8% of total mortgage loan originations. The ability of the Bancorp to successfully market ARM's depends upon loan demand, prevailing interest rates, volatility of interest rates, public acceptance of such loans and terms offered by competitors.

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

Loans are also made for the construction of commercial properties. All such loans are made in accordance with well-defined underwriting standards. Generally if the loans are not owner occupied, these types of loans require proof of intent to lease and a confirmed end-loan takeout. In general, loans made do not exceed 80% of the appraised value of the property. Commercial construction loans are typically made for periods not to exceed two years or date of occupancy, whichever is less.

Commercial Real Estate Loans. Commercial real estate loans are typically made to a maximum of 80% of the appraised value. Such loans are generally made on an adjustable rate basis. These loans are typically made for terms of 15 to 20 years. Loans with an amortizing term exceeding 15 years normally have a balloon feature calling for a full repayment within seven to ten years from the date of the loan. The balloon feature affords the Bancorp the opportunity to restructure the loan if economic conditions so warrant. Commercial real estate loans include loans secured by commercial rental units, apartments, condominium developments, small shopping centers, owner occupied commercial/industrial properties, hospitality units and other retail and commercial developments.

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

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

Consumer Loans. The Bancorp offers consumer loans to individuals for 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. On a limited basis, the Bancorp purchases indirect dealer paper from various well-established businesses in its immediate banking area.

Home Equity Line of Credit. The Bancorp offers a fixed and variable rate revolving line of credit secured by the equity in the borrower's home. Both products offer an interest only option where the borrower pays interest only on the outstanding balance each month. Equity lines will typically require a second mortgage appraisal and a second mortgage lender's title insurance policy. Loans are generally made up to a maximum of 80% of the appraised value of the property less any outstanding liens.

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

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

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

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

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

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

At December 31, 2011, the Bancorp classified nineteen loans totaling $14.8 million as troubled debt restructurings, which involves modifying the terms of a loan to forego a portion of interest or principal or reducing the interest rate on the loan to a rate materially less than market rates, or materially extending the maturity date of a loan. All of the loans classified as troubled debt restructurings are also considered impaired. The Bancorp's troubled debt restructurings include two commercial real estate participation hotel loans in the amount of $5.6 million and one commercial real estate hotel loan in the amount of $5.0 million, for which significant deferrals of principal repayments were granted; one commercial real estate loan in the amount of $2.4 million for which a significant deferral of principal and interest repayment was granted; one commercial real estate loan in which the borrower is in bankruptcy in the amount of $463 thousand, for which a significant deferral of principal and interest repayment was granted by the Bank as required by the bankruptcy plan; and fourteen mortgage loans totaling $1.3 million, for which maturity dates were materially extended. All of the loans classified as troubled debt restructurings are currently on non-accrual status except for two loans totaling $7.4 million, which are performing and have been kept on accrual status. The valuation basis for the Bancorp's troubled debt restructurings is based on the present value of cash flows, unless consistent cash flows are not present, then the fair value of the collateral securing the loan is the basis for valuation.

The following table sets forth information regarding the Bancorp's non-performing assets as of December 31 for each period indicated. The amounts are stated in thousands (000's).

	2011	2010	2009	2008	2007
Loans accounted for on a non-accrual basis:					
Real estate:					
Residential	$ 2,481	$ 2,843	$ 2,789	$ 2,316	$ 1,383
Commercial	10,603	20,642	13,927	7,902	6,065
Commercial business	926	482	358	712	328
Consumer	-	-	-	7	-
Total	$ 14,010	$ 23,967	$ 17,074	$ 10,937	$ 7,776
Accruing loans which are contractually past due 90 days or more:					
Real estate:					
Residential	$ 279	$ 145	$ 1,268	$ 1,198	$ 819
Commercial	-	-	-	278	-
Commercial business	-	-	-	-	-
Consumer	-	3	223	-	23
Total	$ 279	$ 148	$ 1,491	$ 1,476	$ 842
Total of non-accrual and 90 days past due	$ 14,289	$ 24,115	$ 18,565	$ 12,413	$ 8,618
Ratio of non-performing loans to total assets	2.19%	3.82%	2.81%	1.87%	1.37%
Ratio of non-performing loans to total loans	3.56%	5.77%	4.05%	2.54%	1.84%
Foreclosed real estate	$ 2,457	$ 3,298	$ 3,747	$ 527	$ 136
Ratio of foreclosed real estate to total assets	0.38%	0.52%	0.57%	0.08%	0.02%

During 2011, gross interest income of $1,091,000 would have been recorded on loans accounted for on a non-accrual basis if the loans had been current throughout the period. Interest on such loans included in income during the period amounted to $378,000.

Federal regulations require savings banks to classify their own loans and to establish appropriate general and specific allowances, subject toregulatory review. These regulations are designed to encourage management to evaluate loans on a case-by-case basis and to discourage automatic classifications. Loans classified as substandard or doubtful must be evaluated by management to determine loan loss reserves. Loans classified as loss must either be written off or reserved for by a specific allowance. Amounts reported in the general loan loss reserve are included in the calculation of the Bancorp's total risk-based capital requirement (to the extent that the amount does not exceed 1.25% of total risk-based assets), but are not included in Tier 1 leverage ratio calculations and Tier 1 risk-based capital requirements. Loans internally classified as substandard totaled $24.6 million at December 31, 2011, compared to $32.7 million at December 31, 2010. No loans are internally classified as doubtful at December 31, 2011 or 2010. No loans were classified as loss at either December 31, 2011 or 2010. Substandard loans include non-performing loans and potential problem loans, where information about possible credit issues or other conditions causes management to question the ability of such borrowers to comply with loan covenants or repayment terms. In addition to identifying and monitoring non-performing and other classified loans, management maintains a list of watch loans. Watch loans represent loans management is closely monitoring due to one or more factors that may cause the loan to become classified. Watch loans totaled $24.3 million at December 31, 2010, compared to $16.9 million at December 31, 2011.

A loan is considered impaired when, based on current information and events it is probable that a borrower will be unable to pay all amounts due according to the contractual terms of the loan agreement. At December 31, 2011, impaired loans totaled $20.4 million, compared to $26.0 million at December 31, 2010. The December 31, 2011, impaired loan balances consist of thirty-one commercial real estate and commercial business loans totaling $20.4 million that are secured by business assets and real estate, and are personally guaranteed by the owners of the businesses. In addition, fourteen mortgage loans totaling $1.3 million, which are troubled debt restructurings have also been classified as impaired. The December 31, 2011 ALL contained $1.6 million in specific allowances for collateral deficiencies, compared to $2.8 million at December 31, 2010. During the fourth quarter of 2011, one additional commercial development project totaling $1.8 million was newly classified as impaired. Management’s current estimates indicate a $205 thousand collateral deficiency for this loan. In addition, during the fourth quarter of 2011, five loans totaling $4.9 million were removed from impaired status due to payoffs, transfers to foreclosed real estate and charge-offs. As of December 31, 2011, all loans classified as impaired were also included in the previously discussed substandard loan balances, except for mortgage loans. There were no other loans considered to be impaired loans as of December 31, 2011. Typically, management does not individually classify smaller-balance homogeneous loans, such as residential mortgages or consumer loans, as impaired, unless they are troubled debt restructurings.

At December 31, 2011, management is of the opinion that there are no loans, except those discussed above, where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which will imminently result in disclosure of such loans as non-accrual, past due or restructured loans. Management does not presently anticipate that any of the non-performing loans or classified loans would materially impact future operations, liquidity or capital resources.

The Bancorp is a party to financial instruments in the normal course of business to meet financing needs of its customers. These financial instruments, which include commitments to make loans and standby letters of credit, are not reflected in the accompanying consolidated financial statements. Such financial instruments are recorded when they are funded. The Bancorp has a $1.1 million participation in a $5.7 million letter of credit, which acts as payment support to bondholders. The letter of credit is secured by a cash collateral account in the amount of $1.5 million and a collateralized guarantee in the amount of $1.0 million. Currently, the letter of credit participants have secured a signed lease from a new tenant that opened for operations during May 2009. The signing of the lease resolved one of the defaults that existed under the letter of credit document. During the first quarter of 2010, all prior remaining defaults were resolved. At December 31, 2011, the tenant's operations continue to provide sufficient cash flow to allow the borrower to meet debt obligations to the participants.

For 2011, $3.5 million in provisions to the ALL were required, compared to $5.6 million for 2010. The ALL provision decrease for 2011 is primarily a result of improved asset quality. The current year ALL provisions were primarily related to the current credit risk in the commercial real estate participation and commercial real estate loan portfolios. For 2011, charge-offs, net of recoveries, totaled $4.6 million, compared to $2.6 million for 2010. The 2011 net loan charge-offs of $4.6 million were comprised of $3.4 million in commercial real estate participation loans, $698 thousand in commercial real estate loans, $358 thousand in residential real estate loans, $160 thousand in commercial business loans and $12 thousand in consumer loans. The ALL provisions take into consideration management's current judgments about the credit quality of the loan portfolio, loan portfolio balances, changes in the portfolio mix and local economic conditions. In determining the provision for loan losses for the current period, management has given consideration to historically elevated risks associated with the local economy, changes in loan balances and mix, and asset quality.

The ALL to total loans was 1.99% at December 31, 2011, compared to 2.18% at December 31, 2010. The decrease in ALL to total loans was largely a result of charge-offs related to loans with previously identified valuation reserves. The ALL to non-performing loans (coverage ratio) was 56.03% at December 31, 2011, compared to 37.82% at December 31, 2010. The December 31, 2011 balance in the ALL account of $8.0 million is considered adequate by management after evaluation of the loan portfolio, past experience and current economic and market conditions. While management may periodically allocate portions of the allowance for specific problem loans, the whole allowance is available for any loan charge offs that occur. The allocation of the ALL reflects performance and growth trends within the various loan categories, as well as consideration of the facts and circumstances that affect the repayment of individual loans, and loans which have been pooled as of the evaluation date, with particular attention given to non-performing loans and loans which have been classified as substandard, doubtful or loss. Management has allocated reserves to both performing and non-performing loans based on current information available.

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

	2011	2010	2009	2008	2007
Balance at beginning of period	$ 9,121	$ 6,114	$ 5,830	$ 4,581	$ 4,267
Loans charged-off:					
Real estate - residential	(470)	(764)	(489)	(27)	-
Commercial real estate	(880)	(900)	(268)	(64)	-
Commercial real estate participations	(3,366)	(987)	(7,133)	(1,026)	-
Commercial business	(163)	(182)	(504)	(1)	-
Consumer	(55)	(35)	(46)	(109)	(268)
Total charge-offs	(4,934)	(2,868)	(8,440)	(1,227)	(268)
Recoveries:					
Residential real estate	112	38	1	2	3
Commercial real estate	182	-	15	7	-
Commercial real estate participations	-	248	45	-	-
Commercial business	3	10	116	-	24
Consumer	11	9	7	79	3
Total recoveries	308	305	184	88	30
Net (charge-offs) / recoveries	(4,626)	(2,563)	(8,256)	(1,139)	(238)
Provision for loan losses	3,510	5,570	8,540	2,388	552
Balance at end of period	$ 8,005	$ 9,121	$ 6,114	$ 5,830	$ 4,581
ALL to loans outstanding	1.99%	2.18%	1.33%	1.19%	0.98%
ALL to nonperforming loans	56.03%	37.82%	32.93%	46.97%	53.16%
Net charge-offs / recoveries to average loans out - standing during the period	-1.13%	-0.57%	-1.75%	-0.24%	-0.05%

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

	2011		2010		2009		2008		2007	
	$	%	$	%	$	%	$	%	$	%
Real estate loans:										
Residential	1,161	38.4	994	36.6	241	40.2	394	46.2	808	47.8
Commercial and other dwelling	5,728	43.5	7,477	45.9	5,371	42.5	3,934	40.3	2,353	39.2
Consumer loans	15	0.1	30	0.2	51	0.3	69	0.4	53	0.5
Commercial business and other	1,101	18.0	620	17.3	451	17.0	1,433	13.1	1,367	12.5
Total	8,005	100.0	9,121	100.0	6,114	100.0	5,830	100.0	4,581	100.0

Investment Activities

The primary objective of the investment portfolio is to provide for the liquidity needs of the Bancorp and to contribute to profitability by providing a stable flow of dependable earnings. Securities can be classified as either held-to-maturity (HTM) or available-for-sale (AFS) at the time of purchase. No securities are classified as trading. During 2011, management transferred its entire HTM securities portfolio to AFS in order to provide management with the ability to sell lower balance odd lot securities, divest of certain securities to reduce credit or interest rate risk within the portfolio, and be positioned to take advantage of other portfolio restructuring opportunities. AFS securities are those the Bancorp may decide to sell if needed for liquidity, asset-liability management or other reasons. During 2011, the Bancorp did not have derivative instruments and was not involved in hedging activities as defined by Accounting Standards Codification Topic 815 Derivatives and Hedging. It has been the policy of the Bancorp to invest its excess cash in U.S. government agency securities, mortgage-backed securities, collateralized mortgage obligations and municipal securities. In addition, short-term funds are generally invested as interest-bearing balances in financial institutions and federal funds. At December 31, 2011, the Bancorp's investment portfolio totaled $187.0 million. In addition, the Bancorp had $5.8 million federal funds sold, and $3.1 million in FHLB stock.

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

	2011	2010	2009
U.S. government agencies:			
Available-for-sale	15,648	4,169	2,045
Mortgage-backed securities (1):			
Available-for-sale	50,683	32,682	32,778
Held-to-maturity	-	824	1,018
Collateralized Mortgage Obligations (1):			
Available-for-sale	60,514	64,460	53,030
Municipal Securities:			
Available-for-sale	58,756	39,365	35,573
Held-to-maturity	-	17,573	18,539
Corporate Securities:			
Available-for-sale	-	-	-
Trust Preferred Securities:			
Available-for-sale	1,361	1,379	1,350
Totals	$ 186,962	$ 160,452	$ 144,333

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

The contractual maturities and weighted average yields for the U.S. government securities, agency securities, municipal securities, and trust preferred securities at December 31, 2011, are summarized in the table below. Securities not due at a single maturity date, such as mortgage-backed securities and collateralized mortgage obligations are not included in the following table. The carrying values are stated in thousands (000's).

	Within 1 Year		1 - 5 Years		5 - 10 Years		After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. government Securities:								
AFS	-	0.00%	-	0.00%	-	0.00%	-	0.00%
U.S. government Agencies:								
AFS	-	0.00%	8,309	1.37%	7,339	1.82%	-	0.00%
Municipal Securities:								
AFS	1,020	4.14%	6,290	4.36%	21,193	4.25%	30,253	4.23%
Trust Preferred Securities:								
AFS	-	0.00%	-	0.00%	-	0.00%	1,361	1.30%
Totals	$ 1,020	4.14%	$ 14,599	2.66%	$ 28,532	3.62%	$ 31,614	4.10%

The Bancorp currently holds four trust preferred securities of which three of the securities' quarterly interest payments have been placed in "payment in kind" status. Payment in kind status results in a temporary delay in the payment of interest. As a result of a delay in the collection of the interest payments, management placed these securities in non-accrual status. At December 31, 2011, the cost basis of the three trust preferred securities in non-accrual status totaled $3.9 million. Current estimates indicate that the interest payment delays may exceed ten years. One trust preferred security with a cost basis of $1.3 million remains in accrual status.

Sources of Funds

General. Deposits are the major source of the Bancorp's funds for lending and other investment purposes. In addition to deposits, the Bancorp derives funds from maturing investment securities and certificates of deposit, dividend receipts from the investment portfolio, loan principal repayments, repurchase agreements, advances from the Federal Home Loan Bank of Indianapolis (FHLB) and other borrowings. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by general interest rates and money market conditions. Borrowings may be used on a short-term basis to compensate for reductions in the availability of other sources of funds. They may also be used on a longer-term basis for general business purposes. The Bancorp uses repurchase agreements, as well as a line-of-credit and advances from the FHLB for borrowings. At December 31, 2011, the Bancorp had $15.4 million in repurchase agreements. Other borrowings totaled $36.6 million, of which $36.0 million represents FHLB advances.

Deposits. Retail and commercial deposits are attracted principally from within the Bancorp's primary market area. The Bancorp offers a broad selection of deposit instruments including non-interest bearing demand accounts, interest bearing demand accounts, savings accounts, money market deposit accounts, certificate accounts and retirement savings plans. Deposit accounts vary as to terms, with the principal differences being the minimum balance required, the time period the funds must remain on deposit and the interest rate. Certificate accounts currently range in maturity from ten days to 42 months. The deregulation of federal controls on insured deposits has allowed the Bancorp to be more competitive in obtaining funds and to be flexible in meeting the threat of net deposit outflows. The Bancorp does not obtain funds through brokers.

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

	2011		2010		2009	
	Amount	Rate %	Amount	Rate %	Amount	Rate %
Noninterest bearing demand deposits	$ 54,126	-	$ 48,975	-	$ 44,438	-
Interest bearing demand deposits	99,040	0.17	110,078	0.32	93,938	0.41
MMDA accounts	116,527	0.30	116,871	0.48	108,874	0.82
Savings accounts	69,529	0.15	60,830	0.20	55,665	0.22
Certificates of deposit	186,730	0.99	216,168	1.33	237,789	2.39
Total deposits	$ 525,952	0.71	$ 552,922	0.71	$ 540,704	1.31

Maturities of time certificates of deposit and other time deposits of $100,000 or more at December 31, 2011 are summarized as follows. The amounts are stated in thousands (000's).

3 months or less	$ 25,564
Over 3 months through 6 months	11,606
Over 6 months through 12 months	23,230
Over 12 months	13,875
Total	$ 74,275

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

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

	At December 31, 2011	At December 31, 2010	At December 31, 2009
Fixed rate advances from the FHLB	$ 31,000	$ 24,000	$ 33,000
Putable advances from the FHLB	5,000	5,000	5,000
Variable advances from the FHLB	-	-	-
FHLB line-of-credit	-	3,248	8,464
Limited partnership obligation	-	-	-
Overdrawn due from & Treasury Tax & Loan	618	296	665
Total borrowings	$ 36,618	$ 32,544	$ 47,129

Repurchase agreements:	At December 31, 2011	At December 31, 2010	At December 31, 2009
Balance	$ 15,395	$ 16,074	$ 15,893
Securities underlying the agreements:			
Ending carrying amount	26,622	24,484	27,394
Ending fair value	26,622	24,915	27,829
Weighted average rate (1)	0.43%	0.70%	1.34%

	For year ended December 31, 2011	For year ended December 31, 2010	For year ended December 31, 2009
Highest month-end balance	$ 24,258	$ 22,369	$ 23,451
Average outstanding balance	20,767	19,469	21,333
Weighted average rate on securities sold under agreements to repurchase (2)	0.51%	0.92%	1.36%

(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.

Wealth Management Group

The activities of the Bancorp's Wealth Management Group provides estate and retirement planning, guardianships, land trusts, profit sharing and 401(k) retirement plans, IRA and Keogh accounts, investment agency accounts, and serves as personal representative of estates and acts as trustee for revocable and irrevocable trusts. At December 31, 2011, the market value of the Wealth Management Group's assets totaled $260.5 million, an increase of $22.0 million, compared to December 31, 2010.

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 securities, the weighted average cost of interest-bearing deposits and other borrowings, and the interest rate spread for the year ended December 31, 2011.

Weighted average yield:	
Securities	3.41%
Loans receivable	5.10%
Federal Home Loan Bank stock	2.64%
Total interest-earning assets	4.49%
Weighted average cost:	
Deposit accounts	0.47%
Borrowed funds	1.50%
Total interest-bearing liabilities	0.56%
Interest rate spread:	
Weighted average yield on interest-earning assets minus the weighted average cost of interest-bearing funds	3.93%

Financial Ratios and the Analysis of Changes in Net Interest Income.

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

	Year ended December 31,		
	2011	2010	2009
Return on average assets	0.84%	0.77%	0.37%
Return on average equity	8.90%	9.03%	4.55%
Average equity-to-average assets ratio	9.40%	8.56%	8.17%
Dividend payout ratio	31.57%	39.26%	136.90%

	At December 31,		
	2011	2010	2009
Total stockholders’ equity to total assets	9.66%	8.89%	8.02%

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

	Year ended December 31, 2011			Year ended December 31, 2010			Year ended December 31, 2009		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
Assets:									
Interest bearing balances in financial institutions	$ 7,215	$ 18	0.25%	$ 12,135	$ 28	0.23%	$ 6,574	$ 9	0.14%
Federal funds sold	5,366	1	0.01	5,227	1	0.01	5,240	5	0.10
Securities	178,089	6,074	3.41	157,730	6,006	3.81	139,212	6,186	4.44
Total investments	190,670	6,093	3.20	175,092	6,035	3.45	151,026	6,200	4.11
Loans:*									
Real estate mortgage loans	335,529	17,258	5.14	366,566	19,759	5.39	397,146	22,046	5.55
Commercial business loans	73,664	3,590	4.87	78,921	4,216	5.34	73,669	3,822	5.19
Consumer loans	594	45	7.58	1,064	76	7.14	1,725	121	7.02
Total loans	409,787	20,893	5.10	446,551	24,051	5.39	472,540	25,989	5.50
Total interest-earning assets	600,457	26,986	4.49	621,643	30,086	4.84	623,566	32,189	5.16
Allowance for loan losses	(9,092)			(7,585)			(6,153)		
Cash and due from banks	8,365			7,773			9,243		
Premises and equipment	18,780			19,412			19,444		
Other assets	25,211			28,322			23,490		
Total assets	$ 643,721			$ 669,565			$ 669,590		
Liabilities:									
Demand deposit	$ 54,126	-	-%	$ 48,975	-	-%	$ 44,438	-	-%
NOW accounts	99,040	172	0.17	110,078	353	0.32	93,938	389	0.41
Money market demand accounts	116,527	350	0.30	116,871	556	0.48	108,874	891	0.82
Savings accounts	69,529	102	0.15	60,830	122	0.20	55,665	124	0.22
Certificates of deposit	186,730	1,849	0.99	216,168	2,883	1.33	237,789	5,679	2.39
Total interest-bearing deposits	525,952	2,473	0.47	552,922	3,914	0.71	540,704	7,083	1.31
Borrowed funds	50,538	758	1.50	52,792	1,075	2.04	68,017	1,758	2.58
Total interest-bearing liabilities	576,490	3,231	0.56	605,714	4,989	0.82	608,721	8,841	1.45
Other liabilities	6,720			6,516			6,154		
Total liabilities	583,210			612,230			614,875		
Stockholders' equity	60,511			57,335			54,715		
Total liabilities and stockholders' equity	$ 643,721			$ 669,565			$ 669,590		
Net interest income		$ 23,755			$ 25,097			$ 23,348	
Net interest spread			3.93%			4.02%			3.71%
Net interest margin**			3.96%			4.04%			3.74%

* Non-accruing loans have been included in the average balances.
** Net interest income divided by average interest-earning assets.

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

	Year Ended December 31, 2011 vs. 2010 Increase / (Decrease) Due To			Year Ended December 31, 2010 vs. 2009 Increase / (Decrease) Due To		
	Volume	Rate	Total	Volume	Rate	Total
Interest income:						
Loans receivable	$ (1,916)	$ (1,242)	$ (3,158)	$ (1,408)	$ (530)	$ (1,938)
Securities	730	(662)	68	766	(946)	(180)
Other interest-earning assets	(7)	(3)	(10)	8	6	14
Total interest-earning assets	(1,193)	(1,907)	(3,100)	(634)	(1,470)	(2,104)
Interest Expense:						
Deposits	(183)	(1,258)	(1,441)	126	(3,295)	(3,169)
Borrowed Funds	(44)	(273)	(317)	(354)	(329)	(683)
Total interest-bearing liabilities	(227)	(1,531)	(1,758)	(228)	(3,624)	(3,852)
Net change in net interest income/(expense)	$ (966)	$ (376)	$ (1,342)	$ (406)	$ 2,154	$ 1,748

Bank Subsidiary Activities

Peoples Service Corporation, a wholly owned subsidiary of the Bank was incorporated under the laws of the State of Indiana. The subsidiary currently provides insurance and annuity investments to the Bank's wealth management customers. At December 31, 2011, the Bank had an investment balance of $155 thousand in Peoples Service Corporation.

NWIN, LLC is a wholly owned subsidiary of the Bank. NWIN, LLC was incorporated under the laws of the State of Nevada as an investment subsidiary. The investment subsidiary currently holds Bank security investments, which are managed by a professional portfolio manager. In addition, the investment subsidiary is the parent of a real estate investment trust, NWIN Funding, Inc., that invests in real estate loans originated by the Bank. At December 31, 2011, the Bank had an investment balance of $234.0 million in NWIN, LLC. The investment balance represents an increase of $25.3 million, as a result of capital contributions from the Bank of $19.0 million during 2011.

NWIN Funding, Inc. is a subsidiary of NWIN, LLC, and was formed as an Indiana Real Estate Investment Trust (REIT). The formation of NWIN Funding, Inc. provides the Bancorp with a vehicle that may be used to raise capital utilizing portfolio mortgages as collateral, without diluting stock ownership. In addition, NWIN Funding, Inc. will receive favorable state tax treatment for income generated by its operations. At December 31, 2011, the REIT held assets of $44.6 million in real estate loans.

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

Competition

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

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

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

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

Personnel

As of December 31, 2011, the Bank had 170 full-time and 31 part-time employees. The employees are not represented by a collective bargaining agreement. Management believes its employee relations are good. The Bancorp has five officers (listed below under Item 4.5 “Executive Officers of the Bancorp”), but has no other employees. The Bancorp’s officers also are full-time employees of the Bank, and are compensated by the Bank.

Regulation and Supervision

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

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

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

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

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

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

Branches and Acquisitions. Branching by the Bank requires the approval of the Federal Reserve and the DFI. Under current law, Indiana chartered banks may establish branches throughout the state and in other states, subject to certain limitations. Congress authorized interstate branching, with certain limitations, beginning in 1997. Indiana law authorizes an Indiana bank to establish one or more branches in states other than Indiana through interstate merger transactions and to establish one or more interstate branches through de novo branching or the acquisition of a branch. The Dodd-Frank Act permits the establishment of de novo branches in states where such branches could be opened by a state bank chartered by that state. The consent of the state is no longer required.

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

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

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

The Dodd-Frank Act requires the FRB to set minimum capital levels for bank holding companies that are as stringent as those required for insured depository subsidiaries; provided, however, that bank holding companies with less than $500 million in assets are exempt from these capital requirements. The legislation also established a floor for capital of insured depository institutions that cannot be lower than the standards in effect today, and directs the federal banking regulators to implement new leverage and capital requirements within 18 months that take into account off-balance sheet activities and risks, including risks related to securitized products and derivatives.

FDICIA requires, among other things, federal bank regulatory authorities to take "prompt corrective action" with respect to banks that do not meet minimum capital requirements. The FDIC has adopted regulations to implement the prompt corrective action provisions of FDICIA, which, among other things, define the relevant capital measures for five capital categories. An institution is deemed to be "well capitalized" if it has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater, and a leverage ratio of 5% or greater, and is not subject to a regulatory order, agreement or directive to meet and maintain a specific capital level for any capital measure.

The following table shows that, at December 31, 2011, the Bancorp’s capital exceeded all regulatory capital requirements. At December 31, 2011, the Bancorp’s and the Bank’s regulatory capital ratios were substantially the same. At December 31, 2011, the Bancorp and the Bank were categorized as well capitalized. The dollar amounts are stated in millions.

	Actual		Required for adequate capital		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk weighted assets	$ 64.9	14.3%	$ 36.2	8.0%	$ 45.2	10.0%
Tier 1 capital to risk weighted assets	$ 59.2	13.1%	$ 18.1	4.0%	$ 27.1	6.0%
Tier 1 capital to adjusted average assets	$ 59.2	9.2%	$ 19.4	3.0%	$ 32.3	5.0%

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

Dividend Limitations. The Bancorp is a legal entity separate and distinct from the Bank. The primary source of the Bancorp’s cash flow, including cash flow to pay dividends on the Bancorp’s Common Stock, is the payment of dividends to the Bancorp by the Bank. Under Indiana law, the Bank may pay dividends of so much of its undivided profits (generally, earnings less losses, bad debts, taxes and other operating expenses) as is considered expedient by the Bank’s Board of Directors. However, the Bank must obtain the approval of the DFI for the payment of a dividend if the total of all dividends declared by the Bank during the current year, including the proposed dividend, would exceed the sum of retained net income for the year to date plus its retained net income for the previous two years. For this purpose, “retained net income” means net income as calculated for call report purposes, less all dividends declared for the applicable period.

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. The FRB issued a letter dated February 24, 2009, to bank holding companies providing that it expects banks holding companies to consult with it in advance of declaring dividends that could raise safety and soundness concerns (i.e., such as when the dividend is not supported by earnings or involves a material increase in the dividend rate) and in advance of repurchasing shares of common preferred stock.

During the second quarter of 2010, the Federal Reserve Bank of Chicago (the Reserve Bank) notified the Bancorp's management that future shareholder dividend payments would require Reserve Bank permission in accordance with Supervisory Letter 09-4. The Reserve Bank's requirement to approve future dividend payments was a result of the Bancorp's $1.4 million net loss recorded during the third quarter of 2009. On January 28, 2011, the Bancorp's Board of Directors adopted a resolution providing that the prior written consent of the Federal Reserve Bank of Chicago is required for the declaration of dividends by the Bancorp. On December 7, 2011, the Bancorp announced that the Board of Directors of the Bancorp declared a fourth quarter dividend of $0.15 per share. The Bancorp's fourth quarter dividend was paid to shareholders on January 6, 2012. During December 2011, the Reserve Bank of Chicago approved the fourth quarter dividend payments. The current dividend policy is reflective of the Bancorp Board's commitment that the shareholders long term interests are best served through the preservation of capital in the current stressed economic environment.

Federal Deposit Insurance. Deposits in the Bank are insured by the Deposit Insurance Fund of the FDIC up to a maximum amount, which is generally $250,000 per depositor, subject to aggregation rules, provided that, for noninterest bearing transaction accounts there is unlimited insurance coverage through December 31, 2012. The Bank is subject to deposit insurance assessments by the FDIC pursuant to its regulations establishing a risk-related deposit insurance assessment system, based on the institution's capital levels and risk profile. Under the FDIC's risk-based assessment system, insured institutions are assigned to one of four risk-weighted categories based on supervisory evaluations, regulatory capital levels, and certain other factors with less risky institutions paying lower assessments. An institution's initial assessment rate depends upon the category to which it is assigned. There are also adjustments to a bank's initial assessment rates based on levels of long-term unsecured debt, secured liabilities in excess of 25% of domestic deposits and, for certain institutions, brokered deposit levels. Under the rules in effect through March 31, 2011, initial assessments ranged from 12 to 45 basis points of assessable deposits. However, pursuant to FDIC rules adopted under the Dodd-Frank Act (described below), effective April 1, 2011, initial assessments ranged from 5 to 35 basis points of the institution's total assets minus its tangible equity.The Bank paid deposit insurance assessments of $946 thousand during the year ended December 31, 2011. For 2011, the deposit insurance assessment rate before applying one time credits was approximately 0.185% of insured deposits. No institution may pay a dividend if it is in default of the federal deposit insurance assessment.

The Bank is also subject to assessment for the Financing Corporation (FICO) to service the interest on its bond obligations. The amount assessed on individual institutions, including the Bank, by FICO is in addition to the amount paid for deposit insurance according to the risk-related assessment rate schedule. These assessments will continue until the FICO bonds are repaid between 2017 and 2019. During 2011, the FICO assessment rate ranged between 0.66 and 1.00 basis points for each $100 of insured deposits per quarter. The Bank paid interest payment assessments of $46 thousand during the year ended December 31, 2011. Future increases in deposit insurance premiums or changes in risk classification would increase the Bank's deposit related costs.

On December 30, 2009, banks were required to pay the fourth quarter assessment and to prepay estimated insurance assessments for the years 2010 through 2012. The pre-payment did not affect the Bank's earnings on that date. The Bank paid an aggregate of $3.7 million in premiums on December 30, 2009, $3.5 million of which constituted prepaid premiums.

Under the Dodd-Frank Act, the FDIC is authorized to set the reserve ratio for the Deposit Insurance Fund at no less than 1.35%, and must achieve the 1.35% designated reserve ratio by September 30, 2020. The FDIC must offset the effect of the increase in the minimum designated reserve ratio from 1.15% to 1.35% on insured depository institutions of less than $10 billion, and may declare dividends to depository institutions when the reserve ratio at the end of a calendar quarter is at least 1.5%, although the FDIC has the authority to suspend or limit such permitted dividend declarations. In December 2010, the FDIC adopted a final rule setting the designated reserve ratio for the deposit insurance fund at 2% of estimated insured deposits.

On October 19, 2010, the FDIC proposed a comprehensive long-range plan for Deposit Insurance Fund management with the goals of maintaining a positive fund balance, even during periods of large fund losses, and maintaining steady, predictable assessment rates throughout economic and credit cycles. The FDIC determined not to increase assessments in 2011 by 3 basis points, as previously proposed, but to keep the current rate schedule in effect. In addition, the FDIC proposed adopting a lower assessment rate schedule when the designated reserve ratio reaches 1.15% so that the average rate over time should be about 8.5 basis points. In lieu of dividends, the FDIC proposed adopting lower rate schedules when the reserve ratio reaches 2% and 2.5%, so that the average rates will decline about 25 percent and 50 percent, respectively.

Under the Dodd-Frank Act, the assessment base for deposit insurance premiums changed from adjusted domestic deposits to average consolidated total assets minus average tangible equity. Tangible equity for this purpose means Tier 1 capital. Since this is a larger base than adjusted domestic deposits, assessment rates are expected to be lower. In February 2011, the FDIC approved a new rule effective April 1, 2011 (to be reflected in invoices for assessments due September 30, 2011), which implemented these changes. The new rule includes new rate schedules scaled to the increase in the assessment base, including schedules that will go into effect when the reserve ratio reaches 1.15%, 2%, and 2.5%. The FDIC staff projected that the new rate schedules would be approximately revenue neutral.

The schedule would reduce the initial base assessment rate in each of the four risk-based pricing categories.

- For small Risk category I banks, the rates would range from 5-9 basis points.

- The proposed rates for small institutions in Risk Categories II, III and IV would be 14, 23 and 35 basis points, respectively.

- For large institutions and large, highly complex institutions, the proposed rate schedule ranges from 5 to 35 basis points.

There are also adjustments made to the initial assessment rates based on long-term unsecured debt, depository institution debt, and brokered deposits. The FDIC also revised the assessment system for large depository institutions with over $10 billion in assets.

Due to the recent difficult economic conditions, the FDIC adopted an optional Temporary Liquidity Guarantee Program by which, for a fee, noninterest bearing transaction accounts would receive unlimited insurance coverage until June 30, 2010 (which was later extended to December 31, 2011) and, for a fee, certain senior unsecured debt issued by institutions and their holding companies between October 13, 2008 and October 31, 2009 would be guaranteed by the FDIC through December 31, 2012. [The Bank made the business decision to participate in the unlimited noninterest bearing transaction account coverage but elected not to participate in the unsecured debt guarantee program.] The assessments for unlimited noninterest bearing transaction account coverage where 15 basis points per $100 of insured deposits. The assessments for unsecured debt guarantee program coverage ranged from 50 to 100 basis points per annum per $100 of debt depending on the maturity of the debt.

The Dodd-Frank Act extended unlimited insurance on non-interest bearing accounts for no additional charges through December 31, 2012. Under this program, traditional non-interest demand deposit (or checking) accounts that allow for an unlimited number of transfers and withdrawals at any time, whether held for a business, individual, or other type of depositor, are covered. Later, Congress added Lawyers' Trust Accounts (IOLTA) to this unlimited insurance protection through December 31, 2012.

The FDIC has the authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what insurance assessment rates will be in the future.

The FDIC may terminate the deposit insurance of any insured depository institution if the FDIC determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe and unsound condition to continue operations or has violated any applicable law, regulation, order or any condition imposed in writing by, or written agreement with, the FDIC. The FDIC may also suspend deposit insurance temporarily during the hearing process for a permanent termination of insurance if the institution has no tangible capital.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank of Indianapolis, which is one of 12 regional Federal Home Loan Banks. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from funds deposited by member institutions and proceeds from the sale of consolidated obligations of the Federal Home Loan Bank system. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of trustees of the Federal Home Loan Bank. As a member, the Bank is required to purchase and maintain stock in the Federal Home Loan Bank of Indianapolis in an amount equal to the greater of 1% of its aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year or 5% of our outstanding advances from the Federal Home Loan Bank. At December 31, 2011, the Bank was in compliance with this requirement.

At December 31, 2011, the Bancorp owned $3.09 million of stock of the Federal Home Loan Bank of Indianapolis (“FHLBI”) and had outstanding borrowings of $36.0 million from the FHLBI. The FHLBI stock entitles the Bancorp to dividends from the FHLBI. The Bancorp recognized dividend income of approximately $85 thousand in 2011. At December 31, 2011, the Bancorp’s excess borrowing capacity from the FHLBI was $42.6 million. Generally, the loan terms from the FHLBI are better than the terms the Bancorp can receive from other sources making it cheaper to borrow money from the FHLBI.

Federal Reserve System. Under regulations of the FRB, the Bank is required to maintain reserves against its transaction accounts (primarily checking accounts) and non-personal money market deposit accounts. The effect of these reserve requirements is to increase the Bank’s cost of funds. The Bank is in compliance with its reserve requirements.

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

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

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

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

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

Consumer Financial Protection Bureau. The Dodd-Frank Act created a new, independent federal agency called the Consumer Financial Protection Bureau ("CFPB"), which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of Gramm-Leach and certain other statutes. In July 2011, many of the consumer financial protection functions formerly assigned to the federal banking and other designated agencies transferred to the CFBP. The CFBP has a large budget and staff, and has the authority to implement regulations under federal consumer protection laws and enforce those laws against financial institutions. The CFPB will have examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Smaller institutions will be subject to rules promulgated by the CFPB but will continue to be examined and supervised by the federal banking regulators for consumer compliance purposes. The CFPB will have authority to prevent unfair, deceptive or abusive practice in connection with the offering of consumer financial products. Additionally, this bureau is authorized to collect fines and provide consumer restitution in the event of violations, engage in consumer financial education, track consumer complaints, request data, and promote the availability of financial services to underserved consumers and communities. Moreover, the Dodd-Frank Act authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower's ability to repay. In addition, the Dodd-Frank Act will allow borrowers to raise certain defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the CFPB. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations. Federal preemption of state consumer protection law requirements, traditionally an attribute of the federal savings association charter, has also been modified by the Dodd-Frank Act and now requires a case-by-case determination of preemption by the Office of the Comptroller of the Currency and eliminates preemption for subsidiaries of a bank. Depending on the implementation of this revised federal preemption standard, the operations of the Bank could become subject to additional compliance burdens in the states in which it operates. Because the CFBP was only recently established and its director has been only recently appointed, there is significant uncertainty as to how the CFBP actually will exercise its regulatory, supervisory, examination, and enforcement authority. However, the CFBP's authority to change regulations adopted in the past by other regulators (i.e., regulations issued under the Truth in Lending Act, for example), or to rescind or ignore past regulatory guidance, could increase the Bancorp's compliance costs and litigation exposure. In sum, depending on how the CFBP functions and its areas of focus, this bureau and the regulations it issues in the future may have a material impact on the Bancorp's business.

Mortgage Reform and Anti-Predatory Lending. Title XIV of the Dodd-Frank Act, the Mortgage Reform and Anti-Predatory Lending Act, includes a series of amendments to the Truth In Lending Act with respect to mortgage loan origination standards affecting, among other things, originator compensation, minimum repayment standards and pre-payments. With respect to mortgage loan originator compensation, except in limited circumstances, an originator is prohibited from receiving compensation that varies based on the terms of the loan (other than the principal amount). The amendments to the Truth In Lending Act also prohibit a creditor from making a residential mortgage loan unless it determines, based on verified and documented information of the consumer's financial resources, that the consumer has a reasonable ability to repay the loan. The amendments also prohibit certain pre-payment penalties and require creditors offering a consumer a mortgage loan with pre-payment penalty to offer the consumer the option of a mortgage loan without such a penalty. In addition, the Dodd-Frank Act expands the definition of a "high-cost mortgage" under the Truth In Lending Act, and imposes new requirements on high-cost mortgages and new disclosure, reporting and notice requirements for residential mortgage loans, as well as new requirements with respect to escrows and appraisal practices.

Interchange Fees for Debit Cards. Under the Dodd-Frank Act, interchange fees for debit card transactions must be reasonable and proportional to the issuer's incremental cost incurred with respect to the transaction plus certain fraud related costs. Although institutions with total assets of less than $10 billion are exempt from this requirement, competitive pressures are likely to require smaller depository institutions to reduce fees with respect to these debit card transactions.

Federal Securities Law. The shares of Common Stock of the Bancorp have been registered with the SEC under the Securities Exchange Act (the "1934 Act"). The Bancorp is subject to the information, proxy solicitation, insider trading restrictions and other requirements of the 1934 Act and the rules of the SEC there under. If the Bancorp has fewer than 300 shareholders, it may deregister its shares under the 1934 Act and cease to be subject to the foregoing requirements.

Shares of Common Stock held by persons who are affiliates of the Bancorp may not be resold without registration unless sold in accordance with the resale restrictions of Rule 144 under the Securities Act of 1933. If the Bancorp meets the current public information requirements under Rule 144, each affiliate of the Bancorp who complies with the other conditions of Rule 144 (including those that require the affiliate's sale to be aggregated with those of certain other persons) would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of (i) 1% of the outstanding shares of the Bancorp or (ii) the average weekly volume of trading in such shares during the preceding four calendar weeks.

Under the Dodd-Frank Act, beginning in 2013, the Bancorp will be required to provide its shareholders an opportunity to vote on the executive compensation payable to its named executive officers and on golden parachute payments in connection with mergers and acquisitions. These votes will be non-binding and advisory. Beginning in 2013, at least once every six years, the Bancorp must also permit shareholders to determine on an advisory basis whether such votes should be held every one, two, or three years.

Financial System Regulatory Reform. On July 21, 2011, President Obama signed into law the Dodd-Frank Act which significantly changed the regulation of financial institutions and the financial services industry. Many provisions of the Dodd-Frank Act went into effect on July 21, 2011. The Dodd-Frank Act includes provisions affecting large and small financial institutions alike, including several provisions that will profoundly affect how community banks, thrifts, and small bank and thrift holding companies, such as the Bancorp, will be regulated in the future. Among other things, the Dodd-Frank Act abolished the Office of Thrift Supervision and transferred its functions to the other federal banking agencies, relaxes rules regarding interstate banking, allows financial institutions to pay interest on business checking accounts, changes the scope of the federal deposit insurance coverage, and imposes new capital requirements on bank and thrift holding companies. The Dodd-Frank Act also established the Bureau of Consumer Financial Protection as an independent entity within the Federal Reserve, which has the authority to promulgate consumer protection regulations applicable to all entities offering consumer financial services or products, including banks. Additionally, the Dodd-Frank Act includes a series of provisions covering mortgage loan origination standards affecting, among other things, originator compensation, minimum repayment standards, and pre-payments. The Dodd-Frank Act contains numerous other provisions affecting financial institutions of all types, many of which have an impact on the operating environment of the Bancorp in substantial and unpredictable ways. Consequently, the Dodd-Frank Act is likely to affect our cost of doing business, it may limit or expand our permissible activities, and it may affect the competitive balance within our industry and market areas. The nature and extent of future legislative and regulatory changes affecting financial institutions, including as a result of the Dodd-Frank Act, is very unpredictable at this time. The Bancorp’s management continues to actively monitor the implementation of the Dodd-Frank Act and the regulations promulgated there under and assess its probable impact on the business, financial condition, and results of operations of the Bancorp. However, the ultimate effect of the Dodd-Frank Act on the financial services industry in general, and the Bancorp in particular, continues to be uncertain at this time.

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

Federal Taxation

For federal income tax purposes, the Bank reports its income and expenses on the accrual method of accounting. The Bancorp and the Bank file a consolidated federal income tax return for each fiscal year ending December 31. During 2008, the Bank's 2006 federal income tax return was subject to an examination by the Internal Revenue Service. No improper tax positions were identified during the examination. In the last five years, the Bank's federal income returns have not been subject to any other examination by a taxing authority.

State Taxation

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

During 2010, the Bank's state income tax returns were subject to an examination by the Indiana Department of Revenue for the years 2007, 2008, and 2009. During 2007, the Bank's state income tax returns were subject to an examination by the Indiana Department of Revenue for the years 2004, 2005, and 2006. No improper tax positions were identified during either examination. In the last five years, the Bank's state income returns have not been subject to any other examination by a taxing authority.

Accounting for Income Taxes

At December 31, 2011, the Bancorp's consolidated total deferred tax assets were $5.4 million and the consolidated total deferred tax liabilities were $3.6 million, resulting in a consolidated net deferred tax asset of $1.8 million, net of a $458,000 valuation allowance. Management believes it is probable that approximately 90% of the net deferred tax asset benefit will be realized after considering the historical and anticipated future levels of pretax earnings.

Item 1A. Risk Factors

Not applicable.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

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

The following table sets forth additional information with respect to the Bank's offices as of December 31, 2011. Net book value and total investment figures are for land, buildings, furniture and fixtures.

Office location	Year facility opened	Net book value	Approximate square footage	Total cost
9204 Columbia Avenue				
Munster, IN 46321-3517	1985	$ 861,983	11,640	$ 3,119,550
141 W. Lincoln Highway				
Schererville, IN 46375-1851	1990	717,420	9,444	2,029,317
7120 Indianapolis Blvd.				
Hammond, IN 46324-2221	1978	111,103	2,600	941,706
1300 Sheffield				
Dyer, IN 46311-1548	1976	148,209	2,100	929,915
7915 Taft				
Merrillville, IN 46410-5242	1968	75,968	2,750	762,207
8600 Broadway				
Merrillville, IN 46410-7034	1996	815,092	4,400	2,380,735
4901 Indianapolis Blvd.				
East Chicago, IN 46312-3604	1995	577,535	4,300	1,603,348
1501 Lake Park Avenue				
Hobart, IN 46342-6637	2000	1,694,502	6,992	2,786,883
9204 Columbia Avenue				
Corporate Center Building				
Munster, IN 46321-3517	2003	5,809,762	36,685	11,409,599
855 Stillwater Parkway				
Crown Point, IN 46307-5361	2007	1,836,789	3,945	2,447,681
1801 W. 25th Avenue				
Gary, IN 46404-3546	2008	1,609,235	2,700	1,907,289
2905 Calumet Avenue				
Valparaiso, IN 46383-2645	2009	1,102,101	2,790	2,294,233
9903 Wicker Avenue				
Saint John, IN 46373-9402	2010	2,882,597	2,980	2,150,158

At December 31, 2011, the Bank had an investment totaling $340 thousand in one location, which has been acquired for future development. The Bank outsources its core processing activities to Fidelity National Information Services, Inc., or FIS (formerly Metavante) Corporation located in Brown Deer, Wisconsin. FIS provides real time services for loans, deposits, retail delivery systems, card solutions and electronic banking. Additionally, the Bank utilizes Accutech in Muncie, Indiana for its Wealth Management operations.

The net book value of the Bank's property, premises and equipment totaled $18.2 million at December 31, 2011.

Item 3. Legal Proceedings

Federal Reserve Resolution

During the fourth quarter of 2010, the Federal Reserve conducted an offsite review of the Bancorp. As a result of that review, on January 28, 2011, the Board of Directors of the Bancorp adopted a resolution whereby the Bancorp agrees to obtain the prior written consent of Federal Reserve Bank of Chicago prior to the declaration or payment of dividends, the redemption or repurchase of its stock, and any increase in its indebtedness. The Bancorp continues to operate under this resolution and is in compliance with all of its requirements.

Finn, et al., Litigation

On April 27, 2011, Patrick Finn and Lighthouse Management Group, Inc., as Receiver for First United Funding, LLC and Corey N. Johnston (the "Plaintiffs"), filed suit against the Bank and 34 other banks in the First Judicial District Court, Dakota County, Minnesota. The case is entitled Patrick Finn and Lighthouse Management Group, Inc., as Receiver for First United Funding, LLC and Corey N. Johnston v. Alliant Bank, et al., Court File No. 19HA-CV011-2212. The Receiver's complaint is related to and arises from a separate criminal action against Mr. Johnston in which he pled guilty to bank fraud and filing a false income tax return. In this regard, the complaint states that Mr. Johnston admitted he used First United Funding, LLC ("FUF") to defraud banks by overselling loan participation interests. The Bank is alleged as a possible recipient of fraudulent transfers from FUF or Mr. Johnston in connection with the Bank's purchase of $10 million in participation interests in two FUF loans. The Plaintiffs seek avoidance of the alleged fraudulent transfers, judgment against the defendants in the amount of their profits which amounts to interest payments and fees, costs and attorneys' fees, and other unspecified relief to be determined by the court. The amount of interest payments and fees the Plaintiffs allege they are entitled to recover from the Bank in this action is approximately $1.94 million. The Bank filed a motion to dismiss on May 26, 2011, and the Dakota County, Minnesota District Court heard arguments on the Bank's motion on August 8, 2011. On November 1, 2011, the court denied the Bank's motion to dismiss. The Bank has appealed that denial and the appeal currently remains pending. The Bank is vigorously defending itself in this case.

On May 3, 2011, in a related action the Plaintiffs also filed suit against the Bank and Centier Bank in the U.S. District Court for the Northern District of Indiana, containing substantially the same allegations and request for relief as set forth in the Minnesota state court action described above. This case is entitled Patrick Finn and Lighthouse Management Group, Inc., as Receiver for First United Funding, LLC and Corey N. Johnston v. Centier Bank and Peoples Bank SB, Case Number 2:11-cv-00159. The Bank filed its answer in this action on May 24, 2011 and motion for partial summary judgment on June 7, 2011. On September 12, 2011, the U.S. District Court granted the Bank's motion for partial summary judgment with respect to one of the two loans at issue. The loan with respect to which partial summary judgment was granted involves an estimated liability exposure to the Bank of approximately $1,108,645. On October 5, 2011, the Plaintiffs filed a Motion to Reconsider and Vacate the Partial Summary Judgment Order. The Bank filed its response to the Motion to Reconsider on October 24, 2011. The motion to reconsider currently remains pending. Discovery is continuing with respect to the remaining claim of approximately $830,000, and the Bank is vigorously defending itself in this case.

Item 4. Mine Safety Disclosures
Not applicable.

Item 4.5 Executive Officers of the Bancorp

Pursuant to General Instruction G(3) of Form 10-K, the following information is included as an unnumbered item in this Part I in lieu of being included in the Bancorp's Proxy Statement for the 2011 Annual Meeting of Shareholders:

The executive officers of the Bancorp are as follows:

	Age at December 31, 2011	Position
David A. Bochnowski	66	Chairman and Chief Executive Officer
Joel Gorelick	64	President and Chief Administrative Officer
John J. Diederich	59	Executive Vice President
Robert T. Lowry	50	Executive Vice President, Chief Financial Officer and Treasurer
Leane E. Cerven	53	Senior Vice President, General Counsel Corporate 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 is accountable to the Board of Directors, customers, shareholders, employees and stakeholders for the operation of the company. He has been the Chief Executive Officer since 1981 and became the Chairman in 1995. He has been a director since 1977 and was the Bank's legal counsel from 1977 to 1981. Mr. Bochnowski is a past Chairman of America's Community Bankers (ACB), now known as the new American Bankers Association (ABA) a national bank trade association where he serves on the Government Relations Council and Task Force on Regulatory Relations. He is a member of the Security and Exchange Commission's Advisory Committee on Small and Emerging Companies. He is a trustee and treasurer of the Munster Community Hospital, a director of the Community Healthcare System, a former chairman and current board member of the Legacy Foundation of Lake County, a Director of the Quality of Life Council, a trustee of the Purdue Technology Center Northwest Indiana, a trustee of Calumet College, and an advisory trustee for the Gary YWCA. He is a former Chairman of the Indiana Department of Financial Institutions; former Chairman of the Indiana League of Savings Institutions, now known as the Indiana Bankers Association; former director of the Federal Home Loan Bank of Indianapolis; and, a former member of the Federal Reserve Thrift Institutions Advisory Committee. Before joining the Bank, Mr. Bochnowski was an attorney, self-employed in private practice. He holds undergraduate and Juris Doctorate degrees from Georgetown University and a Masters Degree from Howard University. He served as an officer in the United States Army and is a Vietnam veteran.

Joel Gorelick is President and Chief Administrative Officer of the Bancorp and the Bank. Mr. Gorelick has responsibility for coordinating the daily activities of consumer, residential, commercial lending, and wealth management activities. Mr. Gorelick has been with the Bank since 1983. He became a director in 2000. Mr. Gorelick is involved in many community service organizations and has served in positions such as president of the Northwest Indiana Boys & Girls Club, president of the Merrillville, IN, Rotary Club, chairman of the board of the Northwest Indiana Regional Development Corporation, and president of the Lake Central High School Athletics Booster Club. Mr. Gorelick also served as instructor for the Indiana Banker's Commercial Lending School. Mr. Gorelick received recognition as the Small Business Advocate for 1999 at the Northwest Indiana Entrepreneurial Excellence awards program and was named the 2000 board member of the year by the National Association For Development Companies. The Indiana District Office of the U. S. Small Business Administration named Mr. Gorelick the year 2000 Financial Services Advocate of the Year. Mr. Gorelick has been appointed as a board member for the United States Selective Service System and currently serves as board member of the Lake County Economic Development Corporation, N.W. Indiana Regional Development Corporation. He holds a Master's of Science in Business Administration from Indiana University and is a graduate of the Graduate School of Banking at the University of Wisconsin at Madison.

John J. Diederich is Executive Vice President of the Bancorp and the Bank. Mr. Diederich has responsibility for coordinating the daily activities of retail banking and for the solicitation of new customers for the Bank's commercial lending, wealth management, municipal, and retail areas. Prior to joining the Bank in 2009, Mr. Diederich spent 35 years with JP Morgan Chase where his most recent responsibilities were as Regional President in Northwest Indiana. Mr. Diederich is involved in many community service organizations including serving as past Chairman of the Board of the Crisis Center, Inc., the Northwest Indiana Regional Development Company and the Northwest Indiana Boys and Girls Clubs. He has also been a Director of the Crown Point Community Foundation, the Valparaiso Family YMCA, and the Adult Education Alliance. Mr. Diederich is currently a trustee of the John W. Anderson Foundation and is on the Finance Committee for the Diocese of Gary. Mr. Diederich holds a B.S. Degree in Finance from St. Joseph's College and a B.S. Degree in Accounting from Calumet College.

Robert T. Lowry is Executive Vice President, Chief Financial Officer and Treasurer of the Bancorp and the Bank. He is responsible for finance, accounting, and financial reporting activities. Mr. Lowry has been with the Bank since 1985 and has previously served as the Bank's Assistant Controller, Internal Auditor and Controller. Mr. Lowry is a Certified Public Accountant (CPA). Mr. Lowry holds a Masters of Business Administration Degree from Indiana University and is a graduate of America's Community Bankers National School of Banking. Mr. Lowry is an instructor for the American Bankers Association online banking courses. Mr. Lowry is currently serving on the board of the Food Bank of Northwest Indiana as board treasurer and chairman of the finance committee. He is a member of the American Institute of Certified Public Accountants, the Indiana CPA Society and the Financial Managers Society.

Leane E. Cerven is Senior Vice President, General Counsel, and Corporate Secretary of the Bancorp and the Bank. Ms. Cerven joined the Bancorp and the Bank in May of 2010. Prior to joining the Bancorp and Bank, she practiced law for sixteen years in Chicago, first as an Associate Attorney with Mayer, Brown & Platt where she practiced primarily in the banking area, which included transactions involving the Resolution Trust Corporation/FDIC, corporate, international, bankruptcy, and litigation practice areas, and then as Vice President and Legal Counsel for Bank One where she practiced primarily in the commercial finance area, including secured and unsecured transactions, mergers and acquisitions, workouts, purchase of assets out of bankruptcy, international and multicurrency transactions, syndications, ESOP financings, and capital regulations. She is licensed to practice law in Indiana and Illinois. Ms. Cerven holds a Juris Doctorate degree from Valparaiso University School of Law and a Bachelor of Arts degree from the University of Minnesota, Minneapolis. Ms. Cerven is actively involved in community service and serves on the Bioethics Committees for St. Catherine's Hospital, East Chicago, and St. Mary's Hospital, Hobart. She is a member of the Lake County Bar Association, the Indiana State Bar Association, the Chicago Bar Association, and the American Bar Association.

PART II

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

The information contained under the caption "Market Information" in the 2011 Annual Report to Shareholders is incorporated herein by reference. Also see Item 12 of this Annual Report on Form 10-K.

Item 6. Selected Financial Data

The information contained in the table captioned "Selected Consolidated Financial Data" in the 2011 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 2011 Annual Report to Shareholders is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 8. Financial Statements

The financial statements contained in the 2011 Annual Report to Shareholders, which are listed under Item 15 herein, are incorporated herein by reference.

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

There are no items reportable under this item.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

NorthWest Indiana Bancorp (the “Bancorp”) conducted an evaluation under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of December 31, 2011. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer determined that the disclosure controls and procedures were effective to ensure that material information required to be disclosed by the Bancorp in the reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported as and when required. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on management’s best estimates and judgments.

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

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

(i) Management's Responsibility for Financial Statements

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

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

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

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

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

With the participation of the Bancorp's Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the framework in Internal Control-Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management determined that the Bancorp's system of internal control over financial reporting was effective as of December 31, 2011.

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

There were no changes in the Bancorp’s internal control over financial reporting in the fourth quarter of 2011 that have materially affected, or are reasonably likely to materially affect, the Bancorp’s internal control over financial reporting.

Item 9B. Other Information

There are no items reportable under this item.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information contained under the sections captioned "Election of Directors," “Corporate Governance - Board Committees,” "Security Ownership by Certain Beneficial Owners and Management,” “Section 16(a) Beneficial Ownership Reporting Compliance" and “Corporate Governance - Code of Ethics” in the Bancorp’s definitive Proxy Statement for the 2012 Annual Meeting of Shareholders is incorporated herein by reference. Information regarding the Bancorp’s executive officers is included under Item 4.5 captioned "Executive Officers of the Bancorp" at the end of Part I hereof and is incorporated herein by reference, in accordance with General Instruction G(3) to Form 10-K and Instruction 3 to Item 401(b) of Regulation S-K.

Item 11. Executive Compensation

The information contained under the section captioned “Executive Compensation" in the Bancorp’s definitive Proxy Statement for its 2012 Annual Meeting of Shareholders is incorporated herein by reference.

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

The information contained within the Bancorp’s definitive Proxy Statement for the 2012 Annual Meeting of Shareholders, under the section captioned “Security Ownership by Certain Beneficial Owners and Management,” and the table providing information on the Bancorp’s director nominees and continuing directors in the section captioned “Election of Directors” is incorporated herein by reference.

Equity Compensation Plan Information

The following table provides certain information as of December 31, 2011 with respect to the Company’s existing equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a) (c)
Equity compensation plans approved by security holders	40,500	$ 25.30	240,450
Equity compensation plans not approved by security holders	0	0	0
Total	40,500	$ 25.30	240,450

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information contained under the sections captioned “Transactions with Related Persons” and “Corporate Governance-Director Independence,” and the information contained in the “Summary Compensation Table for 2011” under the section captioned “Executive Compensation,” in the Bancorp’s definitive Proxy Statement for its 2012 Annual Meeting of Shareholders, is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information contained under the section captioned "Independent Registered Public Accounting Firm’s Services and Fees" in the Bancorp’s definitive Proxy Statement for its 2012 Annual Meeting of Shareholders, is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) Financial Statements:

The following financial statements of the Bancorp are incorporated herein by reference to the 2011 Annual Report to Shareholders, filed as Exhibit 13 to this report:

(a) Report of Independent Registered Public Accounting Firm

(b) Consolidated Balance Sheets, December 31, 2011 and 2010

(c) Consolidated Statements of Income for the years ended December 31, 2011 and 2010

(d) Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2011 and 2010

(e) Consolidated Statements of Cash Flows for the years ended December 31, 2011 and 2010

(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 of NorthWest Indiana Bancorp (incorporated herein by reference to Exhibit 3.1 of the Bancorp’s Form 8-K dated August 3, 2009).
10.1. *	1994 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit A to the Bancorp’s Definitive Proxy Statement/Prospectus dated March 23, 1994, as filed pursuant to Rule 424(b) under the 1933 Act on March 28, 1994).
10.2. *	Amended and Restated Employment Agreement, dated December 29, 2008, between Peoples Bank SB, NorthWest Indiana Bancorp and David A. Bochnowski (incorporated herein by reference to Exhibit 10.1 of the Bancorp’s Form 8-K dated December 30, 2008).
10.3. *	Amended and Restated Employment Agreement, dated December 29, 2008, between Peoples Bank SB, NorthWest Indiana Bancorp and Joel Gorelick (incorporated herein by reference to Exhibit 10.2 of the Bancorp’s Form 8-K dated December 30, 2008).

10.4. *	Unqualified Deferred Compensation Plan for the Officers of Peoples Bank effective January 1, 2005(incorporated herein by reference to Exhibit 10.5 to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2006).
10.5. *	Amended and Restated 2004 Stock Option and Incentive Plan
10.6 *	Post 2004 Unfunded Deferred Compensation Plan for the Directors of Peoples Bank SB effective January 1, 2005 (incorporated herein by reference to Exhibit 10.8 to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2006).
10.7 *	Form of Incentive Stock Option Agreement.
10.8 *	Form of Non-Qualified Stock Option Agreement.
10.9 *	Form of Agreement for Restricted Stock.
13.	2011 Annual Report to Shareholders.
21.	Subsidiaries of the Bancorp (incorporated herein by reference to Exhibit 21 to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2006).
23.1	Plante & Moran, PLLC - Consent of Independent Registered Public Accounting Firm.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32	Section 1350 Certifications.

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

SIGNATURES

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

NORTHWEST INDIANA BANCORP

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

Date: February 22, 2012

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 February 23, 2012:

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

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

EXHIBIT INDEX

Exhibit	Description
10.5	Amended and Restated 2004 Stock Option and Incentive Plan.
10.7	Form of Incentive Stock Option Agreement.
10.8	Form of Non-Qualified Stock Option Agreement.
10.9	Form of Agreement for Restricted Stock.
13.	2011 Annual Report to Shareholders.
23.1	Plante & Moran, PLLC - Consent of Independent Registered Public Accounting Firm.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32	Section 1350 Certifications.

AMENDED AND RESTATED
2004 STOCK OPTION AND INCENTIVE PLAN

1. Plan Purpose. The purpose of the Plan is (i) to align the personal interests of Plan Participants with those of the shareholders of the Company, (ii) to encourage key individuals to accept or continue employment or service with the Company and its subsidiaries, and (iii) to furnish incentive to such key individuals to improve operations and increase profits by providing such key individuals the opportunity to acquire Common Stock of the Company or to receive monetary payments based on the value of such Common Stock. It is intended that certain Awards granted under the Plan will qualify as performance-based compensation within the meaning of Section 162(m) of the Code, to the extent applicable.

2. Definitions. The following definitions are applicable to the Plan.

"Affiliate" — means any "parent corporation" or "subsidiary corporation" of the Company as such terms are defined in Section 424(e) and (f), respectively, of the Code.

"Award" — means the grant by the Committee of Incentive Stock Options, Non-Qualified Stock Options, Unrestricted Stock, Restricted Stock, Performance Shares, Performance Units, Stock Appreciation Rights or any combination thereof, as provided in the Plan.

"Board" — means the Board of Directors of the Company.

"Change in Control" — means each of the events specified in the following clauses (i) through (iii): (i) any third "person" (including a group), as defined in Section 13(d)(3) of the Exchange Act shall, after the date of the adoption of the Plan by the Board, first become the beneficial owner of shares of the Company with respect to which 25% or more of the total number of votes for the election of the Board of Directors of the Company may be cast, (ii) as a result of, or in connection with, any cash tender offer, exchange offer, merger or other business combination, sale of assets or contested election, or combination of the foregoing, the persons who were directors of the Company shall cease to constitute a majority of the Board of Directors of the Company or (iii) the shareholders of the Company shall approve an agreement providing either for a transaction in which the Company will cease to be an independent publicly owned entity or for a sale or other disposition of all or substantially all the assets of the Company; provided, however, that the occurrence of any of such events shall not be deemed a Change in Control if, prior to such occurrence, a resolution specifically providing that such occurrence shall not constitute a Change in Control under the Plan shall have been adopted by at least a majority of the Board of Directors of the Company.

"Code" — means the Internal Revenue Code of 1986, as amended.

"Committee" — means the Committee referred to in Section 3 hereof.

"Company" — means NorthWest Indiana Bancorp, an Indiana corporation.

"Continuous Service" — means, in the case of an Employee, the absence of any interruption or termination of service as an Employee of the Company or an Affiliate; and in the case of an individual who is not an Employee, the absence of any interruption or termination of the service relationship between the individual and the Company or an Affiliate. Service shall not be considered interrupted in the case of sick leave, military leave or any other leave of absence approved by the Company or in the case of any transfer between the Company and an Affiliate or any successor to the Company.

"Director" — means any individual who is a member of the Board.

"Disability" — means, with respect to a Participant, a medically determinable physical or mental impairment that can be expected to result in death or to last for a continuous period of not less than 12 months and that entitles the Participant to income replacement benefits under the Company's disability plan.

"Employee" — means any person, including an officer, who is employed by the Company or any Affiliate.

"Exchange Act" — means the Securities Exchange Act of 1934, as amended.

"Exercise Price" — means the price per Share at which the Shares subject to an Option may be purchased upon exercise of such Option.

"Incentive Stock Option" — means an option to purchase Shares granted by the Committee pursuant to the terms of the Plan that is intended to qualify under Section 422 of the Code.

"Market Value" — means the last reported sale price on the date in question (or, if there is no reported sale on such date, on the last preceding date on which any reported sale occurred) of one Share on the principal exchange on which the Shares are listed for trading, or if the Shares are not listed for trading on any exchange, on the NASDAQ National Market System or any similar system then in use, or, if the Shares are not listed on the NASDAQ National Market System, the mean between the closing high bid and low asked quotations of one Share on the date in question as reported by NASDAQ or any similar system then in use, or, if no such quotations are available, the fair market value on such date of one Share as the Committee shall determine.

"Non-Qualified Stock Option" — means an option to purchase Shares granted by the Committee pursuant to the terms of the Plan, which option is not intended to qualify under Section 422 of the Code.

"Option" — means an Incentive Stock Option or a Non-Qualified Stock Option.

"Participant" — means any individual selected by the Committee to receive an Award.

"Performance Criteria" — means any of the following areas of performance of the Company, or any Subsidiary, as determined under generally accepted accounting principles or as reported by the Company: (i) earnings per share; (ii) return on equity; (iii) return on assets; (iv) operating income; (v) market value per share; (vi) EBITDA; (vii) cash flow; (viii) net income (before or after taxes); (ix) revenues; (x) cost reduction goals; (xi) market share; (xii) total return to shareholders; (xiii) improvements in the Company's credit quality as measured by changes to the Company's allowance for loan losses, the ratio of the allowance for loan losses to total loans, net of unearned income, or the ratio of net charge-offs to average loans, net of unearned income; (xiv) fee income; (xv) net interest income; (xvi) growth in loans; and (xvii) growth in deposits.

"Performance Goal" — means if the Performance Shares, Performance Units or Restricted Stock is intended to comply with Code Section 162(m), an objectively determinable performance goal established by the Committee with respect to a given award of Performance Shares, Performance Units or Restricted Stock that is based on one or more Performance Criteria and if the Performance Shares, Performance Units or Restricted Stock are not intended to comply with Code Section 162(m) any performance goal established by the Committee based on any performance criteria.

"Performance Cycle" — means the period of time, designated by the Committee, over which Performance Shares or Performance Units may be earned.

"Performance Shares" — means Shares awarded pursuant to Section 12 of the Plan.

"Performance Unit" — means an Award granted to a Participant pursuant to Section 12 of the Plan.

"Plan" — means this Amended and Restated 2004 Stock Option and Incentive Plan of the Company.

"Reorganization" — means the liquidation or dissolution of the Company or any merger, consolidation or combination of the Company (other than a merger, consolidation or combination in which the Company is the continuing entity and which does not result in the outstanding Shares being converted into or exchanged for different securities, cash or other property or any combination thereof).

"Restricted Period" — means the period of time selected by the Committee for the purpose of determining when restrictions are in effect under Section 10 hereof with respect to Restricted Stock awarded under the Plan.

"Restricted Stock" — means Shares which have been contingently awarded to a Participant by the Committee subject to the restrictions referred to in Section 10 hereof, so long as such restrictions are in effect.

"Retirement" — means, with respect to a Participant, the termination of the Participant's status as an Employee, for any reason other than death, after having attained age 65.

"Securities Act" — means the Securities Act of 1933, as amended.

"Shares" — means the Common Stock, without par value, of the Company.

"Stock Appreciation Rights" — means an Award granted to a Participant pursuant to Section 11 the Plan.

"Unrestricted Stock" — means Shares awarded to a Participant by the Committee without any restrictions.

3. Administration. The Plan shall be administered by a Committee consisting of two or more members of the Board, each of whom shall be a "non-employee director" as provided under Rule 16b-3 of the Exchange Act, and an "outside director" as provided under Code Section 162(m). The members of the Committee shall be appointed by the Board. Except as limited by the express provisions of the Plan, the Committee shall have sole and complete authority and discretion to (a) select Participants and grant Awards; (b) determine the number of Shares to be subject to types of Awards generally, as well as to individual Awards granted under the Plan; (c) determine the terms and conditions upon which Awards shall be granted under the Plan; (d) prescribe the form and terms of instruments evidencing such grants; (e) establish from time to time procedures and regulations for the administration of the Plan; (f) interpret the Plan; and (g) make all determinations deemed necessary or advisable for the administration of the Plan.

A majority of the Committee shall constitute a quorum, and the acts of a majority of the members present at any meeting at which a quorum is present, or acts approved in writing by all members of the Committee without a meeting, shall be acts of the Committee. All determinations and decisions made by the Committee pursuant to the provisions of the Plan shall be final, conclusive, and binding on all persons, and shall be given the maximum deference permitted by law.

4. Participants. The Committee may select from time to time Participants in the Plan from those Directors, Employees or consultants of the Company or its Affiliates who, in the opinion of the Committee, have the capacity for contributing in a substantial measure to the successful performance of the Company or its Affiliates.

5. Substitute Options. In the event the Company or an Affiliate consummates a transaction described in Code Section 424(a), persons who become Employees or Directors on account of such transaction may be granted Options in substitution for Options granted by the former employer. The Committee, in its sole discretion and consistent with Code Section 424(a) shall determine the Exercise Price of the substitute Options.

6. Shares Subject to Plan. Subject to adjustment by the operation of Section 13 hereof, the maximum number of Shares with respect to which Awards may be made under the Plan is 250,000 Shares, all of which may be subject to grants of Incentive Stock Options. The number of Shares which may be granted under the Plan to any Participant during any calendar year of the Plan under all forms of Awards shall not exceed 50,000 Shares. The Shares with respect to which Awards may be made under the Plan may either be authorized and unissued shares or unissued shares heretofore or hereafter reacquired and held as treasury shares. Any Award that expires, terminates or is surrendered for cancellation, or with respect to Restricted Shares, which is forfeited (so long as any cash dividends paid on such Shares are also forfeited), may be subject to new Awards under the Plan with respect to the number of Shares as to which an expiration, termination, cancellation or forfeiture has occurred. Additionally, Shares that are withheld by the Company or delivered by the Participant to the Company in order to satisfy payment of the Exercise Price or any tax withholding obligation and Shares granted pursuant to an Award which is subsequently settled in cash rather than Shares, may be subject to new Awards under the Plan.

7. General Terms and Conditions of Options. The Committee shall have full and complete authority and discretion, except as expressly limited by the Plan, to grant Options and to provide the terms and conditions (which need not be identical among Participants) thereof. In particular, the Committee shall prescribe the following terms and conditions: (a) the Exercise Price, which shall not be less than the Market Value per Share on the date the Option is granted, (b) the number of Shares subject to, and the expiration date of, any Option, (c) the manner, time and rate (cumulative or otherwise) of exercise of such Option, (d) the restrictions, if any, to be placed upon such Option or upon Shares which may be issued upon exercise of such Option, (e) the conditions, if any, under which a Participant may transfer or assign Options, and (f) any other terms and conditions as the Committee, in its sole discretion, may determine. The Committee may, as a condition of granting any Option, require that a Participant agree to surrender for cancellation one or more Options previously granted to such Participant.

8. Exercise of Options.

(a) Except as provided in Section 16, an Option granted under the Plan shall be exercisable during the lifetime of the Participant to whom such Option was granted only by such Participant, and except as provided in paragraphs (c), (d) and (e) of this Section 8, no such Option may be exercised unless at the time such Participant exercises such Option, such Participant has maintained Continuous Service since the date of the grant of such Option.

(b) To exercise an Option under the Plan, the Participant must give written notice to the Company (which shall specify the number of Shares with respect to which such Participant elects to exercise such Option) together with full payment of the Exercise Price. The date of exercise shall be the date on which such notice is received by the Company. Payment shall be made either (i) in cash (including by check, bank draft or money order), (ii) by delivering Shares already owned by the Participant for at least six (6) months prior to the date of exercise and having a Market Value on the date of exercise equal to part or all of the Exercise Price, (iii) a combination of cash and such Shares, or (iv) by any other means determined by the Committee in its sole discretion.

(c) If the Continuous Service of a Participant is terminated for cause, or voluntarily by the Participant for any reason other than death, Disability or Retirement, all rights under any Option of such Participant shall terminate immediately upon such cessation of Continuous Service. If the Continuous Service of a Participant is terminated by reason of death, Disability or Retirement, such Participant may exercise such Option, but only to the extent such Participant was entitled to exercise such Option at the date of such cessation, at any time during the remaining term of such Option, or, in the case of Incentive Stock Options, during such shorter period as the Committee may determine and so provide in the applicable instrument or instruments evidencing the grant of such Option. If a Participant shall cease to maintain Continuous Service for any reason other than those set forth above in this paragraph (c) of this Section 8, such Participant may exercise such Option to the extent that such Participant was entitled to exercise such Option at the date of such cessation but only within the period of three months immediately succeeding such cessation of Continuous Service, and in no event after the expiration date of the subject Option; provided, however, that such right of exercise after cessation of Continuous Service shall not be available to a Participant if the Company otherwise determines and so provides in the applicable instrument or instruments evidencing the grant of such Option.

(d) In the event of the death of a Participant while in the Continuous Service of the Company or an Affiliate, the person to whom any Option held by the Participant at the time of his death is transferred by will or by the laws of descent and distribution may exercise such Option on the same terms and conditions that such Participant was entitled to exercise such Option. Following the death of any Participant to whom an Option was granted under the Plan, the Committee, as an alternative means of settlement of such Option, may elect to pay to the person to whom such Option is transferred the amount by which the Market Value per Share on the date of exercise of such Option shall exceed the Exercise Price of such Option, multiplied by the number of Shares with respect to which such Option is properly exercised. Any such settlement of an Option shall be considered an exercise of such Option for all purposes of the Plan.

(e) Notwithstanding the provisions of the foregoing paragraphs of this Section 8, the Committee may, in its sole discretion, establish different terms and conditions pertaining to the effect of the cessation of Continuous Service, to the extent permitted by applicable federal and state law.

9. Incentive Stock Options. Incentive Stock Options may be granted only to Participants who are Employees. Any provisions of the Plan to the contrary notwithstanding, (a) no Incentive Stock Option shall be granted more than ten years after the date the Plan is adopted by the Board of Directors of the Company and no Incentive Stock Option shall be exercisable more than ten years after the date such Incentive Stock Option is granted, (b) the Exercise Price of any Incentive Stock Option shall not be less than the Market Value per Share on the date such Incentive Stock Option is granted, (c) any Incentive Stock Option shall not be transferable by the Participant to whom such Incentive Stock Option is granted other than by will or the laws of descent and distribution and shall be exercisable during such Participant's lifetime only by such Participant, (d) no Incentive Stock Option shall be granted which would permit a Participant to acquire, through the exercise of Incentive Stock Options in any calendar year, Shares or shares of any capital stock of the Company or any Affiliate thereof having an aggregate Market Value (determined as of the time any Incentive Stock Option is granted) in excess of $100,000, and (e) no Incentive Stock Option may be exercised more than three months after the Participant's cessation of Continuous Service for any reason other than death or Disability. The foregoing limitation shall be determined by assuming that the Participant will exercise each Incentive Stock Option on the date that such Option first becomes exercisable. Notwithstanding the foregoing, in the case of any Participant who, at the date of grant, owns stock possessing more than 10% of the total combined voting power of all classes of capital stock of the Company or any Affiliate, the Exercise Price of any Incentive Stock Option shall not be less than 110% of the Market Value per Share on the date such Incentive Stock Option is granted and such Incentive Stock Option shall not be exercisable more than five years after the date such Incentive Stock Option is granted. Notwithstanding any other provisions of the Plan, if for any reason any Option granted under the Plan that is intended to be an Incentive Stock Option shall fail to qualify as an Incentive Stock Option, such Option shall be deemed to be a Non-Qualified Stock Option, and such Option shall be deemed to be fully authorized and validly issued under the Plan.

10. Terms and Conditions of Unrestricted Stock and Restricted Stock. The Committee shall have full and complete authority, subject to the limitations of the Plan, to grant Awards of Unrestricted Stock and Restricted Stock and, in addition to the terms and conditions contained in paragraphs (a) through (e) of this Section 10, to provide such other terms and conditions (which need not be identical among Participants) in respect of such Awards, and the vesting thereof, as the Committee shall determine and provide in the agreement referred to in paragraph (d) of this Section 10. Unless the Committee otherwise specifically provides in the applicable instrument evidencing the grant of Restricted Stock, an Award of Restricted Stock will be subject to the following provisions:

(a) At the time of an award of Restricted Stock, the Committee shall establish for each Participant a Restricted Period during which or at the expiration of which, the Shares of Restricted Stock shall vest. The vesting of Restricted Stock may also be conditioned upon the attainment of specified Performance Goals (as defined in Section 12) within specified Performance Cycles. The Committee may also restrict or prohibit the sale, assignment, transfer, pledge or other encumbrance of the Shares of Restricted Stock by the Participant during the Restricted Period. Except for such restrictions, and subject to paragraphs (c), (d) and (e) of this Section 10 and Section 13 hereof, the Participant as owner of such Shares shall have all the rights of a shareholder, including, but not limited to, the right to receive all dividends paid on such Shares and the right to vote such Shares. The Committee shall have the authority, in its discretion, to accelerate the time at which any or all of the restrictions shall lapse with respect to any Shares of Restricted Stock prior to the expiration of the Restricted Period with respect thereto, or to remove any or all of such restrictions, whenever it may determine that such action is appropriate by reason of changes in applicable tax or other laws or other changes in circumstances occurring after the commencement of such Restricted Period.

(b) Except as provided in Section 15 hereof, if a Participant ceases to maintain Continuous Service for any reason (other than death, Disability or Retirement) unless the Committee shall otherwise determine, all Shares of Restricted Stock theretofore awarded to such Participant and which at the time of such termination of Continuous Service are subject to the restrictions imposed by paragraph (a) of this Section 10 shall upon such termination of Continuous Service be forfeited and returned to the Company. If a Participant ceases to maintain Continuous Service by reason of death or Disability, then, unless the Committee shall determine otherwise, the restrictions with respect to the Ratable Portion (as hereinafter defined) of the Shares of Restricted Stock shall lapse and such Shares shall be free of restrictions and shall not be forfeited. The "Ratable Portion" shall be determined with respect to each separate Award of Restricted Stock issued and shall be equal to (i) the number of Shares of Restricted Stock awarded to the Participant multiplied by the portion of the Restricted Period that expired at the date of the Participant's death or Disability, reduced by (ii) the number of Shares of Restricted Stock awarded with respect to which the restrictions had lapsed as of the date of the death or Disability of the Participant.

(c) Each certificate issued in respect of Shares of Restricted Stock awarded under the Plan shall be registered in the name of the Participant and deposited by the Participant, together with a stock power endorsed in blank, with the Company and shall bear the following (or a similar) legend:

> "The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) contained in the Amended and Restated 2004 Stock Option and Incentive Plan of the Corporation, and an Agreement entered into between the registered owner and the Corporation. Copies of such Plan and Agreement are on file in the office of the Secretary of the Corporation."

At the expiration of the restrictions imposed by paragraph (a) of this Section 10, the Company shall redeliver to the Participant (or where the relevant provision of paragraph (b) of this Section 10 applies in the case of a deceased Participant, to his legal representative, beneficiary or heir) the certificate(s) and stock power deposited with it and the Shares represented by such certificate(s) shall be free of the restrictions referred to in paragraph (a) of this Section 10.

(d) At the time of an award of Shares of Restricted Stock, the Participant shall enter into an agreement with the Company in a form specified by the Committee, agreeing to the terms and conditions of the award and containing such other matters as the Committee shall in its sole discretion determine.

11. Stock Appreciation Rights. The Committee may, in its discretion, grant Stock Appreciation Rights independently of or in connection with all or any part of an Option granted under the Plan. Each Stock Appreciation Right shall be subject to such terms and conditions consistent with the Plan as the Committee shall determine from time to time and as may be set forth in an Award Agreement, including the following:

(a) A Stock Appreciation Right may be made part of an Option at the time of its grant.

(b) Each Stock Appreciation Right will entitle the holder to elect to receive an amount in Shares (or, in cash or in Shares, or a combination thereof, all in the sole discretion of the Committee) equal to 100% of the excess of:

(i) the Market Value per Share of the Common Stock on the date of exercise of such right, multiplied by the number of Shares with respect to which the right is being exercised, over

(ii) the aggregate Market Value for such number of Shares as of the date the Stock Appreciation Right was granted.

(c) Each Stock Appreciation Right connected to an Option will be exercisable at the time, in the manner and to the extent the Option to which it relates is exercisable. Each independent Stock Appreciation Right will be exercisable according to the terms and conditions established by the Committee in the instrument evidencing the Award.

(d) Upon the exercise of a Stock Appreciation Right connected to an Option, the Option (or portion thereof) with respect to which such right is exercised shall be surrendered and shall not thereafter be exercisable. Exercise of such a Stock Appreciation Right will reduce the number of Shares purchasable pursuant to the related Option and available for issuance under the Plan to the extent of the number of Shares with respect to which the right is exercised, whether or not any portion of the payment made upon exercise of such right is made in Common Stock.

12. Performance Shares and Performance Units.

(a) The Committee, in its sole discretion, may from time to time authorize the grant of Performance Shares and Performance Units upon the achievement of any one or combination of Performance Goals (which may be cumulative and/or alternative) within a designated Performance Cycle as may be established, in writing, by the Committee.

(b) In the case of Performance Units, the Committee shall determine the value of Performance Units under each Award.

(c) As determined in the discretion of the Committee, Performance Goals may differ among Participants and/or relate to performance on a Company-wide or divisional basis.

(d) At such time as it is certified, in writing, by the Committee that the Performance Goals established by the Committee have been attained or otherwise satisfied within the Performance Cycle, the Committee will authorize the payment of Performance Shares or Performance Units in the form of cash or Shares registered in the name of the Participant, or a combination of cash and Shares, equal to the value of the Performance Shares or Performance Units at the end of the Performance Cycle. Payment shall be made in a lump sum following the close of the applicable Performance Cycle. Individuals must be employed on the payment date to receive payment otherwise said payment is forfeited.

(e) The grant of an Award of Performance Shares or Performance Units will be evidenced by an instrument containing the terms and conditions of the Award as determined by the Committee. To the extent required under Code section 162(m), the business criteria under which Performance Goals are determined by the Committee will be resubmitted to shareholders for reapproval no later than the first shareholder meeting that occurs in the fifth year following the year in which shareholders previously approved the Plan.

(f) If the Participant ceases Continuous Service before the end of a Performance Cycle for any reason other than Disability, death or Retirement, the Participant will forfeit all rights with respect to any Performance Shares or Performance Units that were being earned during the Performance Cycle. The Committee, in its sole discretion, may establish guidelines providing that if a Participant ceases Continuous Service before the end of a Performance Cycle by reason of Disability, death or Retirement, the Participant will be entitled to a prorated payment with respect to any Performance Shares or Performance Units that were being earned during the Performance Cycle.

(g) If the Award of Performance Shares or Performance Units are intended to comply with Section 162(m) of the Code, the Committee shall take such additional actions, within the time periods, specified therein.

13. Adjustments Upon Changes in Capitalization. In the event of any change in the outstanding Shares subsequent to the effective date of the Plan by reason of any reorganization, recapitalization, stock split, stock dividend, combination or exchange of shares, merger, consolidation or any change in the corporate structure or Shares of the Company, the maximum aggregate number and class of shares as to which Awards may be granted under the Plan and the number and class of shares, and the exercise price of Options, with respect to which Awards theretofore have been granted under the Plan shall be appropriately adjusted by the Committee, whose determination shall be conclusive. Any shares of stock or other securities received, as a result of any of the foregoing, by a Participant with respect to Restricted Stock shall be subject to the same restrictions and the certificate(s) or other instruments representing or evidencing such shares or securities shall be legended and deposited with the Company in the manner provided in Section 10 hereof.

14. Effect of Reorganization. Unless otherwise provided by the Committee in the instrument evidencing an Award, Awards will be affected by a Reorganization as follows:

(a) If the Reorganization is a dissolution or liquidation of the Company then (i) the restrictions of Section 9(a) on Shares of Restricted Stock shall lapse and (ii) each outstanding Option shall terminate, but each Participant to whom an Option was granted shall have the right, immediately prior to such dissolution or liquidation to exercise the Option in full, notwithstanding the provisions of Section 9, and the Company shall notify each Participant of such right within a reasonable period of time prior to any such dissolution or liquidation.

(b) If the Reorganization is a merger or consolidation, upon the effective date of such Reorganization (i) each Participant shall be entitled, upon exercise of an Option in accordance with all of the terms and conditions of the Plan, to receive in lieu of Shares, shares of such stock or other securities or consideration as the holders of Shares shall be entitled to receive pursuant to the terms of the Reorganization (the "Acquisition Consideration"); (ii) each holder of Restricted Stock shall receive shares of such stock or other securities as the holders of Shares received, which shall be subject to the restrictions set forth in Section 10(a) unless the Committee accelerates the lapse of such restrictions and the certificate(s) or other instruments representing or evidencing such shares or securities shall be legended and deposited with the Company in the manner provided in Section 10 hereof; (iii) each Participant will be entitled, upon exercise of a Stock Appreciation Right in accordance with all the terms and conditions of the Plan, to receive the difference between (A) the aggregate fair market value, on the applicable date, of the Acquisition Consideration receivable upon such Reorganization by a holder of the number of Shares which might have been obtained upon exercise of the Option to which the Stock Appreciation Right relates (or any portion thereof) immediately prior to such Reorganization and (B) the aggregate Exercise Price of such Option (or portion thereof); and (iv) each holder of Performance Shares or Performance Units (with respect to Shares, if any, covered by such Award) will be entitled to receive on the date set forth in such Award, the Acquisition Consideration receivable upon such Reorganization by a holder of the number of Shares which are covered by such Award.

15. Effect of Change in Control.

(a) If the Continuous Service of any Participant is involuntarily terminated, for whatever reason, at any time within 18 months after a Change in Control, unless the Committee shall have otherwise provided in the instrument evidencing the Award, (i) any Restricted Period with respect to Restricted Stock theretofore awarded to such Participant shall lapse upon such termination and all Shares awarded as Restricted Stock shall become fully vested in the Participant to whom such Shares were awarded; and (ii) with respect to Performance Shares and Performance Units, the Participant shall be entitled to receive a pro rata payment to the same extent as if the Participant ceases Continuous Service by reason of death, Disability or Retirement under Section 12 of the Plan.

(b) If a tender offer or exchange offer for Shares (other than such an offer by the Company) is commenced, or if an event specified in clause (ii) or clause (iii) of the definition of a Change in Control contained in Section 2 shall occur, unless the Committee shall have otherwise provided in the instrument evidencing the grant of an Option, all Options theretofore granted and not fully exercisable shall become exercisable in full upon the happening of such event and shall remain so exercisable in accordance with their terms; provided, however, that no Option which has previously been exercised or otherwise terminated shall become exercisable.

16. Assignments and Transfers. Except as otherwise determined by the Committee, neither any Award nor any right or interest of a Participant under the Plan in any instrument evidencing any Award under the Plan may be assigned, encumbered or transferred except, in the event of the death of a Participant, by will or the laws of descent and distribution.

17. No Implied Rights. No officer, Director, Employee or other person shall have a right to be selected as a Participant or, having been so selected, to be selected again as a Participant and no officer, Director, Employee or other person shall have any claim or right to be granted an Award under the Plan or under any other incentive or similar plan of the Company or any Affiliate. Neither the Plan nor any action taken hereunder shall be construed as giving any Employee any right to be retained in the employ of the Company or any Affiliate.

18. Delivery and Registration of Stock. The Company's obligation to deliver Shares with respect to an Award shall, if the Committee so requests, be conditioned upon the receipt of a representation as to the investment intention of the Participant to whom such Shares are to be delivered, in such form as the Company shall determine to be necessary or advisable to comply with the provisions of the Securities Act or any other applicable federal or state securities law. It may be provided that any such representation requirement shall become inoperative upon a registration of the Shares or other action eliminating the necessity of such representation under the Securities Act or other securities law. The Company shall not be required to deliver any Shares under the Plan prior to (a) the admission of such shares to listing on any stock exchange or quotation system on which Shares may then be listed or quoted, and (b) the completion of such registration or other qualification of such Shares under any state or federal law, rule or regulation, as the Company shall determine to be necessary or advisable.

19. Withholding Tax. Prior to the delivery of any Shares or cash pursuant to an Award, the Company has the right and power to deduct or withhold, or require the Participant to remit to the Company, an amount sufficient to satisfy all applicable tax withholding requirements. The Committee, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit or require a Participant to satisfy all or part of the tax withholding obligations in connection with an Award by (a) having the Company withhold otherwise deliverable Shares, or (b) delivering to the Company Shares already owned for a period of at least six months and having a value equal to the amount required to be withheld. The amount of the withholding requirement will be deemed to include any amount that the Committee determines, not to exceed the amount determined by using the maximum federal, state and local marginal income tax rates applicable to the Participant with respect to the Award on the date that the amount of tax to be withheld is to be determined for these purposes. For these purposes, the value of the Shares to be withheld or delivered will be equal to the Market Value as of the date that the taxes are required to be withheld.

20. Termination, Amendment and Modification of Plan. The Board may at any time terminate, and may at any time and from time to time and in any respect amend or modify, the Plan; provided, however, that to the extent necessary and desirable to comply with Rule 16b-3 under the Exchange Act or Section 422 of the Code (or any other applicable law or regulation, including requirements of any stock exchange or quotation system on which the Shares are listed or quoted), shareholder approval of any Plan amendment shall be obtained in such a manner and to such a degree as is required by the applicable law or regulation; and provided further, that no termination, amendment or modification of the Plan shall in any manner affect any Award theretofore granted pursuant to the Plan without the consent of the Participant to whom the Award was granted. To the extent a modification of a stock right causes it to be subject to the deferred compensation rules, it will be further modified to comply with such rules (e.g., by requiring the stock right to be exercised in a particular calendar year). To the extent any awards under the plan are subject to the deferred compensation rules, such awards will not be paid as a result of the termination of the plan except as permitted by the requirements of Section 409A of the Internal Revenue Code and the regulations there under. To the extent an extension of a stock right cause it to be in violation of Section 409A of the Internal Revenue Code such extension shall be prohibited.

21. Effective Date and Term of Plan. The Plan shall become effective upon its adoption by the Board of Directors and shareholders of the Company and shall continue in effect for a term of ten years after the date of adoption unless sooner terminated under Section 20 hereof.

22. Governing Law. The Plan and Award Agreements will be construed in accordance with and governed by the internal laws of the State of Indiana.

23. Shareholder Rights. Except to the extent provided with respect to an Award of Restricted Stock in accordance with Section 10, no Participant shall have any of the rights or privileges of a shareholder of the Company with respect to any Shares issuable pursuant to an Award unless and until certificates representing the Shares shall have been issued and delivered to the Participant.

24. Code Section 409A Standards. To the extent that any terms of the Plan, an instrument evidencing an Award, or an Award would subject any Participant to gross income inclusion, interest, or additional tax pursuant to Section 409A of the Code, those terms are to that extent superseded by the applicable Section 409A Standards.

Adopted by the Board of Directors
NorthWest Indiana Bancorp effective as
of July 23, 2008.

Exhibit 10.7

Form of Incentive Stock Option Agreement

On__________, an incentive stock option for _____shares of common stock, without par value, of NorthWest Indiana Bancorp, an Indiana corporation (the "Corporation"), at an option price per share of $______, was granted to ________ (the "Optionee") by the Corporation. A copy of the option agreement (the "Agreement") relating to that option grant is attached as Exhibit A to this Amendment. The Corporation and the Optionee have agreed to modify and amend the Agreement in the following respects:

1. Section 7 shall be amended to read in its entirety as follows:

> Section 7. Termination. If the Participant ceases to maintain Continuous Service for cause, or voluntarily for any reason other than death, Disability or Retirement, all rights under the Option shall terminate immediately upon cessation of Continuous Service. If the Participant ceases to maintain Continuous Service by reason of death, then the Participant may exercise the Option, but only to the extent the Participant was entitled to exercise the Option at the date of such cessation, at any time during the remaining term of the Option. If the Participant ceases to maintain Continuous Service as the result of Disability the Participant may exercise the Option to the extent that the Participant was entitled to exercise the Option at the date of such cessation for a period of one year or until expiration of the term of the Option, whichever is earlier. If the Participant ceases to maintain Continuous Service as the result of retirement or for any reason other than those set forth above, Participant may exercise the Option to the extent that the Participant was entitled to exercise the Option at the date of such cessation for a period of three months immediately succeeding such cessation of Continuous Service, and in no event after the expiration date of the Option.

2. Effectiveness. This Amendment shall be deemed effective as of the date set forth below. Except as amended hereby, the Agreement shall remain in full force and effect and shall be otherwise unaffected hereby.

3. Governing Law. This Amendment shall be deemed to be a contract made under the laws of the State of Indiana and for all purposes shall be governed by and construed in accordance with the laws of such state applicable to contracts to be made and performed entirely within such state.

4. Counterparts. This Amendment may be executed in any number of counterparts, each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the ____ day of ______________, 2012.

NorthWest Indiana Bancorp

By:
Corporate Secretary

“Corporation”

“Optionee”

Exhibit 10.8

Form of Non-Qualified Stock Option Agreement

This Nonqualified Stock Option Agreement ("Agreement") has been entered into as of the ___ day of ____________, 20__, between NorthWest Indiana Bancorp, an Indiana corporation (the "Company"), and __________________, an [employee/director] of the Company or one of its affiliates ("Participant"), pursuant to the Company's Amended and Restated 2004 Stock Option and Incentive Plan (the "Plan"). Capitalized terms used herein and not defined herein have the meanings set forth in the Plan.

WHEREAS, the committee of the Board of Directors of the Company appointed to administer the Plan (the "Committee") has determined to grant to Participant an option to purchase shares of the Company's Common Stock pursuant to the terms and conditions as provided in the Plan and this Agreement; and

WHEREAS, the Company and Participant desire to set forth the terms and conditions of the option;

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained in this Agreement, the Company and the Participant agree as follows:

Section 1. Grant of Option and Exercise Price. Subject to the terms and conditions stated in the Plan and this Agreement as of __________ __, ____ (the "Date of Grant"), the Committee has granted to Participant an option (the "Option") to purchase ______ shares of the Company's Common Stock (the "Shares") at an exercise price per Share equal to $_______ (the "Exercise Price").

Section 2. Nonqualified Stock Option. The Option is not intended to qualify as an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended.

Section 3. Exercise of Option. The Option shall become exercisable as follows or on such earlier date as provided in the Plan: ____.

Section 4. Term of Option. Unless sooner terminated as provided in the Plan, the Option shall expire ten years from the Date of Grant.

Section 5. Method of Exercise. The Participant may exercise the Option in the manner stated in the Plan.

Section 6. Termination. If the Participant ceases to maintain Continuous Service for cause, or voluntarily for any reason other than death, Disability or Retirement, all rights under the Option shall terminate immediately upon cessation of Continuous Service. If the Participant ceases to maintain Continuous Service by reason of death, Disability or Retirement, then the Participant may exercise the Option, but only to the extent the Participant was entitled to exercise the Option at the date of such cessation, at any time during the remaining term of the Option. If the Participant ceases to maintain Continuous Service for any reason other than those set forth above, Participant may exercise the Option to the extent that the Participant was entitled to exercise the Option at the date of such cessation for a period of three months immediately succeeding such cessation of Continuous Service, and in no event after the expiration date of the Option.

Section 7. Plan Controlling. The Option and the terms and conditions set forth in this Agreement are subject in all respects to the terms and conditions of the Plan, which are controlling. All determinations and interpretations of the Committee shall be binding and conclusive upon the Participant and his or her legal representatives.

Section 8. Qualification of Rights. Neither this Agreement nor the existence of the Option shall be construed as giving the Participant any right (a) to be retained as a director or employee of the Company or any of its affiliates; or (b) as a shareholder with respect to the Shares until the certificates for the Shares have been issued and delivered to the Participant.

Section 9. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Indiana.

Section 10. Notices. All notices and other communications required or permitted under this Agreement shall be written and shall be delivered personally or sent by registered or certified first-class mail, postage prepaid and return receipt required, addressed as follows: if to the Company, to the Company's executive offices in Munster, Indiana, and if to the Participant or his or her successor, to the address last furnished by the Participant to the Company. Each notice and communication shall be deemed to have been given when received by the Company or the Participant.

Section 11. Transferability. The Participant shall not sell, assign, transfer, pledge or otherwise encumber the Option, except in the event of death of Participant, by will or laws of descent and distribution.

Section 12. Representations and Warranties of Participant. The Participant represents and warrants to the Company that he or she has received and reviewed a copy of the Plan.

Section 13. Withholding. In connection with the delivery of shares of Common Stock as a result of the exercise of the Option, the Company shall have the right to require the Participant to pay an amount in cash sufficient to cover any tax, including any Federal, state or local income tax, required by any governmental entity to be withheld or otherwise deducted and paid with respect to such delivery ("Withholding Tax"), and to make payment to the appropriate taxing authority of the amount of such Withholding Tax.

Section 14. No Waiver. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver thereof or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

IN WITNESS WHEREOF, the Company and Participant have executed this Agreement as of the date first written above.

NORTHWEST INDIANA BANCORP

By: ______________________________

Name

____

Title

____

[Signature of Participant]

Exhibit 10.9

Form of Agreement for Restricted Stock

This Agreement has been entered into as of the _____ day of ______, 2012 between NorthWest Indiana Bancorp, an Indiana corporation (the "Company"), and _________ [employee] of the Company or one of its affiliates (the "Participant"), pursuant to the Company's Amended and Restated 2004 Stock Option and Incentive Plan (the "Plan") and evidences and sets forth certain terms of the grant to the Participant pursuant to the Plan of an aggregate of _____ shares of Restricted Stock as of the date of this Agreement. Capitalized terms used herein and not defined herein have the meanings set forth in the Plan.

Section 1. Receipt of Plan; Restricted Stock and this Agreement Subject to Plan. The Participant acknowledges receipt of a copy of the Plan. This Agreement and the shares of Restricted Stock granted to Participant are subject to the terms and conditions of the Plan, all of which are incorporated herein by reference.

Section 2. Restricted Period; Lapse of Restrictions and Vesting. Subject to Section 5 of this Agreement and the provisions of the Plan, the restrictions on the shares of Restricted Stock granted to the Participant shall lapse and such shares shall become fully vested and not subject to forfeiture to the Company as follows: Five (5) Years from date of issuance at $____.

Section 3. Certificates for Shares. Each certificate representing the shares of Restricted Stock granted to the Participant shall be registered in the name of the Participant and deposited by the Participant, together with a stock power endorsed in blank, with the Company and shall bear the following (or a similar) legend:

> "The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) contained in the Amended and Restated 2004 Stock Option and Incentive Plan of NorthWest Indiana Bancorp and an Agreement for Restricted Stock entered into between the registered owner and NorthWest Indiana Bancorp. Copies of such Plan and Agreement are on file in the office of the Secretary of NorthWest Indiana Bancorp."

Upon the lapse of restrictions on such shares of Restricted Stock, the Company shall promptly deliver a stock certificate, free of such legend, for such shares to the Participant.

Section 4. Transferability. Until such time as the restrictions on the shares of Restricted Stock granted to Participant have lapsed and such shares are no longer subject to forfeiture to the Company, the Participant shall not sell, assign, transfer, pledge or otherwise encumber such shares of Restricted Stock.

Section 5. Termination. If the Participant ceases to maintain Continuous Service for any reason (other than death, Disability or Retirement), all shares of Restricted Stock granted to the Participant which at the time of such termination of Continuous Service are still subject to restrictions shall upon such termination of Continuous Service be forfeited and returned to the Company. If the Participant ceases to maintain Continuous Service by reason of death or Disability, then the restrictions with respect to the Ratable Portion of the shares of Restricted Stock granted to the Participant shall lapse and such shares shall be free of restrictions and shall not be forfeited. If the Participant ceases to maintain Continuous Service by reason of Retirement, then the Committee shall, in its sole discretion, determine the effect of such termination on the shares of Restricted Stock granted to the Participant. If the Continuous Service of the Participant is involuntarily terminated, for whatever reason, at any time within 18 months after a Change in Control, any Restricted Period with respect to the shares of Restricted Stock granted to the Participant shall lapse upon such termination and all shares of Restricted Stock granted to the Participant shall become fully vested in the Participant.

Section 6. Dividends. In the event any dividends or other distributions, whether in cash, property or stock of another company, are paid on any of the shares of Restricted Stock granted to the Participant, such dividends or other distributions shall be delivered to the Participant at that time. Stock dividends and shares issued as a result of any stock-split, if any, issued with respect to the Restricted Shares shall be treated as additional Restricted Shares and shall be subject to the same restrictions and other terms and conditions that apply with respect to, and shall vest or be forfeited at the same time as, the Restricted Shares with respect to which such stock dividends or shares are issued.

Section 7. 83(b) Election. The Participant agrees not to make any election under Section 83(b) of the Code with respect to any shares of Restricted Stock granted under this Agreement.

Section 8. No Employment Rights. None of this Agreement, the Plan or the award of shares of Restricted Stock hereunder shall be construed as giving the Participant any right to be retained as an employee or director of the Company or any Affiliate.

Section 9. Withholding. In connection with the delivery of shares of Common Stock as a result of the vesting of Restricted Stock, the Company shall have the right to require the Participant to pay an amount in cash sufficient to cover any tax, including any Federal, state or local income tax, required by any governmental entity to be withheld or otherwise deducted and paid with respect to such delivery ("Withholding Tax"), and to make payment to the appropriate taxing authority of the amount of such Withholding Tax.

Section 10. Plan Controlling. The terms and conditions set forth in this Agreement are subject in all respects to the terms and conditions of the Plan, which are controlling. All determinations and interpretations of the Committee shall be binding and conclusive upon Participant and his or her legal representatives.

Section 11. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Indiana.

Section 12. Notices. All notices and other communications required or permitted under this Agreement shall be written and shall be delivered personally or sent by registered or certified first-class mail, postage prepaid and return receipt required, addressed as follows: if to the Company, to the Company's executive offices in Munster, Indiana, and if to Participant or his or her successor, to the address last furnished by Participant to the Company. Each notice and communication shall be deemed to have been given when received by the Company or Participant.

Section 13. No Waiver. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver thereof or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

IN WITNESS WHEREOF, this Agreement has been executed by the undersigned thereunto duly authorized as of the date first above written.

NORTHWEST INDIANA BANCORP

By:

Name: David A. Bochnowski
Title: Chairman and CEO

2011 Annual Report

100+ COMMUNITY BANKING YEARS STRONG

NorthWest Indiana
BANCORP

2011 > Shred Day

A Shred Day, staffed with employee volunteers, was held at our Corporate Center and at the St. John Banking Center as a community service, encouraging people to go green and to promote Online Banking. The response was overwhelming–cars were lined up before the start time. The most frequent comment we heard was how great an event this was for the community! Out of appreciation, some people even tried to tip the workers! **Opportunity Enterprises shredded a record 7,250 pounds of paper at our Corporate Center and 3,750 pounds of paper at our St. John Banking Center.**

2011 > Getting Social

In 2011, the Bank took its first step into **Social Media** with the launch of a **Facebook** page. Each Banking Center held an ice cream social as a treat to our customers in celebration of Peoples Bank "getting social."

2011 > Community First

Community First, the Bank's employee and social committee, raised more than $26,000 through employee efforts and with the Bank's matching of funds in support of local agencies and community groups. This marks the highest amount raised in the committee's 17-year history. Some of the organizations receiving support were: **Boys and Girls Clubs of Northwest Indiana, Opportunity Enterprises, Haven House, Food Bank of Northwest Indiana, Legacy Foundation** and **Neighborhoods, Inc.**

2011 > Community Outreach

Through the efforts of **Community First**, over 300 items were donated by employees to help **Campagna Academy** stock the shelves of their incentive store for their Residential Rewards Program. Residents, who are boys and girls age 12-18, get to select an item from the store's prize closet when they display exceptional behavior.

2011 Annual Report

David A. Bochnowski
Chairman and
Chief Executive Officer

Dear Shareholder,

2011 proved to be another year of uncertainty for American households and small business owners, yet hopeful signs for an economic recovery began to take hold in the latter part of the year as employment improved and consumer spending increased. Despite the slow pace of the economic growth that prevailed throughout the year, the Bancorp reported another solid year of performance as income increased 4.0% over the prior year. Once again, your company outpaced the results of the banking industry during the year.

Strategic Focus

In keeping with our mission, we seek ways to provide our customers, shareholders, and the communities we serve with exceptional value and an unparalleled banking experience. Our strategic focus as a community bank has built a sustainable business model capable of absorbing unforeseen shocks to the fabric of the economy, while providing a strong capital base to enable our continued growth as a modern community bank.

The Bancorp enjoys a 101-year tradition of community banking and we recognize that remaining relevant to our customers, shareholders, and communities is our most important task. In addition, the Bancorp's strategy emphasizes banking fundamentals with core earnings and cost efficient operations leading the way. As a result, our operating margin and efficiency ratio sustained earnings in 2011 as it always has.

Unlike many competitors in the banking sector, the Bancorp has reported income for each of the last twenty-seven years. Additionally, the strength of our financial results permitted the continued payment of dividends to our shareholders throughout the Great Recession. Our consistent performance has provided financial stability to support our growth as a community bank, enabling the Bancorp to invest in a professional team as well as locations and technology that meet customer needs in the 21st century.

Customer Value

Our well-trained team is dedicated to delivering our unique brand of "You First Banking" through our network of banking center locations and access to the bank through 21st century technology. To measure how effectively we are meeting the needs of our customers, we contracted with a leading financial services research firm to survey our customers. We are pleased to report that overall customer satisfaction stands at 96% along with a very high loyalty index of 78% which was well above the average for the survey. Moreover, 70% of those surveyed consider your bank to be their primary financial institution, underscoring the level of strength of our customer loyalty and satisfaction. The percentage of customers who consider Peoples Bank primary and only use your bank was also significantly higher than the survey average.

Customers continue to demonstrate an increasing preference for electronic banking services. During the year, we enhanced electronic convenience to our menu of services by offering customers the ability to bank anywhere, anytime, from their phone.

Our free Mobile Banking app, introduced in November, enables customers to turn their smart phone into a virtual bank and conduct transactions 24/7. Using our refreshed and free online banking platform, customers have the ability to pay bills, check balances and transfer funds within their accounts, for example, without having to step into a Banking Center.

At year-end, we realized 23% new growth in Online Banking enrollments and, after two months, over half of our 2012 goal of the number of mobile banking customers enrolled. Both results are proof that we are successfully delivering products and services through delivery channels appropriate for today's customers.

In today's world, a community bank cannot ignore the fact that millions of people are active users of a social networking service. Because it is important to be connected and maintain an open forum for communication with our customers and communities, we launched the Bank's Facebook page in the spring. An ever-growing fan base tells us that the messages we send are engaging and have value, affording us the opportunity to further develop current and future customer relationships in the spirit of You First Banking.

Working with business customers to satisfy their unique business needs is what You First Banking is all about. Our partnership with small business customers is built on relationships, not just transactions, and it means that we work to provide financial solutions that best meet our customer's needs and help grow their business. We are very proud of the outcomes. This year's awards by the Northwest Indiana Small Business Development Center for "Small Business Person of the Year" and "Minority-Owned Business of the Year" went to our customers.

Shareholder Value

Income for the year totaled $5.4 million as banking fundamentals continue to produce strong results for our shareholders. Core income remained robust, our capital position continued to grow, asset quality improved, and operating costs held steady. At the end of 2011, the Bancorp reported a net interest margin of 4.17%, tangible equity capital of 9.66%, a 40.7% decrease in non-performing loans, and a 3.0% increase in operating costs. Our return on assets (ROA) was 0.84% and our return on equity (ROE) was 8.90%, as both of these key indicators of bank performance exceeded the results for our industry.

During the year, our priorities focused on core income, the reduction of non-performing loans, increasing our capital, and controlling the cost of our operations. Our results confirm that our goals were achieved in each of these key performance measurements.

The Bank's core earnings are driven by our net interest margin, the difference between interest income from loans and investments and interest expense paid primarily to our funds providers. Our lowest cost funds are our core deposits: savings, checking, and money markets. During the year, core deposits increased by $28.2 million and, at year-end, core accounts exceeded 66.4% of deposits, demonstrating customer confidence in the strength of the Bank as well as our delivery channels for those products.

The economic stress of the recession has taken its toll on asset quality in the banking industry. Reducing past due loans and non-performing credits, and removing them from our balance sheet, continues to be our highest priority with favorable results from our effort. During the year, past due loans were reduced by $15.1 million or 45.5% and non-performing loans were reduced by $9.8 million or 40.7%. As a result, the Bancorp's ratio of non-performing assets to total assets was 2.68%, a reduction of 39.9%. The market values for distressed credits have been measured by current appraisals with appropriate reserves in our allowance for loan losses which stood at 1.99% as a percentage of total loans at the end of the year.

Management closely monitored our operating costs during the year with an eye on our bottom line. We were pleased that our cost control measures held operating costs steady as our expenses increased by 3.0% during the year.

Maintaining a strong capital base is essential sound banking practice that has been given additional scrutiny by banking regulators as they demand increasing capital levels. Using balance sheet strategies as well as income generated from operations, the Bancorp increased our tangible equity capital to 9.7% of total assets during the year. Significantly, under all regulatory capital requirements, the Bancorp and our operating subsidiary Peoples Bank, are considered well capitalized, the highest rating for bank capital. The Bancorp's regulatory capital ratios at year-end were 14.3% for total capital to risk weighted assets and 9.2% for Tier 1 capital to adjusted average assets.

Community Value

The well-being of the communities we serve continued to take center stage in 2011 as we looked to assist our youth, schools, neighborhoods, and community organizations with our time, talent, and treasure. Consistent with our You First Banking principles, the Peoples team provided thousands of hours of volunteer time to lend a hand in the collective effort to improve the quality of our community.

As a community bank with a century-old tradition, we know that the privilege of our banking charter extends not only to our customers but also to volunteering to serve side by side with our friends and neighbors in a collective effort to sustain our communities. We serve on the boards of numerous community groups, assist faith based endeavors, teach our youth, and work to improve our neighborhoods.

You First Banking puts our customers and our communities first. We maintained our active involvement in the Bank On initiative in conjunction with the Lake Area United Way to provide affordable financial support to the unbanked and under-banked residents of Northwest Indiana. Our talent was matched with the Boys and Girls Clubs as we taught financial literacy to the youth of our community. Internally we formed a Community Reinvestment team to seek opportunities and create innovative ways to reinvest in our neighborhoods.

The Bank's Community First Committee, run entirely by employees, raised the most money from employee contributions ever in its 17-year history despite the challenges of the economy. Those funds were distributed to such diverse agencies as the Boys and Girls Clubs of Lake and Porter counties, the Food Bank of Northwest Indiana, the Legacy Foundation, Opportunity Enterprises, and Neighborhoods, Inc. among others. All in all, the Bank and the Peoples team assisted 186 organizations with financial assistance during 2011.

Banking on Our Future

Moving forward, your company will continue to look for ways to grow as the economy, regardless of the uncertainty of the pace, begins to recover. In 2012, the Bancorp will continue to focus on improving asset quality, grow our core accounts, monitor costs consistent with long term growth opportunities, and maintain a strong capital base. We will also look to opportunities to increase our loan volume to households and small businesses as the economy improves.

We will maintain open lines of communication with our consumer, small business, commercial, and wealth management customers, ensuring that we continue to provide viable financial solutions based on their needs, and deliver the products and services they desire through relevant channels.

Your Directors are all investors in your company and each of them understands the importance of dividends to community bank investors. The Board will continue to review our dividend policy on a quarterly basis to ensure that dividend payments are appropriate in relationship to capital ratios, current earnings, and shareholder returns.

On behalf of our Board of Directors and the entire Peoples team, thank you for your support and confidence in your company. With your assistance, the Bancorp has weathered the storm of the economy despite many unforeseen challenges. We are confident that with your continued assistance our customers, communities, and shareholders will benefit from your investment in the Bancorp.

Sincerely,

David A. Bochnowski
Chairman and Chief Executive Officer

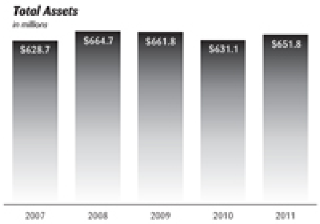
"Peoples Bank is committed to providing you exceptional value and an unparalleled banking experience that enable you to achieve your financial goals."

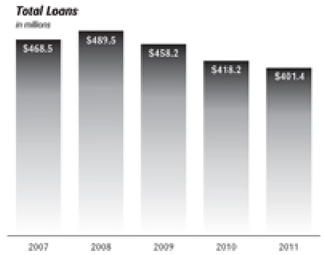
MISSION STATEMENT

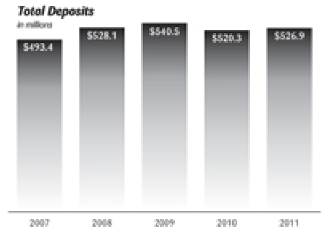
Financial Information

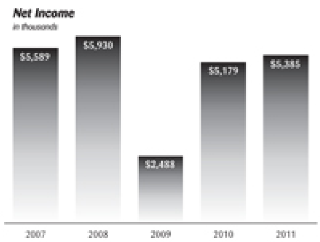
Peoples Bank

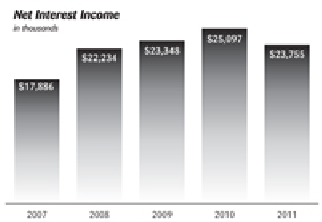
Financial Highlights

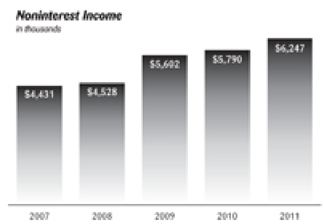


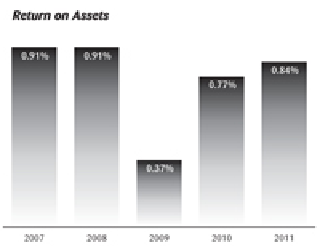


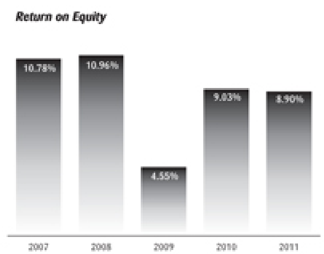


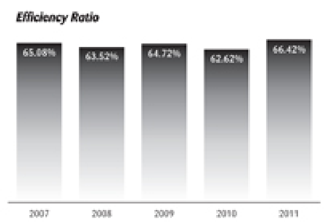












Selected Consolidated Financial Data
in thousands of dollars, except per share data

Fiscal Year Ended	December 31, 2011	December 31, 2010	December 31, 2009	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004	December 31, 2003	December 31, 2002	December 31, 2001
Statement of Income:											
Total interest income	$ 26,986	$ 30,086	$ 32,189	$ 35,167	$ 35,768	$ 34,979	$ 30,024	$ 26,614	$ 26,357	$ 27,781	$ 28,425
Total interest expense	3,231	4,989	8,841	12,933	17,882	15,738	9,758	6,858	7,521	10,107	13,222
Net interest income	23,755	25,097	23,348	22,234	17,886	19,241	20,266	19,756	18,836	17,674	15,203
Provision for loan losses	3,510	5,570	8,540	2,388	552	15	245	385	420	720	230
Net interest income after provision for loan losses	20,245	19,527	14,808	19,846	17,334	19,226	20,021	19,371	18,416	16,954	14,973
Noninterest income	6,247	5,790	5,602	4,528	4,431	4,219	3,540	3,312	2,968	2,675	2,402
Noninterest expense	19,928	19,341	18,735	16,999	14,525	14,296	13,771	13,174	12,037	10,859	9,911
Net noninterest expense	13,681	13,551	13,133	12,471	10,094	10,077	10,231	9,862	9,069	8,184	7,509
Income tax expenses/(benefit)	1,179	797	(813)	1,445	1,651	2,674	3,118	3,219	3,411	3,277	2,754
Net income	$ 5,385	$ 5,179	$ 2,488	$ 5,930	$ 5,589	$ 6,475	$ 6,672	$ 6,290	$ 5,936	$ 5,493	$ 4,710
Basic earnings per common share	$ 1.90	$ 1.83	$ 0.88	$ 2.11	$ 1.99	$ 2.32	$ 2.40	$ 2.28	$ 2.16	$ 2.01	$ 1.73
Diluted earnings per common share	$ 1.90	$ 1.83	$ 0.88	$ 2.10	$ 1.98	$ 2.30	$ 2.37	$ 2.24	$ 2.13	$ 1.99	$ 1.71
Cash dividends declared per common share	$ 0.60	$ 0.72	$ 1.21	$ 1.44	$ 1.44	$ 1.40	$ 1.32	$ 1.24	$ 1.20	$ 1.12	$ 1.04

	December 31, 2011	December 31, 2010	December 31, 2009	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004	December 31, 2003	December 31, 2002	December 31, 2001
Balance Sheet:											
Total assets	$ 651,758	$ 631,053	$ 661,806	$ 664,732	$ 628,718	$ 618,982	$ 627,439	$ 557,393	$ 508,775	$ 488,002	$ 440,710
Loans receivable	401,401	418,233	458,245	489,509	468,459	471,716	469,043	433,790	409,808	380,428	342,642
Investment securities	186,962	160,452	144,333	126,722	114,644	99,012	90,093	79,979	63,733	56,571	67,260
Deposits	526,881	520,271	540,527	528,148	493,384	512,931	525,731	451,573	421,640	406,673	355,215
Borrowed funds	52,013	48,618	63,022	74,795	76,930	51,501	51,152	57,201	40,895	36,065	44,989
Total stockholders' equity	62,960	56,089	53,078	52,773	52,733	50,010	46,433	44,097	41,554	39,148	35,882

Fiscal Year Ended	December 31, 2011	December 31, 2010	December 31, 2009	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004	December 31, 2003	December 31, 2002	December 31, 2001
Interest Rate Spread During Period:											
Average effective yield on loans and investment securities	4.49%	4.84%	5.16%	5.78%	6.21%	6.02%	5.50%	5.31%	5.65%	6.26%	7.29%
Average effective cost of deposits and borrowings	0.56%	0.82%	1.45%	2.19%	3.18%	2.77%	1.82%	1.40%	1.67%	2.38%	3.55%
Interest rate spread	3.93%	4.02%	3.71%	3.59%	3.03%	3.25%	3.68%	3.91%	3.98%	3.88%	3.74%
Net interest margin	3.96%	4.04%	3.74%	3.65%	3.10%	3.31%	3.71%	3.94%	4.04%	3.99%	3.90%
Return on average assets	0.84%	0.77%	0.37%	0.91%	0.91%	1.04%	1.14%	1.17%	1.20%	1.18%	1.15%
Return on average equity	8.90%	9.03%	4.55%	10.96%	10.78%	13.42%	14.67%	14.64%	14.65%	14.58%	13.49%

	December 31, 2011	December 31, 2010	December 31, 2009	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004	December 31, 2003	December 31, 2002	December 31, 2001
Total capital to risk weighted assets	14.3%	12.9%	11.5%	12.0%	12.0%	12.0%	11.6%	12.2%	12.5%	13.1%	13.6%
Tier 1 capital to risk weighted assets	13.1%	11.7%	10.3%	10.8%	11.0%	11.1%	10.7%	11.2%	11.5%	11.9%	12.5%
Tier 1 capital to adjusted average assets	9.2%	8.5%	7.8%	8.2%	8.3%	8.0%	7.9%	8.0%	8.0%	7.6%	8.3%
Allowance for loan losses to total loans	1.99%	2.18%	1.33%	1.19%	0.98%	0.90%	0.89%	0.90%	0.92%	0.96%	0.92%
Allowance for loan losses to non-performing loans	56.03%	37.82%	32.93%	46.97%	53.16%	153.95%	198.00%	371.00%	220.31%	152.43%	108.64%
Non-performing loans to total loans	3.56%	5.77%	4.05%	2.54%	1.84%	0.58%	0.45%	0.24%	0.42%	0.63%	0.85%
Total loan accounts	4,567	4,594	4,846	5,193	5,268	5,392	5,422	5,370	5,213	5,049	4,964
Total deposit accounts	28,303	28,912	32,616	33,692	30,760	32,435	33,963	32,866	32,502	31,385	30,433
Total Banking Centers (all full service)	12	12	11	10	9	8	8	8	8	8	8

Business

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

The Bancorp conducts business from its Corporate Center in Munster and its twelve full-service offices located in Crown Point, Dyer, East Chicago, Gary, Hammond, Hobart, Merrillville, Munster, St. John, Schererville, and Valparaiso, Indiana. The Bancorp is primarily engaged in the business of attracting deposits from the general public and the origination of loans secured by single family residences and commercial real estate, as well as, construction loans, various types of consumer loans and commercial business loans, and loans to local municipalities. In addition, the Bancorp's Wealth Management Group provides estate and retirement planning, guardianships, land trusts, profit sharing and 401(k) retirement plans, IRA and Keogh accounts, and investment agency accounts. The Wealth Management Group may also serve as the personal representative of estates and act as trustee for revocable and irrevocable trusts.

The Bancorp's common stock is traded in the over-the-counter market and is quoted on the OTC Bulletin Board. On January 31, 2012, the Bancorp had 2,837,562 shares of common stock outstanding and 408 stockholders of record. This does not reflect the number of persons or entities who may hold their stock in nominee or "street" name through brokerage firms.

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

General

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

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

At December 31, 2011, the Bancorp had total assets of $651.8 million and total deposits of $526.9 million. The Bancorp's deposit accounts are insured up to applicable limits by the Deposit Insurance Fund (DIF) that is administered by the Federal Deposit Insurance Corporation (FDIC), an agency of the federal government. At December 31, 2011, stockholders' equity totaled $63.0 million, with book value per share at $22.20. Net income for 2011 was $5.4 million, or $1.90 basic and diluted earnings per common share. The return on average assets was 0.84%, while the return on average stockholders' equity was 8.90%.

Recent Developments

The Current Economic Environment. We continue to operate in a challenging and uncertain economic environment, including generally uncertain national conditions and local conditions in our markets. Overall economic growth continues to be slow and national and regional unemployment rates remain at elevated levels. The risks associated with our business remain acute in periods of slow economic growth and high unemployment. Moreover, financial institutions continue to be affected by a sluggish real estate market and constrained financial markets. While we are continuing to take steps to decrease and limit our exposure to problem loans, we nonetheless retain direct exposure to the residential and commercial real estate markets, and we are affected by these events.

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

Impact of Legislation. Over the last three-and-a-half years, Congress and the U.S. Department of the Treasury have enacted legislation and taken actions to address the disruptions in the financial system, declines in the housing market, and the overall regulation of financial institutions and the financial system. In this regard, on July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which significantly changed the regulation of financial institutions and the financial services industry. The Dodd-Frank Act includes provisions affecting large and small financial institutions alike, including several provisions that profoundly affect the regulation of community banks, thrifts, and small bank and thrift holding companies, such as the Bancorp. Among other things, the Dodd-Frank Act abolished the Office of Thrift Supervision effective July 21, 2011 and transferred its functions to the Office of the Comptroller of the Currency, FDIC, and Federal Reserve. The Dodd-Frank Act also relaxes rules regarding interstate branching, allows financial institutions to pay interest on business checking accounts, changes the scope of federal deposit insurance coverage, imposes new capital requirements on bank and thrift holding companies, and imposes limits on debit card interchange fees charged by issuer banks (commonly known as the Durbin Amendment). The Dodd-Frank Act also established the Bureau of Consumer Financial Protection (the "BCFP") within the Federal Reserve, which has broad authority to regulate consumer financial products and services and entities offering such products and services, including banks. In July 2011, many of the consumer financial protection functions formerly assigned to the federal banking and other designated agencies transferred to the BCFP. The BCFP has a large budget and staff, and has broad rulemaking authority over providers of credit, savings, and payment services and products. In this regard, the BCFP has the authority to implement regulations under federal consumer protection laws and enforce those laws against, and examine, financial institutions. State officials also will be authorized to enforce consumer protection rules issued by the BCFP. This bureau also is authorized to collect fines and provide consumer restitution in the event of violations, engage in consumer financial education, track consumer complaints, request data, and promote the availability of financial services to underserved consumers and communities. The BCFP also is directed to prevent "unfair, deceptive or abusive practices" and ensure that all consumers have access to markets for consumer financial products and services, and that such markets are fair, transparent, and competitive. Because the BCFP was only recently established and its director has been only recently appointed, there is significant uncertainty as to how the BCFP actually will exercise its regulatory, supervisory, examination, and enforcement authority. However, the BCFP's authority to change regulations adopted in the past by other regulators (i.e., regulations issued under the Truth in Lending Act, for example), or to rescind or ignore past regulatory guidance, could increase the Bancorp's compliance costs and litigation exposure.

Additionally, the Dodd-Frank Act includes a series of provisions covering mortgage loan origination standards affecting, among other things, originator compensation, minimum repayment standards, and pre-payments. Moreover, the Dodd-Frank Act requires public companies like the Bancorp to hold shareholder advisory “say-on-pay” votes on executive compensation at least once every three years and submit related proposals to a vote of shareholders. However, the SEC has provided a temporary exemption for smaller reporting companies, such as the Bancorp, from the requirement to hold “say-on-pay” votes until the first annual or other shareholder meeting occurring on or after January 21, 2013. The Dodd-Frank Act contains numerous other provisions affecting financial institutions of all types, many of which may have an impact on the operating environment of the Bancorp in substantial and unpredictable ways. Consequently, the Dodd-Frank Act is expected to increase our cost of doing business, it may limit or expand our permissible activities, and it may affect the competitive balance within our industry and market areas. The Bancorp’s management continues to actively monitor the implementation of the Dodd-Frank Act and the regulations promulgated thereunder and assess its probable impact on the business, financial condition, and results of operations of the Bancorp. However, the ultimate effect of the Dodd-Frank Act on the financial services industry in general, and the Bancorp in particular, continues to be uncertain.

Difficult Market Conditions Have Adversely Affected Our Industry. We are particularly exposed to downturns in the U.S. housing market. Dramatic declines in the housing market over the past four years, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of mortgage and construction loans and securities and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities, major commercial and investment banks, and regional financial institutions. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, especially in light of the recent European sovereign debit crisis, many lenders and institutional investors have continued to observe tight lending standards, including with respect to other financial institutions. These market conditionshave led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, and increased market volatility. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on the Bancorp and others in the financial institutions industry. In particular, the Bancorp may face the following risks in connection with these events:

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

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

Concentrations of Real Estate Loans Subjects the Bancorp to Increased Risks as a result of a Protracted Real Estate Recession.A significant portion of the Bancorp’s loan portfolio is secured by real estate. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. While real estate values in almost all regions of the country, including the Midwest, have shown signs of stabilizing, the overall real estate market on a national level continues to show weakness indicative of a protracted real estate recession. A further weakening of the real estate market could result in an increase in the number of borrowers who default on their loans and a reduction in the value of the collateral securing their loans, which in turn could have an adverse effect on our profitability and asset quality. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected.

Financial Condition

During the year ended December 31, 2011, total assets increased by $20.7 million (3.3%), to $651.8 million, with interest-earning assets increasing by $21.9 million (3.7%). At December 31, 2011, interest-earning assets totaled $607.9 million and represented 93.3% of total assets. Loans totaled $401.4 million and represented 66.0% of interest-earning assets, 61.6% of total assets and 76.2% of total deposits. The loan portfolio, which is the Bancorp's largest asset, is a significant source of both interest and fee income. The Bancorp's lending strategy emphasizes quality growth, product diversification, and competitive and profitable pricing. The loan portfolio includes $154.2 million (38.3%) in residential real estate loans, $146.4 million (36.5%) in commercial real estate loans, $21.1 million (5.3%) in construction and land development loans, $63.3 million (15.8%) in commercial business loans, $8.6 million (2.2%) in government and other loans, $7.3 million (1.8%) in multifamily loans, and $472 thousand (0.1%) in consumer loans. Adjustable rate loans comprised 60.8% of total loans at year-end. During 2011, loan balances decreased by $16.8 million (4.1%), with commercial real estate, commercial business, and residential real estate loan balances increasing, while construction and development, government, multifamily, and consumer balances decreased. The decrease in loans during the year is partially the result of management's interest rate risk reduction strategy of selling fixed rate mortgage loans to the secondary market. Additionally, the current economic environment has led to an increase in loan payoffs and decreased loan demand, which have also contributed to a decrease in loan balances.

The Bancorp is primarily a portfolio lender. Mortgage banking activities are generally limited to the sale of fixed rate mortgage loans with contractual maturities greater than 15 years. During 2011, the Bancorp also began selling loans with contractual maturities of 15 years, as long-term interest rates revisited historic lows. These loans are identified as held-for-sale when originated and sold, on a loan-by-loan basis, in the secondary market. During 2011, the Bancorp sold $10.6 million in newly originated fixed rate mortgage loans, compared to $36.3 million during 2010. The decline in loan sales during 2011 is primarily the result of reduced refinance activity, as well as reduced demand for residential mortgages. Net gains realized from mortgage loan sales totaled $256 thousand for 2011, compared to $1.3 million for 2010. At December 31, 2011, the Bancorp had no loans that were classified as held-for-sale.

The allowance for loan losses (ALL) is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses, and decreased by charge-offs less recoveries. 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 determination of the amounts of the ALL and provisions for loan losses is based on management's current judgments about the credit quality of the loan portfolio with consideration given to all known relevant internal and external factors that affect loan collectability as of the reporting date. The appropriateness of the current period provision and the overall adequacy of the ALL are determined through a disciplined and consistently applied quarterly process that reviews the Bancorp's current credit risk within the loan portfolio and identifies the required allowance for loan losses given the current risk estimates.

Historically, the Bancorp has successfully originated commercial real estate loans within its primary lending area. However, beginning in the fourth quarter of 2005, in response to a decrease in local loan demand and in an effort to reduce the potential credit risk associated with geographic concentrations, a strategy was implemented to purchase commercial real estate participation loans outside of the Bancorp's primary lending area. The strategy to purchase these commercial real estate participation loans was limited to 10% of the Bancorp's loan portfolio. The Bancorp's management discontinued the strategy during the third quarter of 2007. As of December 31, 2011, the Bancorp's commercial real estate participation loan portfolio carried an aggregate balance of $20.2 million. Of the $20.2 million in commercial real estate participation loans, $5.8 million has been purchased within the Bancorp's primary lending area and $14.4 million outside of the primary lending area. At December 31, 2011, $7.2 million, or 35.6%, of the Bancorp's commercial real estate participation loans have been internally classified as substandard and have been placed on non-accrual status. All $7.2 million in substandard commercial real estate participation loans placed on non-accrual status are located outside of the Bancorp's primary lending area. The discussion in the paragraphs that follow regarding non-performing loans, internally classified loans and impaired loans includes loans from the Bancorp's commercial real estate participation loan portfolio.

For all of its commercial real estate participation loans, consistent with current regulatory guidelines the Bancorp's management requires that the lead lenders obtain external appraisals to determine the fair value of the underlying collateral for any collateral dependent loans. The Bancorp's management requires current external appraisals when entering into a new lending relationship or when events have occurred that materially change the assumptions in the existing appraisal. The lead lenders receive external appraisals from qualified appraisal firms that have expertise in valuing commercial properties and are able to comply with the required scope of the engagement. After the lead lender receives the external appraisal and performs its compliance review, the appraisal is forwarded to the Bancorp for review. The Bancorp's management validates the external appraisal by conducting an internal in-house review by personnel with expertise in commercial real estate developments. If additional expertise is needed, an independent review appraiser is hired to assist in the evaluation of the appraisal. The Bancorp is not aware of any significant time lapses during this process. Periodically, the Bancorp's management may make adjustments to the external appraisal assumptions if additional known quantifiable data becomes available that materially impacts the value of a project. Examples of adjustments that may occur are changes in property tax assumptions or changes in capitalization rates. The Bancorp's management relies on up-to-date external appraisals to determine the current value of its impaired commercial real estate participation loans. These values are appropriately adjusted to reflect changes in market value and, when necessary, are the basis for establishing the appropriate allowance for loan losses (ALL). If an updated external appraisal for a commercial real estate participation loan is received after the balance sheet date, but before the annual or quarterly financial statements are issued, material changes in appraised values are "pushed back" in the yet to be issued financial statements in order that appropriate loan loss provision is recorded for the current reporting period. The Bancorp's management consistently records loan charge-offs based on the fair value or income approach of the collateral as presented in the current external appraisal.

Non-performing loans include those loans that are 90 days or more past due and those loans that have been placed on non-accrual status. Non-performing loans totaled \$14.3 million at December 31, 2011, compared to \$24.1 million at December 31, 2010, a decrease of \$9.8 million or 40.7%. The decrease is related to loan pay downs, upgrades and charge-offs during 2011. The current level of non-performing loans is concentrated three substandard commercial real estate participation loans in the aggregate of approximately \$7.2 million. As previously reported, one commercial real estate participation loan is a condominium construction project in Orlando, Florida, with a current balance of approximately \$1.5 million, which has been charged down to its fair value that is based on the current fair value of the project's collateral, less estimated selling costs. The second commercial real estate participation loan is an end loan for a hotel located in Dundee, Michigan, with a current balance of approximately \$1.0 million, which has been charged down to its fair value that is based on the current fair value of the hotel, less estimated selling costs. The third commercial real estate participation loan is an end loan for a hotel located in Fort Worth, Texas, with a balance of approximately \$4.7 million and has a specific allowance for loan losses allocation of \$465 thousand. The carrying value of this loan is based on the current fair value of the hotel, less estimated selling costs. For these commercial real estate participation loans, to the extent that actual cash flows, collateral values and strength of personal guarantees differ from current estimates, additional provisions to the allowance for loan losses may be required.

The 2011 decrease in non-performing loans is related to the note sale of a previously reported commercial real estate participation construction loan for a hotel project located in Clearwater, Florida, with a balance at the time of sale of \$2.8 million. During the fourth quarter of 2011, the Bancorp's management sold the note for \$2.2 million, while recording a loan charge-off of \$549 thousand, of which \$27 thousand was established as a specific reserve. Also impacting the 2011 non-performing loan balance, was the fourth quarter transfer of a \$1.6 million commercial real estate participation land development project located in Crown Point, Indiana from loans to foreclosed real estate. Upon transfer to foreclosed real estate a \$226 thousand loan charge-off was recorded to reflect a decline in market value. Lastly, during the fourth quarter of 2011, a \$2.4 million commercial real estate loan was moved back into accrual status as a result of sustained performance by the borrower.

The ratio of non-performing loans to total loans was 3.56% at December 31, 2011, compared to 5.77% at December 31, 2010. The ratio of non-performing loans to total assets was 2.19% at December 31, 2011, compared to 3.82% at December 31, 2010. The December 31, 2011, non-performing loan balances include \$14.0 million in loans accounted for on a non-accrual basis and \$279 thousand in accruing loans, which were contractually past due 90 days or more. Loans, internally classified as substandard, totaled \$24.6 million at December 31, 2011, compared to \$32.7 million at December 31, 2010 a decrease of \$8.1 million or 24.8%. The current level of substandard loans is concentrated in the previously mentioned three non-accruing commercial real estate participation loans and one accruing commercial real estate hotel loan in the amount of \$5.0 million, which is the largest loan in this group. Substandard loans include non-performing loans and potential problem loans, where information about possible credit issues or other conditions causes management to question the ability of such borrowers to comply with loan covenants or repayment terms. No loans were internally classified as doubtful or loss at December 31, 2011 or December 31, 2010. In addition to identifying and monitoring non-performing and other classified loans, management maintains a list of watch loans. Watch loans represent loans management is closely monitoring due to one or more factors that may cause the loan to become classified. Watch loans totaled \$16.6 million at December 31, 2011, compared to \$24.3 million at December 31, 2010 a decrease of \$7.7 million or 31.7%.

A loan is considered impaired when, based on current information and events it is probable that a borrower will be unable to pay all amounts due according to the contractual terms of the loan agreement. At December 31, 2011, impaired loans totaled \$21.7 million, compared to \$26.0 million at December 31, 2010. The December 31, 2011, impaired loan balances consist of thirty-one commercial real estate and commercial business loans totaling \$20.4 million that are secured by business assets and real estate, and are personally guaranteed by the owners of the businesses. In addition, fourteen mortgage loans totaling \$1.3 million, which are troubled debt restructurings have also been classified as impaired. The December 31, 2011 ALL contained \$1.6 million in specific allowances for collateral deficiencies, compared to \$2.8 million at December 31, 2010. During the fourth quarter of 2011, one additional commercial development project totaling \$1.8 million was newly classified as impaired. Management's current estimates indicate a \$205 thousand collateral deficiency for this loan. In addition, during the fourth quarter of 2011, five loans totaling \$4.9 million were removed from impaired status due to payoffs, transfers to foreclosed real estate and charge-offs. As of December 31, 2011, all loans classified as impaired were also included in the previously discussed substandard loan balances, except for mortgage loans. There were no other loans considered to be impaired loans as of December 31, 2011. Typically, management does not individually classify smaller-balance homogeneous loans, such as residential mortgages or consumer loans, as impaired, unless they are troubled debt restructurings.

At December 31, 2011, the Bancorp classified nineteen loans totaling $14.8 million as troubled debt restructurings, which involves modifying the terms of a loan to forego a portion of interest or principal or reducing the interest rate on the loan to a rate materially less than market rates, or materially extending the maturity date of a loan. All of the loans classified as troubled debt restructurings are also considered impaired. The Bancorp's troubled debt restructurings include two commercial real estate participation hotel loans in the amount of $5.6 million and one commercial real estate hotel loan in the amount of $5.0 million, for which significant deferrals of principal repayments were granted; one commercial real estate loan in the amount of $2.4 million for which a significant deferral of principal and interest repayment was granted; one commercial real estate loan in which the borrower is in bankruptcy in the amount of $463 thousand, for which a significant deferral of principal and interest repayment was granted by the Bank as required by the bankruptcy plan; and fourteen mortgage loans totaling $1.3 million, for which maturity dates were materially extended. All of the loans classified as troubled debt restructurings are currently on non-accrual status except for two loans totaling $7.4 million, which are performing and have been kept on accrual status. The valuation basis for the Bancorp's troubled debt restructurings is based on the present value of cash flows, unless consistent cash flows are not present, then the fair value of the collateral securing the loan is the basis for valuation.

At December 31, 2011, management is of the opinion that there are no loans, except those discussed above, where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which will imminently result in such loans being classified as past due, non-accrual or a troubled debt restructure. Management does not presently anticipate that any of the non-performing loans or classified loans would materially impact future operations, liquidity or capital resources.

For 2011, $3.5 million in provisions to the ALL were required, compared to $5.6 million for 2010. The ALL provision decrease for 2011 is primarily a result of improved asset quality. The current year ALL provisions were primarily related to the current credit risk in the commercial real estate participation and commercial real estate loan portfolios. For 2011, charge-offs, net of recoveries, totaled $4.6 million, compared to $2.6 million for 2010. The 2011 net loan charge-offs of $4.6 million were comprised of $3.4 million in commercial real estate participation loans, $698 thousand in commercial real estate loans, $358 thousand in residential real estate loans, $160 thousand in commercial business loans and $12 thousand in consumer loans. The ALL provisions take into consideration management's current judgments about the credit quality of the loan portfolio, loan portfolio balances, changes in the portfolio mix and local economic conditions. In determining the provision for loan losses for the current period, management has given consideration to historically elevated risks associated with the local economy, changes in loan balances and mix, and asset quality.

The ALL to total loans was 1.99% at December 31, 2011, compared to 2.18% at December 31, 2010. The decrease in ALL to total loans was largely a result of charge-offs related to loans with previously identified valuation reserves. The ALL to non-performing loans (coverage ratio) was 56.03% at December 31, 2011, compared to 37.82% at December 31, 2010. The December 31, 2011 balance in the ALL account of $8.0 million is considered adequate by management after evaluation of the loan portfolio, past experience and current economic and market conditions. While management may periodically allocate portions of the allowance for specific problem loans, the whole allowance is available for any loan charge-offs that occur. The allocation of the ALL reflects performance and growth trends within the various loan categories, as well as consideration of the facts and circumstances that affect the repayment of individual loans, and loans which have been pooled as of the evaluation date, with particular attention given to non-performing loans and loans which have been classified as substandard, doubtful or loss. Management has allocated reserves to both performing and non-performing loans based on current information available.

At December 31, 2011, foreclosed real estate totaled $2.5 million, which was comprised of eleven properties, compared to $3.3 million and eighteen properties at December 31, 2010. The decrease is primarily a result of selling a $1.1 million commercial real estate condominium participation during the second quarter of 2011. At the end of December 2011 all of the Bancorp's foreclosed real estate was located within its primary market area.

At December 31, 2011, the Bancorp's investment portfolio totaled $187.0 million and was invested as follows: 59.5% in U.S. government agency mortgage-backed securities and collateralized mortgage obligations, 31.4% in municipal securities, 8.4% in U.S. government agency debt securities, and 0.7% in trust preferred securities. During 2011, management transferred its entire held-to-maturity securities portfolio to available-for-sale in order to provide management with the ability to sell lower balance odd lot securities, divest of certain securities to reduce credit or interest rate risk within the portfolio, and be positioned to take advantage of other portfolio restructuring opportunities. Available-for-sale securities are those the Bancorp may decide to sell if needed for liquidity, asset-liability management or other reasons. The book value of the securities transferred totaled $16.4 million, with an unrealized gain of $1.0 million that was recorded as a component of other comprehensive income at the date of transfer. During 2011, securities increased by $26.5 million (16.5%). In addition, at December 31, 2011, the Bancorp had $3.1 million in FHLB stock.

As of December 31, 2011, three of the Bancorp's four investments in trust preferred securities are in "payment in kind" status. Payment in kind status results in a temporary delay in the payment of interest. As a result of a delay in the collection of the interest payments, management placed these securities on non-accrual status. At December 31, 2011, the cost basis of the three trust preferred securities on non-accrual status totaled $3.9 million. Current estimates indicate that the interest payment delays may exceed ten years. One trust preferred security with a cost basis of $1.3 million remains on accrual status.

Deposits are a fundamental and cost-effective source of funds for lending and other investment purposes. The Bancorp offers a variety of products designed to attract and retain customers, with the primary focus on building and expanding relationships. At December 31, 2011, deposits totaled $526.9 million. During 2011, deposits increased by $6.6 million (1.3%). The 2011 change in deposits was comprised of the following: certificates of deposit decreased by $21.5 million (10.8%), while checking accounts increased by $16.2 million (11.4%), money market deposit accounts (MMDA's) increased by $5.7 million (4.9%), and savings accounts increased by $6.2 million (9.6%). During 2011, management allowed higher cost certificates of deposit to mature while relying on funding from checking, MMDA, and savings deposits. The increase in checking, savings, and MMDA balances is a result of customer preferences for liquid investments in the current low interest rate environment.

The Bancorp's borrowed funds are primarily comprised of repurchase agreements and FHLB advances that are used to fund asset growth not supported by deposit generation. At December 31, 2011, borrowed funds totaled $52.0 million compared to $48.6 million at December 31, 2010, an increase of $3.4 million (7.0%). During 2011, management added borrowed funds with an average rate of 0.95%, to take advantage of historically low interest rates. Retail repurchase agreements totaled $15.4 million at December 31, 2011, compared to $16.1 million at December 31, 2010, a decrease of $0.7 million (4.2%). FHLB advances totaled $36.0 million, increasing $7.0 million or 24.1%, as management extended the duration of its borrowings with low cost advances. The Bancorp's FHLB line of credit carried a zero balance at December 31, 2011, compared to $3.2 million at December 31, 2010. Other short-term borrowings totaled $0.6 million at December 31, 2011, compared to $0.3 million at December 31, 2010.

Liquidity and Capital Resources

The Bancorp's primary goals for funds and liquidity management are to generate sufficient cash to fund current loan demand, meet deposit withdrawals, and pay dividends and operating expenses. Because profit and liquidity are often conflicting objectives, management attempts to maximize the Bank's net interest margin by making adequate, but not excessive, liquidity provisions. Furthermore, funds are managed so that future profits will not be significantly impacted as funding costs increase.

Changes in the liquidity position result from operating, investing and financing activities. Cash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income. The primary investing activities include loan originations, loan repayments, investments in interest bearing balances in financial institutions, dividend receipts and the purchase, sale, 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, FHLB advances and federal funds purchased) as a source of funds.

During 2011, cash and cash equivalents increased $15.4 million compared to a decrease of $2.3 million for 2010. During 2011, the primary sources of cash and cash equivalents were from loan sales and repayments, maturities and sales of securities, FHLB advances, increase in deposits, and cash from operating activities. The primary uses of cash and cash equivalents were loan originations, purchase of securities, expenditures for premises and equipment, FHLB advance repayments, and the payment of common stock dividends. During 2011, cash from operating activities totaled $14.8 million, compared to $14.5 million for 2010. The 2011 increase in cash provided by operating activities was primarily a result of higher net income. Cash outflows from investing activities totaled $7.9 million during 2011, compared to inflows of $19.9 million during 2010. The changes for the current year were related to purchases of AFS securities, a smaller decrease in loans receivable, no sale of fixed rate mortgage loans from the loan portfolio, and less foreclosed real estate sales as compared to 2010. Security balances increased by $26.5 million during 2011 compared to $16.1 million during 2010, as management implemented it's investment strategy. Loans receivable decreased $15.7 million during 2011 compared to a decrease of $43.0 million during 2010, as refinance activity slowed and fewer loans were transferred in foreclosure. Net cash inflows from financing activities totaled $8.4 million in 2011, compared to net cash outflows of $36.7 million in 2010. The change during 2011 was due to an increase in deposits, fewer repayments of FHLB advances, and lower dividend payouts. Deposits increased by $6.6 million during 2011, compared to a decrease of $20.3 million for 2010. FHLB advances increased by $7.0 million during 2011 compared to a $9.0 million decrease during 2010. The higher deposit growth was the result of the Bancorp's banking center network and management's ability to attract and retain core funds. The increase in FHLB advances was the result of managements portfolio allocation strategy during a historically low interest rate environment. The Bancorp paid dividends on common stock of $1.7 million and $2.2 million during 2011 and 2010, respectively. During 2011, the Bancorp's Board of Directors reduced dividends to build capital and preserve long-term capital strength.

Management strongly believes that safety and soundness is enhanced by maintaining a high level of capital. Stockholders' equity totaled $63.0 million at December 31, 2011, compared to $56.1 million at December 31, 2010, an increase of $6.9 million (12.3%). The increase was a result of $5.4 million in net income for 2011. Additional items increasing stockholders' equity were $3.0 million from the change in valuation of available-for-sale securities, change in classification of held-to-maturity securities to available-for-sale, $124 thousand from the sale of treasury stock, and $33 thousand from stock-based compensation plans. Decreasing stockholders' equity were the Bancorp's declaration of $1.7 million in cash dividends, and $9 thousand from the change in net unrealized items from the Bank's postretirement plans. At December 31, 2011, book value per share was $22.20 compared to $19.84 for 2010.

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

The following table shows that, at December 31, 2011, the Bancorp's capital exceeded all regulatory capital requirements. At December 31, 2011, the Bancorp's and the Bank's regulatory capital ratios were substantially the same. The dollar amounts are in millions.

		Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
(Dollars in millions)		Amount	Ratio	Amount	Ratio	Amount	Ratio
2011							
Total capital to risk-weighted assets	$	64.9	14.3%	$ 36.2	8.0%	$ 45.2	10.0%
Tier 1 capital to risk-weighted assets	$	59.2	13.1%	$ 18.1	4.0%	$ 27.1	6.0%
Tier 1 capital to adjusted average assets	$	59.2	9.2%	$ 19.4	3.0%	$ 32.3	5.0%

The Bancorp's ability to pay dividends to its shareholders is entirely dependent upon the Bank's ability to pay dividends to the Bancorp. Under Indiana law, the Bank may pay dividends from 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 (DFI) for the payment of a dividend if the total of all dividends declared by the Bank during the current year, including the proposed dividend, would exceed the sum of retained net income for the year to date plus its retained net income for the previous two years. For this purpose, "retained net income," means net income as calculated for call report purposes, less all dividends declared for the applicable period. The aggregate amount of dividends that may declared by the Bank in 2012, with prior DFI approval, is $7.7 million, plus current 2012 net profits. 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 light of the financial condition of the Bank.

On January 28, 2011, in accordance with prior direction from the Federal Reserve Bank of Chicago (the "Reserve Bank"), the Bancorp's Board of Directors adopted a resolution providing that the prior written consent of the Reserve Bank is required for the declaration of dividends by the Bancorp. During December 2011, the Reserve Bank approved the fourth quarter 2011 dividend payments. On December 7, 2011, the Bancorp announced that the Board of Directors of the Bancorp declared a fourth quarter dividend of $0.15 per share. The Bancorp's fourth quarter dividend was paid to shareholders on January 6, 2012. The current dividend policy is reflective of the Bancorp Board's commitment that the shareholders' long term interests are best served through the preservation of capital in the current stressed economic environment.

Results of Operations - Comparison of 2011 to 2010

Net income for 2011 was $5.4 million, compared to $5.2 million for 2010, an increase of $206 thousand (4.0%). The increase in net income for 2011 was the result of lower interest expense, lower required provisions for loan losses, and higher noninterest income. The earnings represent a return on average assets of 0.84% for 2011 compared to 0.77% for 2010. The return on average equity was 8.90% for 2011 compared to 9.03% for 2010.

Net interest income for 2011 was $23.8 million, a decrease of $1.3 million (5.2%) from $25.1 million for 2010. The decrease in net interest income has been impacted by the Federal Reserve's actions to lower longer-term interest rates. The weighted-average yield on interest-earning assets was 4.49% for 2011 compared to 4.84% for 2010. The weighted-average cost of funds was 0.56% for 2011 compared to 0.82% for 2010. The impact of the 4.49% return on interest earning assets and the 0.56% cost of funds resulted in a net interest spread of 3.93% for 2011 compared to 4.02% for 2010. During 2011, total interest income decreased by $3.1 million (10.3%) while total interest expense decreased by $1.8 million (35.2%). The net interest margin was 3.96% for 2011 compared to 4.04% for 2010. The Bancorp's tax equivalent net interest margin for 2011 was 4.17% compared to 4.25% for 2010.

During 2011, interest income from loans decreased by $3.2 million (13.1%) compared to 2010. The change was primarily due to a decrease in the weighted-average yield of the loan portfolio and lower average balances. The weighted-average yield on loans outstanding was 5.10% for 2011 compared to 5.39% for 2010. Loan balances averaged $409.8 million for 2011, a decrease of $36.8 million (8.2%) from $446.6 million for 2010. During 2011, interest income from securities and other interest earning assets increased by $58 thousand (1.0%) compared to 2010. The increase was due to an increase in average balances as excess liquidity was reinvested in the securities portfolio. The weighted-average yield on securities and other interest earning assets was 3.20% for 2011 compared to 3.45% for 2010. Securities and other interest earning assets averaged $190.7 million for 2011, up $15.6 million (8.9%) from $175.1 million for 2010.

Interest expense for deposits decreased by $1.4 million (36.8%) during 2011 compared to 2010. The change was due to a decrease in the weighted-average rate paid on deposits and lower average balances. The weighted-average rate paid on deposits for 2011 was 0.47% compared to 0.71% for 2010. Total deposit balances averaged $526.0 million for 2011, a decrease of $26.9 million (4.9%) from $552.9 million for 2010. Interest expense for borrowed funds decreased by $317 thousand (29.5%) during 2011 compared to 2010. The change was due to a decrease in the cost of borrowing and lower average balances. The weighted-average cost of borrowed funds was 1.50% for 2011 compared to 2.04% for 2010. Borrowed funds averaged $50.5 million during 2011, a decrease of $2.3 million (4.4%) from $52.8 million for 2010.

Noninterest income for 2011 was $6.2 million, an increase of $457 thousand (7.9%) from $5.8 million for 2010. During 2011, fees and service charges totaled $2.50 million, a decrease of $37 thousand (1.5%) from $2.54 million for 2010. Fees from Wealth Management operations totaled $1.18 million for 2011, an increase of $12 thousand (1.0%) from $1.17 million for 2010. Gains from the sale of securities totaled $966 thousand for the current year, an increase of $53 thousand (5.8%) from $913 thousand for 2010. Current market conditions provided opportunities to manage securities cash flows, while shortening the duration of cash flows. For 2011, foreclosed real estate sales gains totaled $887 thousand, an increase of $1.3 million (332.8%) from losses of $381 thousand for 2010. The increase is primarily related to the Bancorp's favorable settlement in its lawsuit against the lead lender of a commercial real estate participation loan. Additionally, during 2010, a one-time sale of portfolio fixed rate mortgage loans, which the Bancorp sold to reduce interest rate risk on its balance sheet, attributed for $217 thousand of gains realized from loan sales. Income from the increase in the cash value of bank owned life insurance totaled $398 thousand for 2011, a decrease of $5 thousand (1.2%), compared to $403 thousand for 2010. During 2011, other-than-temporary impairment of $1 thousand was recognized compared to $128 thousand of impairment recognized during 2010. Gains from loan sales totaled $256 thousand for the year, a decrease of $1.0 million (79.7%), compared to $1.3 million for 2010. The decrease in gains from the sale of loans is a result of decreased consumer mortgage refinancing activity. During 2011, other noninterest income totaled $63 thousand, an increase of $46 thousand (270.6%) from $17 thousand for 2010.

Noninterest expense for 2011 was $19.9 million, up $587 thousand (3.0%) from $19.3 million for 2010. During 2011, compensation and benefits totaled $10.0 million, an increase of $354 thousand (3.7%) from $9.6 million for 2010. The change in compensation and benefits is related to the increase in personnel for retail banking activities related to the newly opened St. John, Indiana banking centers, and annual compensation increases for bank personnel. Occupancy and equipment expense totaled $3.3 million for 2011, an increase of $323 thousand (10.7%) compared to $3.0 million for 2010. The increase is related to the operations of the new banking center in St. John. Federal deposit insurance premiums totaled $946 thousand for 2011, a decrease of $4 thousand (0.4%) from $950 thousand for 2010. Data processing expense totaled $1.0 million for 2011, an increase of $64 thousand (6.8%) from $941 thousand for 2010. The change is a result of increased utilization of internal systems. Marketing expense related to banking products totaled $403 thousand for the year, a decrease of $82 thousand (16.9%) from $485 thousand for 2010. The decrease the result of a reduction in third party costs and running fewer marketing campaigns during the year. Statement and check processing expense totaled $329 thousand for the year, an increase of $22 thousand (7.2%) from $307 thousand for 2010. Professional service expense totaled $303 thousand for the year, a decrease of $33 thousand (9.8%) from $336 thousand for 2010. Other expenses related to banking operations totaled $3.66 million for 2011, a decrease of $57 thousand (1.5%) from $3.71 million for 2010. The Bancorp's efficiency ratio for 2011 was 66.42% compared to 62.62% for 2010. The decrease is the result of lower net interest income and higher total noninterest expense. The ratio is determined by dividing total noninterest expense by the sum of net interest income and total noninterest income for the period.

The Bancorp had an income tax expense for 2011 of $1.2 million compared to income tax expense of $797 thousand for 2010, an increase to expense of $382 thousand (47.9%). The combined effective federal and state tax rates for the Bancorp were 18.0% for 2011 and 13.3% for 2010. The current year's higher effective tax rate is the result of higher taxable income as a percentage of total income. The Bancorp's current lower effective tax rate relative to federal and state statutory rates is a result of continued tax strategies associated with the Bancorp's tax-exempt investments and loans, bank owned life insurance, and real estate investment trust, all of which reduce the effective tax rate. Details of deferred and current tax items can be found in Note 7 – Income Taxes.

Critical Accounting Policies

Critical accounting policies are those accounting policies that management believes are most important to the portrayal of the Bancorp's financial condition and that require management's most difficult, subjective or complex judgments. The Bancorp's most critical accounting policies are summarized below. Other accounting policies, including those related to the fair values of financial instruments and the status of contingencies, are summarized in Note 1 to the Bancorp's consolidated financial statements.

Valuation of Investment Securities - The fair values of securities available for sale are determined on a recurring basis by obtaining quoted prices on nationally recognized securities exchanges or pricing models utilizing significant observable inputs such as matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. Different judgments and assumptions used in pricing could result in different estimates of value. In certain cases where market data is not readily available because of lack of market activity or little public disclosure, values may be based on unobservable inputs and classified in Level 3 of the fair value hierarchy.

At the end of each reporting period securities held in the investment portfolio are evaluated on an individual security level for other-than-temporary impairment in accordance with the Investments – Debt and Equity Securities Topic of the Accounting Standards Codification. Significant judgments are required in determining impairment, which include making assumptions regarding the estimated prepayments, loss assumptions and the change in interest rates.

We consider the following factors when determining an other-than-temporary impairment for a security: The length of time and the extent to which the market value has been less than amortized cost; the financial condition and near-term prospects of the issuer; the underlying fundamentals of the relevant market and the outlook for such market for the near future; and an assessment of whether the Bancorp has (1) the intent to sell the debt securities or (2) more likely than not will be required to sell the debt securities before its anticipated market recovery. If either of these conditions is met, management will recognize other-than-temporary impairment. If, in management's judgment, an other-than-temporary impairment exists, the cost basis of the security will be written down for the credit loss, and the unrealized loss will be transferred from accumulated other comprehensive loss as an immediate reduction of current earnings. Management will utilize an independent valuation specialist to value securities for other-than-temporary impairment.

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

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

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

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

The risk factors are applied to these types of loans to determine the appropriate level for the ALL. Adjustments may be made to these allocations that reflect management's judgment on current conditions, delinquency trends, and charge-off activity. Based on the above discussion, management believes that the ALL is currently adequate, but not excessive, given the risk inherent in the loan portfolio.

Impact of Inflation and Changing Prices

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

Forward-Looking Statements

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

Report of Independent Registered Public Accounting Firm

Board of Directors
NorthWest Indiana Bancorp and Subsidiary
Munster, Indiana

We have audited the accompanying consolidated balance sheets of NorthWest Indiana Bancorp and Subsidiary (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. The consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NorthWest Indiana Bancorp and Subsidiary as of December 31, 2011 and 2010, and the consolidated results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

Plante & Moran, PLLC

Chicago, Illinois
February 17, 2012

Consolidated Balance Sheets

(Dollars in thousands)	December 31, 2011	December 31, 2010
ASSETS		
Cash and non-interest bearing balances in financial institutions	$ 9,875	$ 7,427
Interest bearing deposits in other financial institutions	10,676	90
Federal funds sold	5,816	3,421
Total cash and cash equivalents	26,367	10,938
Securities available-for-sale	186,962	142,055
Securities held-to-maturity	-	18,397
Loans held-for-sale	-	422
Loans receivable	401,401	418,233
Less: allowance for loan losses	(8,005)	(9,121)
Net loans receivable	393,396	409,112
Federal Home Loan Bank stock	3,086	3,381
Accrued interest receivable	2,554	2,591
Premises and equipment	18,242	19,293
Foreclosed real estate	2,457	3,298
Cash value of bank owned life insurance	12,850	12,452
Prepaid FDIC insurance premium	1,523	2,425
Other assets	4,321	6,689
Total assets	$ 651,758	$ 631,053
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 55,577	$ 50,712
Interest bearing	471,304	469,559
Total	526,881	520,271
Repurchase agreements	15,395	16,074
Borrowed funds	36,618	32,544
Accrued expenses and other liabilities	9,904	6,075
Total liabilities	588,798	574,964
Stockholders' Equity:		
Preferred stock, no par or stated value; 10,000,000 shares authorized, none outstanding	-	-
Common stock, no par or stated value; 10,000,000 shares authorized; shares issued: December 31, 2011 - 2,888,902	361	361
December 31, 2010 - 2,888,902		
shares outstanding: December 31, 2011 - 2,835,403		
December 31, 2010 - 2,826,796		
Additional paid-in capital	5,173	5,140
Accumulated other comprehensive income/(loss)	2,536	(492)
Retained earnings	56,032	52,398
Treasury stock, common shares at cost: December 31, 2011 - 53,499		
December 31, 2010 - 62,106	(1,142)	(1,318)
Total stockholders' equity	62,960	56,089
Total liabilities and stockholders' equity	$ 651,758	$ 631,053

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

(Dollars in thousands, except per share data)	Year Ended December 31, 2011	Year Ended December 31, 2010
Interest income:		
Loans receivable		
Real estate loans	$ 17,258	$ 19,759
Commercial loans	3,590	4,216
Consumer loans	45	76
Total loan interest	20,893	24,051
Securities	6,074	6,006
Other interest earning assets	19	29
Total interest income	26,986	30,086
Interest expense:		
Deposits	2,473	3,914
Repurchase agreements	106	178
Borrowed funds	652	897
Total interest expense	3,231	4,989
Net interest income	23,755	25,097
Provision for loan losses	3,510	5,570
Net interest income after provision for loan losses	20,245	19,527
Noninterest income:		
Fees and service charges	2,501	2,538
Wealth management operations	1,177	1,165
Gain on sale of securities, net	966	913
Gain/(loss) on sale of foreclosed real estate	887	(381)
Increase in cash value of bank owned life insurance	398	403
Gain on sale of loans, net	256	1,263
Other-than-temporary credit impairment of debt securities	(18)	(128)
Noncredit portion of other-than-temporary impairment of debt securities recognized in other comprehensive income	17	-
Other	63	17
Total noninterest income	6,247	5,790
Noninterest expense:		
Compensation and benefits	9,953	9,599
Occupancy and equipment	3,333	3,010
Data processing	1,005	941
Federal deposit insurance premiums	946	950
Marketing	403	485
Statement and check processing	329	307
Professional services	303	336
Other	3,656	3,713
Total noninterest expense	19,928	19,341
Income before income tax expenses	6,564	5,976
Income tax expenses	1,179	797
Net income	$ 5,385	$ 5,179
Earnings per common share:		
Basic	$ 1.90	$ 1.83
Diluted	$ 1.90	$ 1.83
Dividends declared per common share	$ 0.60	$ 0.72

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

(Dollars in thousands, except per share data)	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Treasury Stock	Total Equity
Balance at January 1, 2010	$ 361	$ 5,104	$ (170)	$ 49,312	$ (1,529)	$ 53,078
Comprehensive income:						
Net income	-	-	-	5,179	-	5,179
Net unrealized gain/(loss) on securities available-for-sale, net of reclassification and tax effects	-	-	(314)	-	-	(314)
Change in unrealized gain on post retirement benefit, net of reclassification and tax effects	-	-	(8)	-	-	(8)
Comprehensive income						4,857
Stock-based compensation expense	-	36	-	-	-	36
Sale of treasury stock	-	-	-	(60)	211	151
Cash dividends, $0.72 per share	-	-	-	(2,033)	-	(2,033)
Balance at December 31, 2010	$ 361	$ 5,140	$ (492)	$ 52,398	$ (1,318)	$ 56,089
Comprehensive income:						
Net income	-	-	-	5,385	-	5,385
Net unrealized gain/(loss) on securities available-for- sale, net of reclassification and tax effects	-	-	3,037	-	-	3,037
Change in unrealized gain on post retirement benefit, net of reclassification and tax effects	-	-	(9)	-	-	(9)
Comprehensive income						8,413
Stock-based compensation expense	-	33	-	-	-	33
Sale of treasury stock	-	-	-	(52)	176	124
Cash dividends, $0.60 per share	-	-	-	(1,699)	-	(1,699)
Balance at December 31, 2011	$ 361	$ 5,173	$ 2,536	$ 56,032	$ (1,142)	$ 62,960

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Dollars in thousands)	Year ended December 31, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 5,385	$ 5,179
Adjustments to reconcile net income to net cash provided by operating activities:		
Origination of loans for sale	(10,043)	(34,846)
Sale of loans originated for sale	10,652	36,303
Depreciation and amortization, net of accretion	2,198	2,034
Deferred tax expense/(benefit)	318	(988)
Impairment of land held for future expansion	-	190
Amortization of mortgage servicing rights	133	113
Stock based compensation expense	33	36
Gain on sale of securities, net	(966)	(913)
Gain on sale of loans, net	(256)	(1,263)
Net losses due to other-than-temporary impairment of securities	1	128
(Gain)/loss on sale of foreclosed real estate	(887)	381
Provision for loan losses	3,510	5,570
Net change in:		
Interest receivable	37	287
Other assets	1,274	1,610
Cash value of bank owned life insurance	(398)	(403)
Accrued expenses and other liabilities	3,829	1,063
Total adjustments	9,435	9,302
Net cash - operating activities	14,820	14,481
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and pay downs of securities available-for-sale	42,536	33,376
Proceeds from sales of securities available-for-sale	22,713	18,951
Purchase of securities available-for-sale	(88,689)	(69,832)
Proceeds from maturities and pay downs of securities held-to-maturity	1,807	1,135
Proceeds from sale of loans transferred to held-for-sale	-	5,356
Loan participations purchased	(999)	(967)
Net change in loans receivable	11,553	29,368
Proceeds from sale of Federal Home Loan Bank stock	295	269
Purchase of premises and equipment, net	(417)	(1,702)
Proceeds from sale of foreclosed real estate, net	3,380	3,990
Net cash - investing activities	(7,821)	19,944
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in deposits	6,610	(20,256)
Proceeds from FHLB advances	10,000	13,000
Repayment of FHLB advances	(3,000)	(22,000)
Change in other borrowed funds	(3,605)	(5,404)
Proceeds from sale of treasury stock	124	151
Dividends paid	(1,699)	(2,200)
Net cash - financing activities	8,430	(36,709)
Net change in cash and cash equivalents	15,429	(2,284)
Cash and cash equivalents at beginning of period	10,938	13,222
Cash and cash equivalents at end of period	$ 26,367	$ 10,938
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 3,245	$ 5,058
Income taxes	$ 776	$ 1,753
SUPPLEMENTAL NONCASH INFORMATION:		
Transfers from securities held-to-maturity to available-for-sale	$ 16,437	$ -
Transfers from loans to loans held-for-sale	$ -	$ 5,126
Transfers from loans to foreclosed real estate	$ 2,371	$ 3,922
Transfers from premises and equipment to other assets	$ -	$ 340

See accompanying notes to consolidated financial statements.

NOTE 1 - ***Summary of Significant Accounting Policies***

Principles of Consolidation - The consolidated financial statements include NorthWest Indiana Bancorp (the Bancorp), its wholly owned subsidiary, Peoples Bank SB (the "Bank"), and the Bank's wholly owned subsidiaries, Peoples Service Corporation, NWIN, LLC, and NWIN Funding, Incorporated. The Bancorp has no other business activity other than being a holding company for the Bank. The Bancorp's earnings are dependent upon the earnings of the Bank. Peoples Service Corporation provides insurance and annuity investments to the Bank's wealth management customers. NWIN, LLC is located in Las Vegas, Nevada and serves as the Bank's investment subsidiary and parent of a real estate investment trust, NWIN Funding, Inc. NWIN Funding, Inc. was formed on September 1, 2006, as an Indiana Real Estate Investment Trust. The formation of NWIN Funding, Inc. provides the Bancorp with a vehicle that may be used to raise capital utilizing portfolio mortgages as collateral, without diluting stock ownership. In addition, NWIN Funding, Inc. will receive favorable state tax treatment for income generated by its operations. All significant inter-company accounts and transactions have been eliminated in consolidation.

Use of Estimates - Preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period, as well as the disclosures provided. Actual results could differ from those estimates. Estimates associated with the allowance for loan losses, loan servicing rights, fair values of foreclosed real estate, financial instruments and investment securities, and the 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 in Lake County, in northwest Indiana. The Bancorp is also an active lender in Porter County, and to a lesser extent, LaPorte, Newton, and Jasper counties in Indiana, and Lake, Cook and Will counties in Illinois. Substantially all loans are secured by specific items of collateral including residences, commercial real estate, business assets, and consumer assets.

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

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

Securities - The Bancorp classifies securities into held-to-maturity, available-for-sale, or trading categories. Held-to-maturity securities are those which management has the positive intent and the Bancorp has the ability to hold to maturity, and are reported at amortized cost. Available-for-sale securities are those the Bancorp may decide to sell if needed for liquidity, asset-liability management or other reasons. Available-for-sale securities are reported at fair value, with unrealized gains and losses reported in other comprehensive income, net of tax. During the year, the Bancorp transferred the balance of its held-to-maturity securities to the available-for-sale classification. The Bancorp does not have a trading portfolio. Realized gains and losses resulting from the sale of securities recorded on the trade date are computed by the specific identification method. Interest and dividend income, adjusted by amortization of premiums or discounts on a level yield method, are included in earnings. Securities are reviewed for other-than-temporary impairment on a quarterly basis.

The Bancorp considers the following factors when determining an other-than-temporary impairment for a security: the length of time and the extent to which the market value has been less than amortized cost; the financial condition and near-term prospects of the issuer; the underlying fundamentals of the relevant market and the outlook for such market for the near future; and an assessment of whether the Bancorp has (1) the intent to sell the debt security or (2) it is more likely than not that the Bancorp will be required to sell the debt security before its anticipated market recovery. If either of these conditions are met, management will recognize other-than-temporary impairment. If, in management's judgment, an other-than-temporary impairment exists, the cost basis of the security will be written down for the credit loss, and the unrealized credit loss will be transferred from accumulated other comprehensive loss as an immediate reduction of current earnings.

Loans Held-for-Sale - Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair market value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held-for-sale can be sold with servicing rights retained or released. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing rights. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans and Loan Income - Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, net deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

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

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

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

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

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

Transfers of Financial Assets - Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bancorp, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of the right) to pledge or exchange the transferred assets, and (3) the Bancorp does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Premises and Equipment – Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Premises and related components are depreciated using the straight-line method with useful lives ranging from 26 to 39 years. Furniture and equipment are depreciated using the straight-line method with useful lives ranging from 2 to 10 years.

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

Servicing Rights – Servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. The Bancorp compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

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

Servicing fee income, which is reported on the income statement as part of Other Noninterest Income, is recorded for fees earned for serviced loans. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan, and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Servicing fees totaled $68,000 and $179,000 for the years ended December 31, 2011 and 2010, respectively. Late fees and ancillary fees related to loan servicing are not material.

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

Bank Owned Life Insurance - The Bancorp has purchased life insurance policies on certain key executives. In accordance with accounting for split-dollar life insurance, Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

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

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

Income Taxes - Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

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

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

Comprehensive Income – Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale and the unrecognized gains and losses on postretirement benefits.

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

Restrictions on Cash - Cash on hand or on deposit with the Federal Reserve Bank of $559,000 and $692,000 was required to meet regulatory reserve and clearing requirements at December 31, 2011 and 2010, respectively. These balances do not earn interest.

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

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

Reclassification - Certain amounts appearing in the consolidated financial statements and notes thereto for the year ended December 31, 2010, may have been reclassified to conform to the December 31, 2011 presentation.

Adoption of New Accounting Pronouncements

Update Number 2011-02 – Receivables (Topic 310): A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring. This update to Receivables (Topic 310) explains the guidance for a creditor’s evaluation of whether a restructuring constitutes a troubled debt restructuring. This accounting standard update clarifies, when evaluating a restructuring as a troubled debt restructuring, whether a creditor has granted a concession to a debtor and whether the debtor is experiencing financial difficulties. The objective of this amendment is to promote greater consistency in the application of U.S. GAAP for debt restructurings from the creditor’s perspective. The Bancorp adopted this update as of September 30, 2011 and the required disclosures are included in Note 3.

Update Number 2011-04 – Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. This update to Fair Value Measurement (Topic 820) results in common fair value measurement and disclosure requirements in U.S. GAAP and IFRS. The amendments in this update explain how to measure fair value. They do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. The amendments in this update are to be applied prospectively and are effective during interim and annual periods beginning after December 15, 2011.

Update Number 2011-05 – Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This accounting standard update was issued to increase the prominence of items reported in other comprehensive income and to facilitate the convergence of U.S. GAAP and IFRS. Current U.S. GAAP allows the Bancorp to present other comprehensive income as part of the statement of changes in stockholders' equity. This accounting standard update eliminates that option and requires consecutive presentation of the statement of net income and the statement of other comprehensive income. The effective date for this accounting standard update has been partially deferred while the Financial Accounting Standards Board considers stakeholders' concerns about how this accounting standard update would be applied. The requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements are effective for public entities for reporting periods beginning after December 15, 2011 and will be applied retrospectively.

Update Number 2011-12 – Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards update No. 2011-05. This update to Comprehensive Income (Topic 220) defers the requirement to present items that are reclassified from accumulated other comprehensive income to net income separately with their respective components of net income and other comprehensive income. The deferral supersedes only the paragraphs pertaining to how and where reclassification adjustments are presented. The amendments in this update are effective for public entities for reporting periods, beginning after December 15, 2011.

NOTE 2 – *Securities*

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

	(Dollars in thousands)			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2011				
U.S. government sponsored entities	$ 15,610	$ 41	$ (3)	$ 15,648
Collateralized mortgage obligations and residential mortgage-backed securities	107,569	3,630	(2)	111,197
Municipal securities	54,738	4,018	-	58,756
Collateralized debt obligations	5,214	-	(3,853)	1,361
Total securities available-for-sale	$ 183,131	$ 7,689	$ (3,858)	$ 186,962
December 31, 2010				
U.S. government sponsored entities	$ 4,172	$ -	$ (3)	$ 4,169
Collateralized mortgage obligations and residential mortgage-backed securities	94,930	2,372	(160)	97,142
Municipal securities	38,549	1,027	(211)	39,365
Collateralized debt obligations	5,215	-	(3,836)	1,379
Total securities available-for-sale	$ 142,866	$ 3,399	$ (4,210)	$ 142,055

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

	(Dollars in thousands)			
	Cost Basis	Gross Unrecognized Gains	Gross Unrecognized Losses	Estimated Fair Value
December 31, 2010				
Municipal securities	$ 17,573	$ 613	$ -	$ 18,186
Residential mortgage-backed securities	824	29	(1)	852
Total securities held-to-maturity	$ 18,397	$ 642	$ (1)	$ 19,038

During August 2011, management transferred its entire held-to-maturity securities portfolio to available-for-sale. The book value of the securities transferred totaled approximately $16.4 million, with an unrealized gain of approximately $1.0 million that was recorded as a component of other comprehensive income at the date of transfer. All held-to-maturity securities were transferred to available-for-sale to avoid the potential implication that any remaining held-to-maturity securities would be tainted by a partial transfer. In addition, the transfer provides management the ability to sell lower balance odd lot securities, divest of certain securities to reduce credit or interest rate risk within the portfolio, and be positioned to take advantage of other portfolio restructuring opportunities.

The fair value of available-for-sale debt securities and carrying amount, if different, at year end 2011 by contractual maturity were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	(Dollars in thousands) Available-for-sale	
December 31, 2011	Estimated Fair Value	Tax-Equivalent Yield (%)
Due in one year or less	$ 1,020	6.25
Due from one to five years	14,599	3.42
Due from five years to ten years	28,533	5.01
Due over ten years	31,613	5.84
Collateralized mortgage obligations and residential mortgage-backed securities	111,197	3.29
Total	$ 186,962	4.01

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

	(Dollars in thousands) December 31, 2011	December 31, 2010
Proceeds	$ 22,713	18,951
Gross gains	981	913
Gross losses	(15)	-

The tax provisions related to these net realized gains were approximately $380,000 for 2011 and $359,000 for 2010.

Securities with carrying values of approximately $70,412,000 and $24,484,000 were pledged as of December 31, 2011 and 2010, respectively, as collateral for repurchase agreements, public funds, and for other purposes as permitted or required by law. The increase in pledged securities was the result of new pledging requirements for Indiana public funds deposits.

Securities with unrealized losses at December 31, 2011 and 2010 not recognized in income are as follows:

	Less than 12 months		(Dollars in thousands) 12 months or longer		Total	
December 31, 2011	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. government sponsored entities	$ 1,287	$ (3)	$ -	$ -	$ 1,287	$ (3)
Collateralized mortgage obligations and residential mortgage-backed securities	2,030	(2)	-	-	2,030	(2)
Municipal securities	-	-	-	-	-	-
Collateralized debt obligations	-	-	1,361	(3,853)	1,361	(3,853)
Total temporarily impaired	$ 3,317	$ (5)	$ 1,361	$ (3,853)	$ 4,678	$ (3,858)
Number of securities		2		4		6

	Less than 12 months		(Dollars in thousands) 12 months or longer		Total	
December 31, 2010	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. government sponsored entities	$ 2,513	$ (3)	$ -	$ -	$ 2,513	$ (3)
Collateralized mortgage obligations and residential mortgage-backed securities	13,767	(161)	-	-	13,767	(161)
Municipal securities	7,496	(194)	398	(17)	7,894	(211)
Collateralized debt obligations	-	-	1,379	(3,836)	1,379	(3,836)
Total temporarily impaired	$ 23,776	$ (358)	$ 1,777	$ (3,853)	$ 25,553	$ (4,211)
Number of securities		27		5		32

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

NOTE 3 - ***Loans Receivable***

Year end loans are summarized below:

	(Dollars in thousands) 2011	2010
Loans secured by real estate:		
Construction and land development	$ 21,143	$ 46,371
Residential, including home equity	154,426	153,150
Commercial real estate and other dwelling	153,715	146,111
Total loans secured by real estate	329,284	345,632
Consumer loans	472	765
Commercial business	63,384	61,837
Government and other	8,643	10,380
Subtotal	401,783	418,614

Less:		
Net deferred loan origination fees	(264)	(273)
Undisbursed loan funds	(118)	(108)
Loans receivable	$ 401,401	$ 418,233

The Bancorp's activity in the allowance for loan losses is summarized below for the years indicated:

(Dollars in thousands)

	Residential Real Estate, Including Home Equity	Consumer Loans	Commercial Real Estate, Construction & Land Development, and Other Dwellings	Commercial Participations Purchased	Commercial Business Loans	Government Loans	Total
2011							
Allowance for loan losses:							
Beginning Balance	$ 994	$ 30	$ 2,773	$ 4,704	$ 620	$ -	$ 9,121
Charge-offs	(469)	(57)	(880)	(3,366)	(163)	-	(4,935)
Recoveries	112	11	183	-	3	-	309
Provisions	524	31	1,253	1,061	641	-	3,510
Ending Balance	$ 1,161	$ 15	$ 3,329	$ 2,399	$ 1,101	$ -	$ 8,005
Ending balance: individually evaluated for impairment	$ 10	$ -	$ 1,043	$ 252	$ 304	$ -	$ 1,609
Ending balance: collectively evaluated for impairment	$ 1,151	$ 15	$ 2,286	$ 2,147	$ 797	$ -	$ 6,396
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -
FINANCING RECEIVABLES (LOANS)							
Ending balance	$ 154,135	$ 472	$ 154,618	$ 20,240	$ 63,293	$ 8,643	$ 401,401
Ending balance: individually evaluated for impairment	$ 1,282	$ -	$ 11,007	$ 7,170	$ 2,214	$ -	$ 21,673
Ending balance: collectively evaluated for impairment	$ 152,853	$ 472	$ 143,611	$ 13,070	$ 61,079	$ 8,643	$ 379,728
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2010							
ALLOWANCE FOR LOAN LOSSES:							
Beginning Balance	$ 536	$ 51	$ 813	$ 4,131	$ 583	$ -	$ 6,114
Charge-offs	(764)	(35)	(900)	(987)	(182)	-	$ (2,868)
Recoveries	38	9	-	248	10	-	$ 305
Provisions	1,184	5	2,860	1,312	209	-	$ 5,570
Ending Balance	$ 994	$ 30	$ 2,773	$ 4,704	$ 620	$ -	$ 9,121
Ending balance: individually evaluated for impairment	$ 1	$ -	$ 875	$ 1,897	$ 21	$ -	$ 2,794
Ending balance: collectively evaluated for impairment	$ 993	$ 30	$ 1,898	$ 2,807	$ 599	$ -	$ 6,327
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -
FINANCING RECEIVABLES (LOANS)							
Ending balance	$ 152,881	$ 874	$ 163,616	$ 28,866	$ 61,726	$ 10,270	$ 418,233
Ending balance: individually evaluated for impairment	$ 64	$ -	$ 10,974	$ 14,493	$ 482	$ -	$ 26,013
Ending balance: collectively evaluated for impairment	$ 152,817	$ 874	$ 152,642	$ 14,373	$ 61,244	$ 10,270	$ 392,220
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -

The Bancorp has established a standard loan grading system to assist management, lenders and review personnel in their analysis and supervision of the loan portfolio. The use and application of theses grades by the Bancorp is uniform and conforms to regulatory definitions. The loan grading system is as follows:

2 - Moderate risk
Borrower consistently internally generates sufficient cash flow to fund debt service, working assets, and some capital expenditures. Risk of default considered low.

3 – Acceptable
Borrower generates sufficient cash flow to fund debt service, but most working asset and all capital expansion needs are provided from external sources. Profitability ratios and key balance sheet ratios are usually close to peers but one or more ratios e.g. leverage may be higher than peer. Earnings may be trending down over the last three years. Borrower may be able to obtain similar financing from other banks with comparable or less favorable terms. Risk of default is acceptable but requires collateral protection.

4 – Pass/monitor
The borrower has significant weaknesses resulting from performance trends or management concerns. The financial condition of the company has taken a negative turn and may be temporarily strained. Cash flow may be weak but cash reserves remain adequate to meet debt service. Management weaknesses are evident. Borrowers in this category will warrant more than the normal level of supervision and more frequent reporting.

5 – Special mention (watch)
Special Mention credits are considered bankable assets with no apparent loss of principal or interest envisioned but requiring a high level of management attention. Assets in this category are currently protected but are potentially weak. These borrowers are subject to economic, industry, or management factors having an adverse impact upon their prospects for orderly servicing of debt. The perceived risk in continued lending are considered to have increased beyond the level where such loans would normally be granted. These assets constitute an undue and unwarranted credit risk, but not to the point of justifying a classification of Substandard.

6 – Substandard
This classification consists of loans which are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. Financial statements normally reveal some or all of the following: poor trends, lack of earnings and cash flow, excessive debt, lack of liquidity, and the absence of creditor protection. Loans are still considered collectible, but due to increased risks and defined weaknesses of the credit, some loss could be incurred in collection if the deficiencies are not corrected.

7 – Doubtful
This classification consists of loans where the possibility of loss is high after collateral liquidation based upon existing facts, market conditions, and value. Loss is deferred until certain important and reasonably specific pending factors which may strengthen the credit can be exactly determined. These factors may include proposed acquisitions, liquidation procedures, capital injection and receipt of additional collateral, mergers or refinancing plans.

Performing loans are loans that are paying as agreed and are less than ninety days past due on payments of interest and principal.

The Bancorp's credit quality indicators are summarized below at December 31, 2011 and December 31, 2010:

(Dollars in thousands)
Corporate Credit Exposure - Credit Risk Portfolio By Creditworthiness Category

	Commercial Real Estate, Construction & Land Development, and Other Dwellings		Commercial Participations Purchased		Commercial Business Loans		Government Loans	
Loan Grades	2011	2010	2011	2010	2011	2010	2011	2010
2 Moderate risk	$ 25	$ 31	$ -	$ -	$ 4,467	$ 4,724	$ -	$ -
3 Acceptable risk	85,703	63,330	2,387	1,473	37,713	30,549	8,643	10,270
4Pass/monitor	51,429	78,758	5,903	6,482	17,532	21,131	-	-
5 Special mention (watch)	5,509	9,817	4,780	6,419	978	2,517	-	-
6 Substandard	11,952	11,680	7,170	14,492	2,603	2,805	-	-
7 Doubtful	-	-	-	-	-	-	-	-
Total	$ 154,618	$ 163,616	$ 20,240	$ 28,866	$ 63,293	$ 61,726	$ 8,643	$ 10,270

(Dollars in thousands)
Consumer Credit Exposure - Credit Risk Profile Based On Payment Activity

	Residential Real Estate, Including Home Equity		Consumer Loans	
	2011	2010	2011	2010
Performing	$ 151,375	$ 149,892	$ 472	$ 871
Non-performing	2,760	2,989	-	3
Total	$ 154,135	$ 152,881	$ 472	$ 874

The Bancorp's troubled debt restructurings are summarized below:

(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	December 31, 2011			December 31, 2010		
Troubled Debt Restructurings						
Residential real estate, including home equity	14	$ 1,290	$ 1,282	-	$ -	$ -
Consumer loans	-	-	-	-	-	-
Commercial real estate, construction & land development, and other dwellings	3	8,097	7,836	3	6,093	5,909
Commercial participations purchased	2	7,975	5,635	2	7,975	6,186
Commercial business loans	-	-	-	-	-	-
Government loans	-	-	-	-	-	-

	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	December 31, 2011		December 31, 2010	
Troubled Debt Restructurings That Subsequently Defaulted				
Residential real estate, including home equity	-	$ -	-	$ -
Consumer loans	-	-	-	-
Commercial real estate, construction & land development, and other dwellings	1	376	-	-
Commercial participations purchased	-	-	-	-
Commercial business loans	-	-	-	-
Government loans	-	-	-	-

The Bancorp's individually evaluated impaired loans are summarized below:

As of December 31, 2011 (Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential real estate, including home equity	$ -	$ -	$ -	$ 26	$ -
Commercial real estate, construction & land development, and other dwellings	690	880	-	1,725	16
Commercial participations purchased	2,483	8,158	-	2,946	182
Commercial business loans	793	818	-	386	20
With an allowance recorded:					
Residential real estate, including home equity	1,282	1,282	10	278	-
Commercial real estate, construction & land development, and other dwellings	10,317	12,662	1,043	8,698	463
Commercial participations purchased	4,687	4,687	252	8,990	186
Commercial business loans	1,421	1,421	304	739	15
Total:					
Residential real estate, including home equity	$ 1,282	$ 1,282	$ 10	$ 304	$ -
Commercial real estate, construction & land development, and other dwellings	$ 11,007	$ 13,542	$ 1,043	$ 10,423	$ 479
Commercial participations purchased	$ 7,170	$ 12,845	$ 252	$ 11,936	$ 368
Commercial business loans	$ 2,214	$ 2,239	$ 304	$ 1,125	$ 35

As of December 31, 2010 (Dollars in thousands)	Recorded investment	Unpaid principal balance	Related allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded: Residential real estate, including home equity	$ 64	$ 103	$ -	$ 28	$ -
Commercial real estate, construction & land development, and other dwellings	1,054	1,345	-	2,181	19
Commercial participations purchased	2,696	8,140	-	397	92
Commercial business loans	354	354	-	414	1
With an allowance recorded:					
Residential real estate, including home equity	-	-	1	-	-
Commercial real estate, construction & land development, and other dwellings	9,920	10,361	875	3,181	305
Commercial participations purchased	11,797	11,797	1,897	16,098	216
Commercial business loans	128	128	21	113	4
Total:					
Residential real estate, including home equity	$ 64	$ 103	$ 1	$ 28	$ -
Commercial real estate, construction & land development, and other dwellings	$ 10,974	$ 11,706	$ 875	$ 5,362	$ 324
Commercial participations purchased	$ 14,493	$ 19,937	$ 1,897	$ 16,495	$ 308
Commercial business loans	$ 482	$ 482	$ 21	$ 527	$ 5

The Bancorp's age analysis of past due loans are summarized below:

(Dollars in thousands)

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Financing Receivables	Recorded Investments Greater than 90 Days and Accruing
December 31, 2011							
Residential real estate, including home equity	$ 3,413	$ 874	$ 2,663	$ 6,950	$ 147,185	$ 154,135	$ 279
Consumer loans	7	-	-	7	465	472	-
Commercial real estate, construction & land development, and other dwellings	604	238	1,616	2,458	152,160	154,618	-
Commercial participations purchased	7	-	7,169	7,176	13,064	20,240	-
Commercial business loans	458	323	717	1,498	61,795	63,293	-
Government loans	-	-	-	-	8,643	8,643	-
Total	$ 4,489	$ 1,435	$ 12,165	$ 18,089	$ 383,312	$ 401,401	$ 279
December 31, 2010							
Residential real estate, including home equity	$ 5,832	$ 2,423	$ 2,859	$ 11,114	$ 141,767	$ 152,881	$ 145
Consumer loans	29	-	3	32	842	874	3
Commercial real estate, construction & land development, and other dwellings	410	2,573	3,747	6,730	156,886	163,616	-
Commercial participations purchased	-	-	14,492	14,492	14,374	28,866	-
Commercial business loans	408	18	354	$ 780	60,946	61,726	-
Government loans	-	-	-	-	10,270	10,270	-
Total	$ 6,679	$ 5,014	$ 21,455	$ 33,148	$ 385,085	$ 418,233	$ 148

The Bancorp's loans on nonaccrual status are summarized below:

(Dollars in thousands)

	December 31, 2011	December 31, 2010
Residential real estate, including home equity	$ 2,481	$ 2,843
Consumer loans	-	-
Commercial real estate, construction & land development, and other dwellings	3,433	6,150
Commercial participations purchased	7,170	14,492
Commercial business loans	926	482
Government loans	-	-
Total	$ 14,010	$ 23,967

During September 2010, the Bancorp’s management implemented a strategy with a sale of fixed rate mortgage loans from its loan portfolio by selling $5.1 million in fixed rate mortgage loans, while funding newly originated construction & land development, commercial and government loan originations. During January of 2009, the Bancorp’s management implemented a similar strategy with a sale of fixed rate mortgage loans from its loan portfolio by selling $10.7 million in fixed rate mortgage loans, while funding newly originated construction & land development, commercial and government loan originations. Implementing both balance sheet restructuring strategies had a positive impact on interest rate risk by replacing longer duration fixed rate mortgage loans with shorter duration non-mortgage loans that will reprice more frequently. The gain realized from the 2010 loan sale totaled approximately $217 thousand.

NOTE 4 - *Premises and Equipment, Net*

At year end, premises and equipment are summarized as follows:

	(Dollars in thousands) 2011	2010
Cost:		
Land	$ 4,540	$ 4,540
Buildings and improvements	19,171	19,083
Furniture and equipment	11,051	10,751
Total cost	34,762	34,374
Less accumulated depreciation	(16,520)	(15,081)
Premises and equipment, net	$ 18,242	$ 19,293

Depreciation expense was approximately $1,468,000 and $1,469,000 for 2011 and 2010, respectively.

NOTE 5 – *Foreclosed Real Estate*

At year end, foreclosed real estate is summarized below:

	(Dollars in thousands) 2011	2010
Commercial real estate and other dwellings	$ 569	$ 563
Residential real estate	554	931
Construction and land development	1,334	1,804
Total	$ 2,457	$ 3,298

NOTE 6 - *Income Taxes*

At year-end, components of the income tax expense (benefit) consist of the following:

	(Dollars in thousands) 2011	2010
Federal:		
Current	$ 735	$ 1,771
Deferred	434	(757)
State:		
Current	126	14
Deferred, net of valuation allowance	(116)	(231)
Income tax expense	$ 1,179	$ 797

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

	(Dollars in thousands) 2011	2010
Federal statutory rate	34%	34%
Tax expense at statutory rate	$ 2,232	$ 2,032
State tax, net of federal effect	7	(143)
Tax exempt income	(874)	(907)
Bank owned life insurance	(135)	(137)
Tax credits	(67)	(76)
Other	16	28
Total income tax expense	$ 1,179	$ 797

At year-end, the components of the net deferred tax asset recorded in the consolidated balance sheets are as follows:

	(Dollars in thousands) 2011	2010
Deferred tax assets:		
Bad debts	$ 3,149	$ 3,582
Deferred loan fees	104	107
Deferred compensation	660	647
Unrealized depreciation on securities available-for-sale, net	-	249
Net operating loss	855	727
Tax credits	62	46
Nonaccrual loan interest income	22	22
Restricted stock awards	32	56
REO writedowns	16	22
Unqualified DCP	50	43
Post retirement benefit	58	67
Other-than-temporary impairment	90	90
Accrued vacation	63	-
Legal reserve	148	-
Impairment on land	75	-
Other	42	21
Total deferred tax assets	5,426	5,679
Deferred tax liabilities:		
Depreciation	(1,214)	(1,063)
Prepaids	(246)	(207)
Mortgage servicing rights	(122)	(147)
Deferred stock dividends	(115)	(115)
Unrealized appreciation on securities available-for-sale, net	(1,355)	-
Post retirment unrealized gain	(43)	(50)
Other	(91)	(13)

Total deferred tax liabilities	(3,186)	(1,595)
Valuation allowance	(458)	(387)
Net deferred tax assets	$ 1,782	$ 3,697

At December 31, 2011, the Bancorp has a state net operating loss carry forward of approximately $15.2 million, which will begin to expire in 2022 if not used. Also, at December 31, 2011, the Bancorp has a state tax credit carry forward of approximately $93,000 which will begin to expire in 2017 if not used. A valuation allowance of $458,000 and $387,000 was provided at December 31, 2011 and 2010, respectively, for the state net operating loss and state tax credit, as management does not believe these amounts will be fully utilized before statutory expiration.

The Bancorp 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, 2011 and 2010 includes approximately $5,982,000 for which no provision for federal income taxes has been made. If, in the future, this portion of retained earnings is used for any purpose other than to absorb bad debt losses, federal income taxes would be imposed at the then applicable rates. The unrecorded deferred income tax liability on the above amounts was approximately $2,034,000 at December 31, 2011 and 2010.

The Bancorp had no unrecognized tax benefits at any time during 2011 or 2010 and does not anticipate any significant increase or decrease in unrecognized tax benefits during 2012. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is the Bancorp's policy to record such accruals through income tax accounts. No such accruals existed at any time during 2011 or 2010.

The Bancorp and its subsidiaries are subject to US Federal income tax as well as income tax of the states of Indiana and Illinois. The Bancorp is no longer subject to examination by taxing authorities for the years before 2008 for federal and 2007 for state.

NOTE 7 - *Deposits*

The aggregate amount of certificates of deposit with a balance of $250,000 or more was approximately $21,108,000 at December 31, 2011 and $27,042,000 at December 31, 2010.

At December 31, 2011, scheduled maturities of certificates of deposit were as follows:

		(Dollars in thousands)
2012	$	140,975
2013		28,059
2014		7,196
2015		692
Total	$	176,922

NOTE 8 - *Borrowed Funds*

At year end, borrowed funds are summarized below:

	(Dollars in thousands) 2011		2010	
Fixed rate advances from the FHLB		31,000		24,000
Putable advances from the FHLB		5,000		5,000
Line of credit from the FHLB		-		3,248
Other		618		296
Total	$	36,618	$	32,544

At December 31, 2011, scheduled maturities of borrowed funds were as follows:

		(Dollars in thousands)
2012	$	5,618
2013		14,000
2014		8,000
2015		4,000
2016		5,000
Total	$	36,618

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

	(Dollars in thousands) 2011		2010	
Ending balance	$	15,395	$	16,074
Average balance during the year		20,767		19,469
Maximum month-end balance during the year		24,258		22,369
Securities underlying the agreements at year end:				
Carrying value		26,622		24,484
Fair value		26,622		24,915
Average interest rate during the year		0.51%		0.92%
Average interest rate at year end		0.43%		0.70%

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

	(Dollars in thousands) 2011		2010	
Fixed rate advances, maturing June 2012 through December 2016 at rates from 0.49% to 2.65%; average rate: 2011 – 1.95%; 2010 – 2.47%	$	31,000	$	24,000
Putable advance, maturing February 2013 at a fixed rate of 2.62%		5,000		5,000

Fixed rate advances are payable at maturity, with a prepayment penalty. Putable advances are fixed for a period of one to three years and then may adjust quarterly to the three-month London Interbank Offered Rate until maturity. Once the putable advance interest rate adjusts, the Bancorp has the option to prepay the advance on specified quarterly interest rate reset dates. The advances were collateralized by mortgage loans totaling approximately $163,534,000 and $148,935,000 at December 31, 2011 and 2010, respectively. In addition to the fixed rate and putable advances, the Bancorp maintains a $10,000,000 million line of credit with the Federal Home Loan Bank of Indianapolis. The outstanding balance on the line of credit was $0 and approximately $3,248,000 million at December 31, 2011 and 2010, respectively.

Other borrowings at December 31, 2011 and 2010 include Treasury, Tax and Loan and reclassified bank balances.

NOTE 9 – ***Lease Obligations***

During the fourth quarter of 2011, the Bancorp entered into an agreement to lease commercial loan document preparation and credit management software under an operating lease that expires in 2016. No contract fees were paid out during 2011. As of December 31, 2011, future minimum annual payments under this lease are as follows:

	(Dollars in thousands)
2012	$ 38
2013	38
2014	38
2015	38
2016	38
Total	$ 190

NOTE 10 - ***Employees' Benefit Plans***

The Bancorp maintains an Employees' Savings and Profit Sharing Plan and Trust for all employees who meet the plan qualifications. Employees are eligible to participate in the Employees' Savings and Profit Sharing Plan and Trust on the next January 1 or July 1 following the completion of one year of employment, age 18, and completion of 1,000 hours of employment. The Employees' Savings Plan feature allows employees to make pre-tax contributions to the Employees' Savings Plan of 1% to 50% of Plan Salary, subject to limitations imposed by Internal Revenue Code section 401(k). The Profit Sharing Plan and Trust feature is non-contributory on the part of the employee. Contributions to the Employees' Profit Sharing Plan and Trust are made at the discretion of the Bancorp's Board of Directors. Contributions for the year ended December 31, 2011 and 2010, were based on 4% 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 approximately $288,000 for 2011 and 2010.

The Bancorp maintains an Unqualified Deferred Compensation Plan (the Plan). The purpose of the Plan is to provide deferred compensation to key senior management employees of the Bancorp in order to recognize their substantial contributions to the Bank and provide them with additional financial security as inducement to remain with the Bank. The Compensation Committee selects which persons shall be participants in the Plan. Participants' accounts are credited each year with an amount based on a formula involving the participant's employer funded contributions under all qualified plans and the limitations imposed by Internal Revenue Code subsection 401(a)(17) and Code section 415. The unqualified deferred compensation plan liability at December 31, 2011 and 2010 was approximately $122,000 and $114,000, respectively. The Plan expense amounted to $8,000 for 2011 and 2010.

Directors have deferred some of their fees in consideration of future payments. Fee deferrals, including interest, totaled approximately $108,000 and $111,000 for 2011 and 2010, respectively. The deferred fee liability at December 31, 2011 and 2010 was approximately $1,678,000 and $1,646,000, respectively.

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. Failure to meet various capital requirements can initiate regulatory action. 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. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2011 and 2010, the most recent regulatory notifications categorized the Bancorp and Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bancorp's or the Bank's category.

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

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
(Dollars in millions)	Amount	Ratio	Amount	Ratio	Amount	Ratio
2011						
Total capital to risk-weighted assets	$ 64.9	14.3%	$ 36.2	8.0%	$ 45.2	10.0%
Tier 1 capital to risk-weighted assets	$ 59.2	13.1%	$ 18.1	4.0%	$ 27.1	6.0%
Tier 1 capital to adjusted average assets	$ 59.2	9.2%	$ 19.4	3.0%	$ 32.3	5.0%
2010						
Total capital to risk-weighted assets	$ 61.5	12.9%	$ 38.0	8.0%	$ 47.6	10.0%
Tier 1 capital to risk-weighted assets	$ 55.5	11.7%	$ 19.0	4.0%	$ 28.5	6.0%
Tier 1 capital to adjusted average assets	$ 55.5	8.5%	$ 19.5	3.0%	$ 32.6	5.0%

The Bancorp's ability to pay dividends to its shareholders is entirely dependent upon the Bank's ability to pay dividends to the Bancorp. Under Indiana law, the Bank may pay dividends from its undivided profits (generally, earnings less losses, bad debts, taxes and other operating expenses) to the extent considered expedient by the Bank's Board of Directors. However, the Bank must obtain the approval of the Indiana Department of Financial Institutions (DFI) for the payment of a dividend if the total of all dividends declared by the Bank during the current year, including the proposed dividend, would exceed the sum of retained net income for the year to date plus its retained net income for the previous two years. For this purpose, "retained net income," means net income as calculated for call report purposes, less all dividends declared for the applicable period. The aggregate amount of dividends that may be declared by the Bank in 2012, with prior DFI approval, is $7.7 million plus current 2012 net profits. 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 light of the financial condition and capital needs of the Bank.

During the third quarter of 2010, the FDIC notified the Bancorp's management that dividend payments from the Bank to the Bancorp would require prior approval from the FDIC. The FDIC's requirement to approve future dividend payments from the Bank to the Bancorp was a result of the Bank's elevated level of substandard assets. Moreover, on October 29, 2010, pursuant to a FDIC Resolution adopted by the Bank's Board of Directors at the direction of the DFI and the FDIC, the Bank was required to obtain the consent of the DFI and the FDIC prior to any declaration of dividends. On January 28, 2011, in accordance with prior direction from the Federal Reserve Bank of Chicago (Reserve Bank), the Bancorp's Board of Directors also adopted a resolution providing that the prior written consent of the Reserve Bank is required for the declaration of dividends by the Bancorp. During December 2011, the Reserve Bank approved the fourth quarter 2011 dividend payment. The current dividend policy is reflective of the Bancorp Board's commitment that the shareholders' long term interests are best served through the preservation of capital in the current stressed economic environment.

On September 28, 2011, the DFI and FDIC issued a joint examination report with respect to their safety and soundness examination which commenced during August 2011. The joint examination report concluded that the Bank's Board of Directors and management had satisfactorily complied with the requirements of the FDIC Resolution and advised that the FDIC Resolution was no longer considered to be in effect for regulatory purposes. Pursuant to the findings of the joint examination report, the Bank's Board of Directors rescinded the FDIC Resolution on September 30, 2011. Beginning with the fourth quarter of 2011, dividend payments from the Bank to the Bancorp do not require prior approval from the DFI and FDIC. On December 7, 2011, the Bancorp announced that the Board of Directors of the Bancorp declared a fourth quarter dividend of $0.15 per share. The Bancorp's fourth quarter dividend was paid to shareholders on January 6, 2012.

NOTE 12 – *Stock Based Compensation*

The Bancorp's 2004 Stock Option Plan (the Plan), which is stockholder-approved, permits the grant of share options to its employees for up to 250,000 shares of common stock. Awards granted under the Plan may be in the form of incentive stock options, non-incentive stock options, or restricted stock. The purposes of the Plan are to attract and retain the best available personnel, to provide additional incentives for all employees and to encourage their continued employment by facilitating employees' purchases of an equity interest in the Bancorp. Option awards are generally granted with an exercise price equal to the market price of the Bancorp's common stock at the date of grant; those option awards have five year vesting periods and have ten year contractual terms. Total compensation cost that has been charged against income for incentive stock options was approximately $1,000 for 2011 and 2010.

The fair value of each incentive stock option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model. Expected volatilities are based on historical volatilities of the Company's common stock. No incentive stock options were granted during 2011 or 2010. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

A summary of the Bancorp's stock option activity for 2011 and 2010 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at January 1, 2010	65,747	$ 23.69		
Granted	-	-		
Exercised	-	-		
Forfeited or expired	(16,500)	21.98		
Outstanding at end of year	49,247	$ 24.27	1.7	$ -
Vested or expected to vest	49,247	$ 24.27	1.7	$ -
Exercisable at December 31, 2010	48,247	$ 24.18	1.6	$ -
Granted	-	-		
Exercised	-	-		
Forfeited or expired	(8,747)	19.50		
Outstanding at end of year	40,500	$ 25.30	1.1	$ -
Vested or expected to vest	40,500	$ 25.30	1.1	$ -
Exercisable at December 31, 2011	39,500	$ 25.22	1.0	$ -

As of December 31, 2011, there was approximately $1,000 of total unrecognized compensation costs related to non-vested incentive stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1.2 years.

Restricted stock awards are generally granted with an award price equal to the market price of the Bancorp's common stock on the award date. Restricted stock awards have been issued with a five year vesting period. Forfeiture provisions exist for personnel that separate employment before the vesting period expires. Compensation expense related to restricted stock awards are recognized over the vesting period. Total compensation cost that has been charged against income for those plans was approximately $32,000 and $35,000 for 2011 and 2010, respectively.

A summary of changes in the Bancorp's non-vested restricted stock for 2011 and 2010 follows:

Non-vested Shares	Shares	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2010	7,550	$ 26.55
Granted	300	16.75
Vested	(250)	35.50
Forefited	(850)	26.76
Non-vested at December 31, 2010	6,750	25.72
Granted	-	-
Vested	(3,000)	31.57
Forefited	-	-
Non-vested at December 31, 2011	3,750	$ 21.05

As of December 31, 2011, there was approximately $32,000 of total unrecognized compensation cost related to non-vested restricted shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1.8 years.

NOTE 13 - *Earnings Per Common Share*

A reconciliation of the numerators and denominators of the basic earnings per common share and diluted earnings per common share computations for 2011 and 2010 is presented below.

	2011	2010
Basic earnings per common share:		
Net income available to common stockholders	5,384,982	5,178,547
Weighted-average common shares outstanding	2,832,161	2,823,599
Basic earnings per common share	$ 1.90	$ 1.83
Diluted earnings per common share:		
Net income available to common stockholders	5,384,982	5,178,547
Weighted-average common shares outstanding	2,832,161	2,823,599
Add: dilutive effect of assumed stock option exercises and restricted stock	-	-
Weighted-average common and dilutive potential common shares outstanding	2,832,161	2,823,599
Diluted earnings per common share	$ 1.90	$ 1.83

There were 40,500 and 49,247 anti-dilutive shares outstanding at December 31, 2011 and 2010, respectively.

NOTE 14 - *Related Party Transactions*

The Bancorp had aggregate loans outstanding to directors and executive officers (with individual balances exceeding $120,000) of approximately $6,907,000 at December 31, 2011 and approximately $7,951,000 at December 31, 2010. For the year ended December 31, 2011, the following activity occurred on these loans:

	(Dollars in thousands)
Aggregate balance at the beginning of the year	$ 7,951
New loans	312
Repayments	(1,356)
Aggregate balance at the end of the year	$ 6,907

Deposits from directors and executive officers totaled approximately $2,094,000 and $1,859,000 at December 31, 2011 and 2010, respectively.

NOTE 15 - *Commitments and Contingencies*

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

The Bancorp's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to originate loans and standby letters of credit is represented by the contractual amount of those instruments. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. The Bancorp uses the same credit policy to make such commitments as it uses for on-balance sheet items. Since commitments to make loans may expire without being used, the amount does not necessarily represent future cash commitments.

The Bancorp had outstanding commitments to originate loans as follows:

	(Dollars in thousands)		
	Fixed Rate	*Variable Rate*	*Total*
December 31, 2011:			
Commercial business	$ 12,353	$ 30,179	$ 42,532
Real estate	11,622	12,870	24,492
Consumer loans	-	4	4

Unsecured consumer overdrafts	10,828	-	10,828
Total	$ 34,803	$ 43,053	$ 77,856
December 31, 2010:			
Commercial business	$ 12,073	$ 26,008	$ 38,081
Real estate	10,894	8,142	19,036
Consumer loans	-	15	15
Unsecured consumer overdrafts	10,803	-	10,803
Total	$ 33,770	$ 34,165	$ 67,935

The approximately $34,803,000 in fixed rate commitments outstanding at December 31, 2011 and the approximatley $33,770,000 in fixed rate commitments outstanding at December 31, 2010 had interest rates ranging from 2.30% to 10.00%, for a period not to exceed forty-five days. Mortgage interest rate locks with borrowers are a component of real estate commitments, were treated as derivative transactions, and valued accordingly at year-end.

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, 2011 and 2010, the Bancorp had standby letters of credit totaling approximately $8,696,000 and $7,681,000, respectively. The Bancorp evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bancorp upon extension of credit, is based on management's credit evaluation of the borrower. Collateral obtained may include accounts receivable, inventory, property, land or other assets.

NOTE 16 - *Fair Values of Financial Instruments*

The Fair Value Measurements Topic (the Topic) establishes a hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Topic describes three levels of inputs that may be used to measure fair value:

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

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

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

The fair values of securities available for sale are determined on a recurring basis by obtaining quoted prices on nationally recognized securities exchanges or pricing models utilizing significant observable inputs such as matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities. Different judgment and assumptions used in pricing could result in different estimates of value. In certain cases where market data is not readily available because of lack of market activity or little public disclosure, values may be based on unobservable inputs and classified in Level 3 of the fair value hierarchy.

At the end of each reporting period, securities held in the investment portfolio are evaluated on an individual security level for other-than-temporary impairment in accordance with the Investments – Debt and Equity Securities Topic. Impairment is other-than-temporary if the decline in the fair value of the security is below its amortized cost and it is probable that all amounts due according to the contractual terms of a debt security will not be received. Significant judgments are required in determining impairment, which include making assumptions regarding the estimated prepayments, loss assumptions and the change in interest rates. The Bancorp considers the following factors when determining other-than-temporary impairment for a security: the length of time and the extent to which the market value has been less than amortized cost; the financial condition and near-term prospects of the issuer; the underlying fundamentals of the relevant market and the outlook for such market for the near future; an assessment of whether the Bancorp (1) has the intent to sell the debt securities or (2) more likely than not will be required to sell the debt securities before their anticipated market recovery. If either of these conditions are met, management will recognize other-than-temporary impairment. If, in management's judgment, an other-than-temporary impairment exists, the cost basis of the security will be written down for the credit loss, and the unrealized loss will be transferred from accumulated other comprehensive loss as an immediate reduction of current earnings.

For the year ended December 31, 2011, the Bancorp's management utilized a specialist to perform an other-than-temporary impairment analysis for each of its four pooled trust preferred securities. The analysis utilizes analytical models used to project future cash flows for the pooled trust preferred securities based on current assumptions for prepayments, default and deferral rates, and recoveries. The projected cash flows are than tested for impairment consistent with the Investments – Other Topic and the Investments – Debt and Equity Securities Topic. The other-than-temporary impairment testing compares the present value of the cash flows from quarter to quarter to determine if there is a "favorable" or "adverse" change. Other-than-temporary impairment is recorded if the projected present value of cash flows is lower than the book value of the security. To perform the quarterly other-than-temporary impairment analysis, management utilizes current reports issued by the trustee, which contain principal and interest tests, waterfall distributions, note valuations, collection detail and credit ratings for each pooled trust preferred security. In addition, a detailed review of the performing collateral was performed. The review of the collateral began with a review of financial information provided by SNL Financial, a comprehensive database, widely used in the industry, which gathers financial data on banks and thrifts from U.S. GAAP financial statements for public companies (annual and quarterly reports on Forms 10-K and 10-Q), as well as regulatory reports for private companies, including consolidated financial statements for bank holding companies (FR Y-9C reports) and parent company-only financial statements for bank holding companies (FR Y-9LP reports) filed with the Federal Reserve andbank call reports filed with the FDIC and OCC. Using the information sources described above, for each bank and thrift examined, the following items were examined: nature of the issuer's business, years of operating history, corporate structure, loan composition and loan concentrations, deposit mix, asset growth rates, geographic footprint and local economic environment. The issuers' historical financial performance was reviewed and their financial ratios were compared to appropriate peer groups of regional banks or thrifts with similar asset sizes. The analysis focused on six broad categories: profitability (revenue streams and earnings quality, return on assets and shareholder's equity, net interest margin and interest rate sensitivity), credit quality (charge-offs and recoveries, non-current loans and total non-performing assets as a percentage of total loans, loan loss reserve coverage and the adequacy of the loan loss provision), operating efficiency (noninterest expense compared to total revenue), capital adequacy (Tier-1, total capital and leverage ratios and equity capital growth), leverage (tangible equity as a percentage of tangible assets, short-term and long-term borrowings and double leverage at the holding company) and liquidity (the nature and availability of funding sources, net non-core funding dependence and quality of deposits). In addition, for publicly traded companies, stock price movements were reviewed and the market price of publicly traded debt instruments was examined. The other-than-temporary impairment analysis indicated that the Bancorp's four pooled trust preferred securities had aggregate additional other-than-temporary impairment in the amount of $1,200, for the year ending December 31, 2011.

The table below shows the credit loss roll forward for the Bancorp's pooled trust preferred securities that have been classified with other-than-temporary impairment:

	(Dollars in thousands) Collateralized debt obligations other-than-temporarily impaired
Ending balance - December 31, 2010	$ 264
Additions not previously recognized	1
Ending balance - December 31, 2011	$ 265

Below is a table containing information regarding the Bancorp's pooled trust preferred securities as of December 31, 2011:

Cusip	74043CAC1	74042TAJ0	01449TAB9	01450NAC6
Deal name	PreTSL XXIV	PreTSL XXVII	Alesco IX	Alesco XVII
Class	B-1	C-1	A-2A	B
Book value	$ 1,256,972	$ 1,296,077	$ 1,308,686	$ 1,351,903
Fair value	230,053	204,187	588,750	337,653
Unrealized gains/(losses)	(1,026,919)	(1,091,890)	(719,936)	(1,014,250)
Lowest credit rating assigned	Caa3	C	CCC-	C
Number of performing banks	49	26	53	44
Number of performing insurance companies	13	7	10	n/a
Number of issuers in default	17	9	1	1
Number of issuers in deferral	14	7	12	11
Defaults & deferrals as a % of performing collateral	52.11%	39.16%	20.72%	32.01%
Subordination:				
As a % of performing collateral	-15.47%	-22.89%	31.68%	4.44%
As a % of performing collateral - adjusted for projected future defaults	-19.78%	-29.22%	28.54%	-1.88%
Other-than-temporary impairment model assumptions:				
Defaults:				
Year 1 - issuer average	1.60%	1.90%	2.00%	3.00%
Year 2 - issuer average	1.00%	1.50%	1.20%	1.60%
Year 3 - issuer average	1.00%	1.50%	1.20%	1.60%
> 3 Years - issuer average	(1)	(1)	(1)	(1)
Discount rate - 3 month Libor, plus implicit yield spread at purchase	1.48%	1.23%	1.27%	1.44%
Recovery assumptions	(2)	(2)	(2)	(2)
Prepayments	0.00%	0.00%	0.00%	0.00%
Other-than-temporary impairment	$ 41,100	$ 132,000	$ 30,450	$ 61,950

(1) - Default rates > 3 years are evaluated on a issuer by issuer basis and range from 0.25% to 5.00%.
(2) - Recovery assumptions are evaluated on a issuer by issuer basis and range from 0% to 15% with a five year lag.

In the table above, the Bancorp's subordination for each trust preferred security is calculated by taking the total performing collateral and subtracting the sum of the total collateral within the Bancorp's class and the total collateral within all senior classes, and then stating this result as a percentage of the total performing collateral. This measure is an indicator of the level of collateral that can default before potential cash flow disruptions may occur. In addition, management calculates subordination assuming future collateral defaults by utilizing the default/deferral assumptions in the Bancorp's other-than-temporary impairment analysis. Subordination assuming future default/deferral assumptions is calculated by deducting future defaults from the current performing collateral. At December 31, 2011, management reviewed the subordination levels for each security in context of the level of current collateral defaults and deferrals within each security; the potential for additional defaults and deferrals within each security; the length of time that the security has been in "payment in kind" status; and the Bancorp's class position within each security.

Management calculated the other-than-temporary impairment model assumptions based on the specific collateral underlying each individual security. The following assumption methodology was applied consistently to each of the four pooled trust preferred securities: For collateral that has already defaulted, no recovery was assumed; no cash flows were assumed from collateral currently in deferral, with the exception of the recovery assumptions. The default and recovery assumptions were calculated based on the detailed collateral review. The discount rate assumption used in the calculation of the present value of cash flows is based on the discount margin (i.e., credit spread) at the time each security was purchased using the original purchase price. The discount margin is then added to the appropriate 3-month LIBOR forward rate obtained from the forward LIBOR curve.

At December 31, 2011, three of the trust preferred securities with a cost basis of $3.9 million have been placed in "payment in kind" status. The Bancorp's securities that are classified as "payment in kind" are a result of not receiving the scheduled quarterly interest payments. For the securities in "payment in kind" status, management anticipates to receive the unpaid contractual interest payments from the issuer, because of the self correcting cash flow waterfall provisions within the structure of the securities. When a tranche senior to the Bancorp's position fails the coverage test, the Bancorp's interest cash flows are paid to the senior tranche and recorded as a reduction of principal. The coverage test represents an over collateralization target by stating the balance of the performing collateral as a percentage of the balance of the Bancorp's tranche, plus the balance of all senior tranches. The principal reduction in the senior tranche continues until the appropriate coverage test is passed. As a result of the principal reduction in the senior tranche, more cash is available for future payments to the Bancorp's tranche. Consistent with the Investments – Debt and Equity Securities Topic, management considered the failure of the issuer of the security to make scheduled interest payments in determining whether a credit loss existed. Management will not capitalize the "payment in kind" interest payments to the book value of the securities and will keep these securities in non-accrual status until the quarterly interest payments resume.

Assets and Liabilities Measured at Fair Values on a Recurring Basis

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

(Dollars in thousands)

		Estimated Fair Value Measurements at December 31, 2011 Using		
	December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available-for-sale securities				
U.S. government sponsored entities	$ 15,648	$ -	$ 15,648	$ -
CMO and residential mortgage-backed securities	111,197	-	111,197	-
Municipal securities	58,756	-	58,756	-
Collateralized debt obligations	1,361	-	-	1,361
Total available-for-sale securities	$ 186,962	$ -	$ 185,601	$ 1,361

(Dollars in thousands)

		Estimated Fair Value Measurements at December 31, 2010 Using		
	December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available-for-sale securities				
U.S. government sponsored entities	$ 4,169	$ -	$ 4,169	$ -
CMO and residential mortgage-backed securities	97,142	-	97,142	-
Municipal securities	39,365	-	39,365	-
Collateralized debt obligations	1,379	-	-	1,379
Total available-for-sale securities	$ 142,055	$ -	$ 140,676	$ 1,379

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

(Dollars in thousands)	Estimated Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Available-for-sale securities
Total realized/unrealized (losses)/gains, January 1, 2010	1,350
Included in earnings	(128)
Included in other comprehensive income	157
Transfers in and/or (out) of Level 3	-
Ending balance, December 31, 2010	1,379
Total realized/unrealized (losses)/gains	
Included in earnings	(1)
Included in other comprehensive income	(17)
Transfers in and/or (out) of Level 3	-
Ending balance, December 31, 2011	$ 1,361

Assets and Liabilities Measured at Fair Values on a Non-Recurring Basis
Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

	December 31, 2011	*(Dollars in thousands)* Estimated Fair Value Measurements at December 31, 2011 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans	$ 20,064	$ -	$ -	$ 20,064
Foreclosed real estate	2,217	-	-	2,217

	December 31, 2010	*(Dollars in thousands)* Estimated Fair Value Measurements at December 31, 2010 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans	$ 23,219	$ -	$ -	$ 23,219
Foreclosed real estate	2,920	-	-	2,920

The fair value of impaired loans with specific allocations of the allowance for loan losses or loans for which charge-offs have been taken is generally based on the present value of future cash flows or, for collateral dependent loans, based on recent real estate appraisals. Appraisals may utilize a single valuation approach or a combination of approaches, including comparable sales and the income approach. The unpaid principal balance of impaired loans was approximately $21.7 million and the related specific reserves totaled approximately $1.6 million, resulting in a fair value of impaired loans totaling approximately $20.1 million, at December 31, 2011. The unpaid principal balance of impaired loans was approximately $26.0 million and the related specific reserves totaled approximately $2.8 million, resulting in a fair value of impaired loans totaling approximately $23.2 million, at December 31, 2010. Fair value is determined, where possible, using market prices derived from an appraisal or evaluation, which are considered to be Level 2 inputs. However, certain assumptions and unobservable inputs are often used by the appraiser, therefore, qualifying the assets as Level 3 in the fair value hierarchy. The fair value of foreclosed real estate is similarly determined by using the results of recent real estate appraisals.

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

	(Dollars in thousands) December 31, 2011 Carrying Value	Estimated Fair Value
Financial assets:		
Cash and cash equivalents	$ 26,367	$ 26,367
Securities available-for-sale	186,962	186,962
Loans held-for-sale	-	-
Loans receivable, net	393,396	394,385
Federal Home Loan Bank stock	3,086	3,086
Accrued interest receivable	2,554	2,554
Financial liabilities:		
Demand and savings deposits	349,959	349,959
Certificates of deposit	176,922	177,240
Repurchase agreements	15,395	15,407
Borrowed funds	36,618	37,270
Accrued interest payable	67	67

	(Dollars in thousands) December 31, 2010 Carrying Value	Estimated Fair Value
Financial assets:		
Cash and cash equivalents	$ 10,938	$ 10,938
Securities available-for-sale	142,055	142,055
Securities held-to-maturity	18,397	19,038
Loans held-for-sale	422	428
Loans receivable, net	409,112	472,307
Federal Home Loan Bank stock	3,381	3,381
Accrued interest receivable	2,591	2,591
Financial liabilities:		
Demand and savings deposits	321,825	321,825
Certificates of deposit	198,446	198,799
Repurchase agreements	16,074	16,088
Borrowed funds	32,544	32,983
Accrued interest payable	81	81

For purposes of the above disclosures of estimated fair value, the following assumptions were used as of December 31, 2011 and 2010. The estimated fair value for cash and cash equivalents, Federal Home Loan Bank stock, demand and savings deposits, and accrued interest receivable and payable are considered to approximate carrying book value. The fair value of securities available-for-sale and held-to-maturity are obtained from broker pricing. The estimated fair value for loans is based on estimates of the rate the Bancorp would charge for similar such loans at December 31, 2011 and 2010, applied for the time period until estimated repayment. For commercial loans, the fair value includes a liquidity adjustment to reflect current market conditions. The estimated fair value for certificates of deposit are based on estimates of the rate the Bancorp would pay on such deposits at December 31, 2011 and 2010, applied for the time period until maturity. The estimated fair value for repurchase agreements and other borrowed funds is based on current rates for similar financings. The estimated fair value of other financial instruments, and off-balance sheet loan commitments approximate cost and are not considered significant to this presentation.

NOTE 17 – ***Other Comprehensive Income/(Loss)***

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

	(Dollars in thousands) 2011	2010
Net change in net unrealized gains and losses on securities available for sale:		
Unrealized gains arising during the year	$ 5,607	$ 314
Reclassification adjustment for gains included in net income	965	785
Net securities gain/(loss) during the year	4,642	(471)
Tax effect	(1,605)	157
Net of tax amount	3,037	(314)
Net change in unrecongnized gain on postretirement benefit:		
Net loss on post retirement benefit	(2)	(1)
Amortization of net actuarial gain	(7)	(7)
Net loss during the year	(9)	(8)
Tax effect	-	-
Net of tax amount	(9)	(8)
Other comprehensive income/(loss), net of tax	$ 3,028	$ (322)

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

	Balance at December 31, 2010	(Dollars in thousands) Current Period Change	Balance at December 31, 2011
Unrealized gains (losses) on securities available-for-sale	$ (561)	$ 3,037	$ 2,476
Unrealized gain (loss) on post-retirement benefits	69	(9)	60
Total	$ (492)	$ 3,028	$ 2,536

NOTE 18 - ***Parent Company Only Statements***

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

	2011	2010
Assets		
Cash on deposit with Peoples Bank	$ 1,191	$ 1,093
Investment in Peoples Bank	62,601	55,754
Dividends receivable from Peoples Bank	425	427
Other assets	127	102
Total assets	$ 64,344	$ 57,376
Liabilities and stockholders' equity		
Dividends payable	$ 425	$ 427
Other liabilities	959	860
Total liabilities	1,384	1,287
Common stock	361	361
Additional paid in capital	5,173	5,140
Accumulated other comprehensive income (loss)	2,536	(492)
Retained earnings	56,032	52,398
Treasury stock	(1,142)	(1,318)
Total stockholders' equity	62,960	56,089
Total liabilities and stockholders' equity	$ 64,344	$ 57,376

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

	2011	2010
Dividends from Peoples Bank	$ 1,699	$ 1,443
Operating expenses	204	201
Income before income taxes and equity in undistributed income of Peoples Bank	1,495	1,242
Income tax benefit	(69)	(72)
Income before equity in undistributed income of Peoples Bank	1,564	1,314
Equity in undistributed income of Peoples Bank	3,821	3,865
Net income	$ 5,385	$ 5,179

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

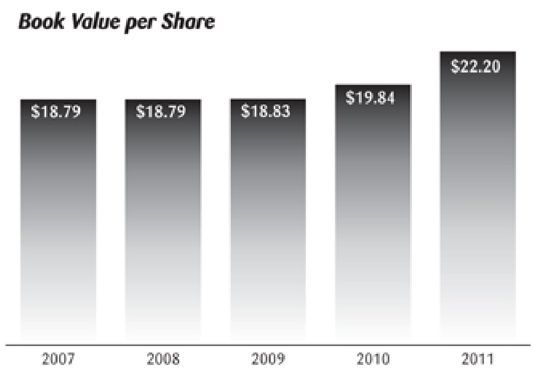
	2011	2010
Cash flows from operating activities:		

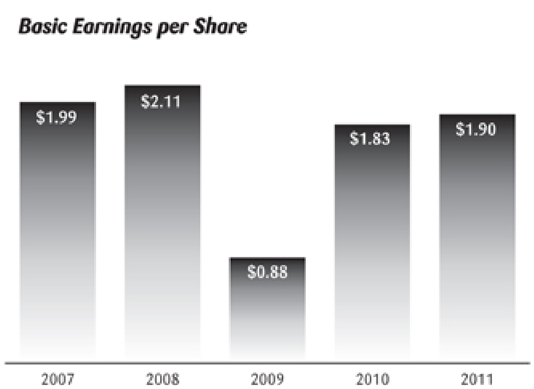
Net income	$ 5,385	$ 5,179
Adjustments to reconcile net income to net cash from operating activities		
Equity in undistributed net income of Peoples Bank	(4,139)	(2,877)
Deferred tax expense/(benefit)	318	(988)
Stock based compensation expense	33	36
Change in other assets	(23)	(421)
Change in other liabilities	99	(478)
Total adjustments	(3,712)	(4,728)
Net cash from operating activities	1,673	451
Cash flows from investing activities	-	-
Cash flows from financing activities:		
Dividends paid	(1,699)	(2,200)
Proceeds from sale of treasury stock	124	151
Net cash used in financing activities	(1,575)	(2,049)
Net change in cash	98	(1,598)
Cash at beginning of year	1,093	2,691
Cash at end of year	$ 1,191	$ 1,093

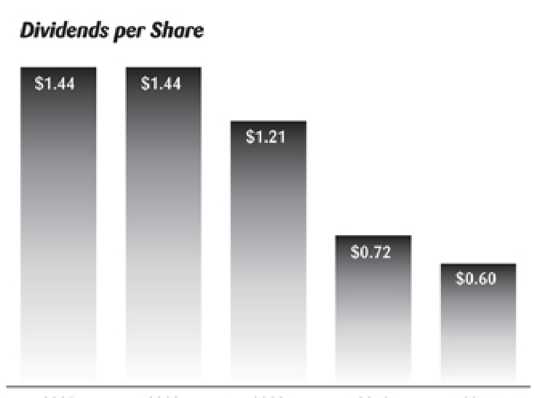
Market Information

The Bancorp's Common Stock is traded in the over-the-counter market and quoted on the OTC Bulletin Board. The Bancorp's stock is not actively traded. As of January 31, 2012, the Bancorp had 2,837,562 shares of common stock outstanding and 408 stockholders of record. This does not reflect the number of persons or entities who may hold their stock in nominee or "street" name through brokerage firms. Set forth below are the high and low bid prices during each quarter for the years ended December 31, 2011 and December 31, 2010. The bid prices reflect inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions. Also set forth is information concerning the dividends declared by the Bancorp during the periods reported. Note 11 to the Financial Statements describes regulatory limits on the Bancorp's ability to pay dividends.

		Per Share Prices High	Per Share Prices Low	Dividends Declared Per Common Share
Year Ended December 31, 2011	1st Quarter	$ 16.75	$ 14.00	$ 0.15
	2nd Quarter	15.10	13.70	0.15
	3rd Quarter	15.00	14.00	0.15
	4th Quarter	15.50	14.00	0.15
Year Ended December 31, 2010	1st Quarter	$ 18.30	$ 16.50	$ 0.21
	2nd Quarter	18.00	16.50	0.21
	3rd Quarter	18.00	16.25	0.15
	4th Quarter	16.30	11.30	0.15







2011 Board of Directors

Left to right:

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

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

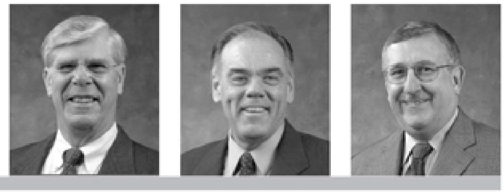
Stanley E. Mize, *Director since 1997*
Retired; former President of Stan Mize Towne & Countree Auto Sales, Inc.

Left to right:

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

James L. Wieser, *Director since 1999*
Attorney and Senior Partner, Wieser & Wyllie, LLP

Edward J. Furticella, *Director since 2000*
Former Executive Vice President and CFO of the Bancorp; currently Acting Administrative Head, Department of Accounting at Purdue University Calumet

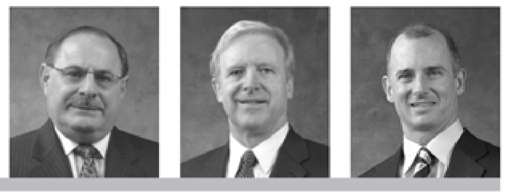


Left to right:

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

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

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



Left to right:

Donald P. Fesko, *Director since 2005*
Chief Executive Officer of Community Hospital

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

Gloria C. Gray-Weissman, Director Emeritus

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

Board Committees

Asset, Liability, Liquidity, Capital & Technology Management
James L. Wieser, *Chairman*
Frank J. Bochnowski
Edward J. Furticella
Amy W. Han
Kenneth V. Krupinski
Stanley E. Mize

Compensation & Benefits
Kenneth V. Krupinski, *Chairman*
Donald P. Fesko
Amy W. Han
Stanley E. Mize

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

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

Risk Management
Edward J. Furticella, *Chairman*
Kenneth V. Krupinski
Stanley E. Mize

Wealth Management
Anthony M. Puntillo, *Chairman*
Donald P. Fesko
Lourdes M. Dennison

Officers of NorthWest Indiana Bancorp and Peoples Bank

David A. Bochnowski
Chairman and Chief Executive Officer
Joel Gorelick
President and Chief Administrative Officer
John J. Diederich
Executive Vice President
Robert T. Lowry
ExecutiveVice President, Chief Financial Officer and Treasurer
Leane E. Cerven
Senior Vice President, General Counsel and Corporate Secretary

Officers of Peoples Bank

Tanya A. Buerger
Senior Vice President, Chief Operating Officer
Terrence M. Quinn
Senior Vice President, Chief Wealth Management Officer
Todd M. Scheub
Senior Vice President, Chief Lending Officer

Management Personnel of Peoples Bank

Lending Group

Commercial Lending

Daniel W. Moser
Senior Vice President, Construction and Development Lending and Portfolio Manager
Brian E. Rusin
Vice President, Manager, Commercial Lending
Ronald P. Knestrict
Vice President, Commercial Loan Officer
J. Daniel Magura
Vice President, Commercial Loan Officer
John J. Breckenridge
Assistant Vice President, Commercial Loan Officer
Daniel J. Duncan
Assistant Vice President, Commercial Loan Officer

Retail Lending

Catherine L. Gonzalez
Vice President, Manager, Retail Lending and CRA Officer

Jeremy A. Gorelick
Assistant Vice President, Residential Loan Officer
Rachel C. Lentz
Assistant Vice President, Retail Lending Officer
Austin P. Logue
Assistant Vice President, Residential Loan Officer
Alicia Q. McMahon
Assistant Vice President, Residential Loan Officer
Nancy L. Weckler
Assistant Vice President, Loan Underwriting
Douglas T. Jelks
Residential Loan Officer

Credit Administration

Jane G. Bridgman
Assistant Vice President, Manager, Credit Administration

Loan Collections

Donald D. Evans
Manager of Collections

Retail Banking Group

Carla J. Houck
Vice President, Retail Banking Group
Benjamin J. Bochnowski
Vice President, Strategic Initiatives
Meredith L. Bielak
Vice President, Retail Banking Manager
Cynthia S. Miles
Assistant Vice President, Retail Banking Assistant

Banking Centers

Marilyn K. Repp
Vice President, Senior Manager, Crown Point Banking Center
Michael A. Cronin
Vice President, Manager, Dyer Banking Center
Shannon E. Franko
Vice President, Manager, Valparaiso Banking Center
Candice N. Logue

Vice President, Manager, Munster Banking Center
Kelly A. Stoming
Vice President, Manager, St. John Banking Center
Charman F. Williamson
Vice President, Manager, Merrillville Broadway Banking Center
Antonio Gonzalez, Jr.
Assistant Vice President, Manager, East Chicago Banking Center
Nadia M. Grisolia
Assistant Vice President, Manager, Gary Banking Center
Jennifer L. Gunning
Assistant Vice President, Assistant Manager, Hobart Banking Center
Robin L. Lubbinga
Assistant Vice President, Manager, Schererville Banking Center

Sandra L. Sigler
Assistant Vice President, Manager, Woodmar Banking Center
Donna M. Vurva
Assistant Vice President, Banking Center Manager
Nancy M. Kaczka
Assistant Vice President, Assistant Manager, Munster Banking Center
Sharon Morales
Assistant Vice President, Assistant Manager, Broadway Banking Center
Matthew G. Lambert
Assistant Banking Center Manager
Jessica S. Maldonado
Assistant Banking Center Manager

Wealth Management Group
Mary T. Ciciora
Vice President, Senior Wealth Management Officer
Stephan A. Ziemba
Vice President, Senior Wealth Management Officer
Randall H. Walker
Vice President, Wealth Management Officer
Joyce M. Barr
Assistant Vice President, Wealth Management Officer
Thomas C. Devine
Wealth Management Investment Assistant

Shareholder Services Group
David J. Kwait
Assistant Vice President, Staff Attorney/Legal Counsel and Wealth Management Officer

Operations and Technology Group
Bank Operations
Mary D. Mulroe
Vice President, Bank Operations

Deposit Operations
Donna M. Gin
Vice President, Operations & Technology
Charlotte V. Conn
Assistant Vice President, Deposit Operations

Information Technology
Matthew S. Manoski
Vice President, Manager, Information Technology
Jonathan M. Foster
Assistant Vice President, Information Technology
Kurt M. Miller
Assistant Vice President, Information Technology

Loan Operations
Karen M. Sulek
Vice President, Manager, Loan Operations
Bonnie J. Connors
Assistant Vice President, Loan Operations
Antoinette S. Shettles
Assistant Vice President, Loan Operations
Margaret Travis
Assistant Vice President, Loan Operations
Sharon V. Vacendak
Assistant Vice President, Loan Operations

Systems Delivery
Julie M. Bonnema
Vice President, Manager, Systems Delivery

Brand Learning and Communications Group
Human Resources
Elizabeth O. Kasenga
Vice President, Manager, Human Resources
Jill M. Knight
Vice President, Training Coordinator
Michelle L. Havens

Assistant Vice President, Human Resource Generalist
Tonika L. Housler
Assistant Vice President, Human Resource Specialist

Marketing
Marilyn Furticella
Vice President, Marketing

Finance and Controls Group
Peymon S. Torabi
Vice President, Controller
Teresa A. Brudd
Assistant Vice President, Assistant Controller
Jason A. Griffin
Assistant Vice President, Staff Accountant
Michaelene M. Smith
Assistant Vice President, Accounting

Risk Management Group
Christine M. Friel
Vice President, Manager, Loan Review
Linda C. Nemeth
Vice President, Internal Auditor
Michael J. Shimala
Vice President, Compliance & Security Officer
Jodi R. Watson
Assistant Vice President, Assistant to the Internal Auditor

Other Management Personnel
Laura J. Spicer
Assistant Vice President, Executive Assistant to the Chairman
Rebecca L. Bach
Management Development
Nicole M. Walczak
Management Development

CORPORATE HEADQUARTERS
9204 Columbia Avenue
Munster, Indiana 46321
219/836-4400

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

Independent Auditors
Plante & Moran, PLLC
225 W. Washington Street, Suite 2700
Chicago, Illinois 60606-3564

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

Annual Stockholders Meeting
The Annual Meeting of Stockholders of NorthWest Indiana Bancorp will be held at the Peoples Bank Corporate Center at 9204 Columbia Avenue, Munster, Indiana, on April 29, 2011 at 9:00 a.m.

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

NorthWest Indiana
BANCORP

Peoples Bank

SUBSIDIARY OF NORTHWEST INDIANA BANCORP

CROWN POINT, 855 Stillwater Parkway, (219) 662-0220
DYER, 1300 Sheffield Avenue, (219) 322-2530
EAST CHICAGO, 4901 Indianapolis Blvd., (219) 378-1000
GARY, 1801 W. 25th Avenue, (219) 944-0005
HAMMOND, 7120 Indianapolis Blvd., (219) 844-4500
HOBART, 1501 S. Lake Park Avenue, (219) 945-1305
MERRILLVILLE, 7915 Taft Street, (219) 796-9000
8600 Broadway, (219) 685-8600
MUNSTER, 9204 Columbia Avenue, (219) 853-7550
CORPORATE CENTER, (219) 836-4400
LOAN CENTER, (219) 853-7500
WEALTH MANAGEMENT, (219) 853-7080
ST. JOHN, 9903 Wicker Avenue, (219) 365-5400
SCHERERVILLE, 141 W. Lincoln Highway, (219) 865-4300
VALPARAISO, 2905 Calumet Avenue, (219) 462-4100

Member FDIC

LENDER

ibankpeoples.com

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement No. 333-115666 on Form S-8 of NorthWest Indiana Bancorp of our report dated February 17, 2012 on the consolidated financial statements of NorthWest Indiana Bancorp, which report is included in Form 10-K for NorthWest Indiana Bancorp for the year ended December 31, 2011.

/s/ Plante & Moran, PLLC

Plante & Moran, PLLC

Chicago, Illinois
February 17, 2012

Exhibit 31.1

CERTIFICATION PURSUANT TO

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

I, David A. Bochnowski, certify that:

1. I have reviewed this annual report on Form 10-K of NorthWest Indiana Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2012

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

Exhibit 31.2

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

I, Robert T. Lowry, certify that:

1. I have reviewed this annual report on Form 10-K of NorthWest Indiana Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2012

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

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

In connection with the Annual Report on Form 10-K of NorthWest Indiana Bancorp (the "Company") for the year ended December 31, 2011, as filed with the Securities and Exchange Commission (the "Report"), each of David A. Bochnowski, Chairman of the Board and Chief Executive Officer of the Company, and Robert T. Lowry, Senior Vice President, Chief Financial Officer and Treasurer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 22, 2012

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

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

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