

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended September 30, 2017 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 Number)

9204 Columbia Avenue
Munster, Indiana

(Address of principal executive offices)

46321

(ZIP code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company)
Smaller Reporting Company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

There were 2,864,007 shares of the registrant's Common Stock, without par value, outstanding at October 20, 2017.

NorthWest Indiana Bancorp
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NorthWest Indiana Bancorp
Consolidated Balance Sheets

<i>(Dollars in thousands)</i>	September 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Cash and non-interest bearing deposits in other financial institutions	\$ 11,354	\$ 15,338
Interest bearing deposits in other financial institutions	2,306	29,556
Federal funds sold	<u>468</u>	<u>215</u>
Total cash and cash equivalents	14,128	45,109
Securities available-for-sale	243,552	233,625
Loans held-for-sale	2,007	2,193
Loans receivable	607,964	583,650
Less: allowance for loan losses	<u>(7,059)</u>	<u>(7,698)</u>
Net loans receivable	600,905	575,952
Federal Home Loan Bank stock	3,000	3,000
Accrued interest receivable	3,021	3,086
Premises and equipment	19,573	19,287
Foreclosed real estate	1,805	2,665
Cash value of bank owned life insurance	19,244	18,895
Goodwill	2,792	2,792
Other assets	<u>6,320</u>	<u>7,022</u>
Total assets	<u>\$ 916,347</u>	<u>\$ 913,626</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 118,797	\$ 111,800
Interest bearing	<u>638,763</u>	<u>667,971</u>
Total	757,560	779,771
Repurchase agreements	15,946	13,998
Borrowed funds	41,421	25,828
Accrued expenses and other liabilities	<u>10,293</u>	<u>9,921</u>
Total liabilities	825,220	829,518
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: September 30, 2017 - 2,920,045 December 31, 2016 - 2,916,195 shares outstanding: September 30, 2017 - 2,864,007 December 31, 2016 - 2,860,157	361	361
Additional paid-in capital	4,442	4,300
Accumulated other comprehensive gain/(loss)	760	(1,506)
Retained earnings	<u>85,564</u>	<u>80,953</u>
Total stockholders' equity	<u>91,127</u>	<u>84,108</u>
Total liabilities and stockholders' equity	<u>\$ 916,347</u>	<u>\$ 913,626</u>

See accompanying notes to consolidated financial statements.

NorthWest Indiana Bancorp
Consolidated Statements of Income
(unaudited)

(Dollars in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest income:				
Loans receivable				
Real estate loans	\$ 5,773	\$ 5,676	\$ 16,800	\$ 16,866
Commercial loans	1,050	982	3,116	2,771
Consumer loans	5	6	15	17
Total loan interest	6,828	6,664	19,931	19,654
Securities	1,585	1,498	4,801	4,566
Other interest earning assets	18	7	49	15
Total interest income	8,431	8,169	24,781	24,235
Interest expense:				
Deposits	518	445	1,475	1,315
Repurchase agreements	31	25	80	74
Borrowed funds	110	117	281	370
Total interest expense	659	587	1,836	1,759
Net interest income	7,772	7,582	22,945	22,476
Provision for loan losses	165	262	722	846
Net interest income after provision for loan losses	7,607	7,320	22,223	21,630
Noninterest income:				
Fees and service charges	843	763	2,404	2,143
Wealth management operations	459	423	1,267	1,280
Gain on sale of loans held-for-sale, net	412	579	883	1,120
Gain on sale of securities, net	213	283	758	700
Increase in cash value of bank owned life insurance	119	118	349	354
Gain on sale of foreclosed real estate, net	2	6	95	80
Other	27	15	64	18
Total noninterest income	2,075	2,187	5,820	5,695
Noninterest expense:				
Compensation and benefits	4,094	3,901	10,847	10,534
Occupancy and equipment	845	900	2,542	2,768
Data processing	364	343	1,092	1,005
Federal deposit insurance premiums	84	135	242	403
Marketing	135	108	469	352
Other	1,403	1,161	4,061	3,533
Total noninterest expense	6,925	6,548	19,253	18,595
Income before income tax expenses	2,757	2,959	8,790	8,730
Income tax expenses	509	631	1,715	1,917
Net income	\$ 2,248	\$ 2,328	\$ 7,075	\$ 6,813
Earnings per common share:				
Basic	\$ 0.78	\$ 0.81	\$ 2.47	\$ 2.38
Diluted	\$ 0.78	\$ 0.81	\$ 2.47	\$ 2.38
Dividends declared per common share	\$ 0.29	\$ 0.28	\$ 0.87	\$ 0.83

See accompanying notes to consolidated financial statements.

NorthWest Indiana Bancorp
Consolidated Statements of Comprehensive Income
(unaudited)

(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	\$ 2,248	\$ 2,328	\$ 7,075	\$ 6,813
Net change in net unrealized gains and losses on securities available-for-sale:				
Unrealized gains arising during the period	747	(947)	4,193	3,367
Less: reclassification adjustment for gains included in net income	(213)	(283)	(758)	(700)
Net securities gain (loss) during the period	534	(1,230)	3,435	2,667
Tax effect	(183)	416	(1,169)	(907)
Net of tax amount	351	(814)	2,266	1,760
Net change in unrealized gain on postretirement benefit:				
Amortization of net actuarial gain	-	(1)	-	(2)
Net loss during the period	-	(1)	-	(2)
Net of tax amount	-	(1)	-	(2)
Other comprehensive income, net of tax	351	(815)	2,266	1,758
Comprehensive income, net of tax	<u>\$ 2,599</u>	<u>\$ 1,513</u>	<u>\$ 9,341</u>	<u>\$ 8,571</u>

See accompanying notes to consolidated financial statements.

NorthWest Indiana Bancorp
Consolidated Statements of Changes in Stockholders' Equity
(unaudited)

(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Balance at beginning of period	\$ 89,308	\$ 86,461	\$ 84,108	\$ 80,909
Comprehensive income:				
Net income	2,248	2,328	7,075	6,813
Net unrealized gains (losses) on securities available-for-sale, net of reclassifications and tax effects	351	(814)	2,266	1,760
Amortization of unrecognized gain on postretirement benefit	-	(1)	-	(2)
Comprehensive income, net of tax	2,599	1,513	9,341	8,571
Stock based compensation expense	51	38	142	104
Cash dividends	(831)	(800)	(2,464)	(2,372)
Balance at end of period	<u>\$ 91,127</u>	<u>\$ 87,212</u>	<u>\$ 91,127</u>	<u>\$ 87,212</u>

See accompanying notes to consolidated financial statements.

NorthWest Indiana Bancorp
Consolidated Statements of Cash Flows
(unaudited)

(Dollars in thousands)	Nine Months Ended September 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 7,075	\$ 6,813
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Origination of loans for sale	(31,599)	(42,077)
Sale of loans originated for sale	32,659	41,986
Depreciation and amortization, net of accretion	1,906	1,920
Amortization of mortgage servicing rights	48	36
Stock based compensation expense	142	104
Gain on sale of securities, net	(758)	(700)
Gain on sale of loans held-for-sale, net	(883)	(1,120)
Gain on sale of foreclosed real estate, net	(95)	(80)
Provision for loan losses	722	846
Net change in:		
Interest receivable	65	97
Other assets	(538)	(2,242)
Accrued expenses and other liabilities	372	(86)
Total adjustments	2,041	(1,316)
Net cash - operating activities	9,116	5,497
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and pay downs of securities available-for-sale	18,887	34,822
Proceeds from sales of securities available-for-sale	48,063	26,977
Purchase of securities available-for-sale	(73,503)	(65,971)
Loan participations purchased	(362)	-
Net change in loans receivable	(25,260)	(23,122)
Purchase of premises and equipment, net	(1,373)	(898)
Proceeds from sale of foreclosed real estate, net	902	641
Change in cash value of bank owned life insurance	(349)	(354)
Net cash - investing activities	(32,995)	(27,905)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in deposits	(22,211)	33,485
Proceeds from FHLB advances	7,000	6,000
Repayment of FHLB advances	(8,000)	(15,000)
Change in other borrowed funds	18,541	5,294
Dividends paid	(2,432)	(2,343)
Net cash - financing activities	(7,102)	27,436
Net change in cash and cash equivalents	(30,981)	5,028
Cash and cash equivalents at beginning of period	45,109	11,533
Cash and cash equivalents at end of period	\$ 14,128	\$ 16,561
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 1,832	\$ 1,763
Income taxes	1,355	1,308
Noncash activities:		
Transfers from loans to foreclosed real estate	\$ 51	\$ 93
Transfers to goodwill	-	231

See accompanying notes to consolidated financial statements.

NorthWest Indiana Bancorp
Notes to Consolidated Financial Statements

Note 1 - Basis of Presentation

The consolidated financial statements include the accounts of NorthWest Indiana Bancorp (the "Bancorp"), its wholly-owned subsidiaries NWIN Risk Management, Inc. (a captive insurance subsidiary) and Peoples Bank SB (the "Bank"), and the Bank's wholly-owned subsidiaries, Peoples Service Corporation, NWIN, LLC, NWIN Funding, Incorporated, and Columbia Development Company, LLC. The Bancorp's business activities include being a holding company for the Bank as well as a holding company for NWIN Risk Management, Inc. The Bancorp's earnings are primarily dependent upon the earnings of the Bank. The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include all disclosures required by U.S. generally accepted accounting principles for complete presentation of consolidated financial statements. In the opinion of management, the consolidated financial statements contain all adjustments necessary to present fairly the consolidated balance sheets of the Bancorp as of September 30, 2017 and December 31, 2016, and the consolidated statements of income, comprehensive income, and changes in stockholders' equity for the three and nine months ended September 30, 2017 and 2016 and consolidated statements of cash flows for the nine months ended September 30, 2017 and 2016. The income reported for the nine month period ended September 30, 2017 is not necessarily indicative of the results to be expected for the full year.

Note 2 - Use of Estimates

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

Note 3 - Securities

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

	(Dollars in thousands)			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2017				
Money market fund	\$ 1,711	\$ -	\$ -	\$ 1,711
U.S. government sponsored entities	3,996	-	(82)	3,914
Collateralized mortgage obligations and residential mortgage-backed securities	141,870	552	(847)	141,575
Municipal securities	89,965	3,207	(84)	93,088
Collateralized debt obligations	4,853	-	(1,589)	3,264
Total securities available-for-sale	<u>\$ 242,395</u>	<u>\$ 3,759</u>	<u>\$ (2,602)</u>	<u>\$ 243,552</u>

	(Dollars in thousands)			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2016				
Money market fund	\$ 222	\$ -	\$ -	\$ 222
U.S. government sponsored entities	16,643	-	(369)	16,274
Collateralized mortgage obligations and residential mortgage-backed securities	118,807	441	(1,273)	117,975
Municipal securities	95,242	2,146	(643)	96,745
Collateralized debt obligations	4,989	-	(2,580)	2,409
Total securities available-for-sale	<u>\$ 235,903</u>	<u>\$ 2,587</u>	<u>\$ (4,865)</u>	<u>\$ 233,625</u>

The estimated fair value of available-for-sale debt securities at September 30, 2017, by contractual maturity, were as follows. Securities not due at a single maturity date, primarily collateralized mortgage obligations and residential mortgage-backed securities, are shown separately.

	(Dollars in thousands)	
	Available-for-sale	
	Estimated Fair Value	Tax-Equivalent Yield (%)
September 30, 2017		
Due in one year or less	\$ 1,994	7.46
Due from one to five years	5,414	4.82
Due from five to ten years	29,754	5.25
Due over ten years	64,815	4.75
Collateralized mortgage obligations and residential mortgage-backed securities	141,575	2.53
Total	<u>\$ 243,552</u>	<u>3.54</u>

Sales of available-for-sale securities were as follows for the nine months ended:

	(Dollars in thousands)	
	September 30, 2017	September 30, 2016
Proceeds	\$ 48,063	\$ 26,977
Gross gains	848	718
Gross losses	(90)	(18)

Accumulated other comprehensive income/(loss) balances, net of tax, related to available-for-sale securities, were as follows:

	(Dollars in thousands)	
	Unrealized gain/(loss)	
Ending balance, December 31, 2016	\$	(1,506)
Current period change		2,266
Ending balance, September 30, 2017	<u>\$</u>	<u>760</u>

Securities with carrying values of approximately \$22.9 million and \$32.4 million were pledged as of September 30, 2017 and December 31, 2016, respectively, as collateral for repurchase agreements, public funds, and for other purposes as permitted or required by law.

Securities with gross unrealized losses at September 30, 2017 and December 31, 2016 not recognized in income are as follows:

	(Dollars in thousands)					
	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
September 30, 2017						
U.S. government sponsored entities	\$ 1,952	\$ (44)	\$ 1,962	\$ (38)	\$ 3,914	\$ (82)
Collateralized mortgage obligations and residential mortgage-backed securities	70,176	(763)	3,841	(84)	74,017	(847)
Municipal securities	4,849	(43)	1,217	(41)	6,066	(84)
Collateralized debt obligations	-	-	3,264	(1,589)	3,264	(1,589)
Total temporarily impaired	<u>\$ 76,977</u>	<u>\$ (850)</u>	<u>\$ 10,284</u>	<u>\$ (1,752)</u>	<u>\$ 87,261</u>	<u>\$ (2,602)</u>
Number of securities		50		11		61

	(Dollars in thousands)					
	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
December 31, 2016						
U.S. government sponsored entities	\$ 16,274	\$ (369)	\$ -	\$ -	\$ 16,274	\$ (369)
Collateralized mortgage obligations and residential mortgage-backed securities	75,931	(1,183)	2,287	(90)	78,218	(1,273)
Municipal securities	20,775	(643)	-	-	20,775	(643)
Collateralized debt obligations	-	-	2,409	(2,580)	2,409	(2,580)
Total temporarily impaired	<u>\$ 112,980</u>	<u>\$ (2,195)</u>	<u>\$ 4,696</u>	<u>\$ (2,670)</u>	<u>\$ 117,676</u>	<u>\$ (4,865)</u>
Number of securities		97		6		103

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 those securities for the foreseeable future, and the decline in fair value is largely due to changes in interest rates and volatility in securities markets. The fair values are expected to recover as the securities approach maturity.

Note 4 - Loans Receivable

Loans receivable are summarized below:

(Dollars in thousands)

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Loans secured by real estate:		
Residential real estate	\$ 171,846	\$ 173,365
Home equity	35,308	32,614
Commercial real estate	203,388	195,438
Construction and land development	53,983	38,937
Multifamily	37,402	36,086
Total loans secured by real estate	<u>501,926</u>	<u>476,440</u>
Consumer	382	522
Commercial business	77,532	77,513
Government	29,830	29,529
Subtotal	<u>609,671</u>	<u>584,004</u>
Less:		
Net deferred loan origination fees	(158)	(162)
Undisbursed loan funds	(1,549)	(192)
Loans receivable	<u>\$ 607,964</u>	<u>\$ 583,650</u>

(Dollars in thousands)

	<u>Beginning Balance</u>	<u>Charge-offs</u>	<u>Recoveries</u>	<u>Provisions</u>	<u>Ending Balance</u>
The Bancorp's activity in the allowance for loan losses is summarized below for the three months ended September 30, 2017:					
Allowance for loan losses:					
Residential real estate	\$ 1,561	\$ (10)	\$ 3	\$ 17	\$ 1,571
Home equity	76	(35)	-	41	82
Commercial real estate	2,890	-	-	28	2,918
Construction and land development	600	-	-	(30)	570
Multifamily	501	-	-	40	541
Consumer	30	(29)	7	22	30
Commercial business	1,357	(120)	5	49	1,291
Government	58	-	-	(2)	56
Total	<u>\$ 7,073</u>	<u>\$ (194)</u>	<u>\$ 15</u>	<u>\$ 165</u>	<u>\$ 7,059</u>

The Bancorp's activity in the allowance for loan losses is summarized below for the three months ended September 30, 2016:

Allowance for loan losses:					
Residential real estate	\$ 1,485	\$ (93)	\$ 1	\$ 93	\$ 1,486
Home equity	285	-	-	4	289
Commercial real estate	3,099	-	-	126	3,225
Construction and land development	761	-	-	(40)	721
Multifamily	756	-	-	24	780
Consumer	37	(12)	1	25	51
Commercial business	846	-	8	43	897
Government	68	-	-	(13)	55
Total	<u>\$ 7,337</u>	<u>\$ (105)</u>	<u>\$ 10</u>	<u>\$ 262</u>	<u>\$ 7,504</u>

The Bancorp's activity in the allowance for loan losses is summarized below for the nine months ended September 30, 2017:

Allowance for loan losses:					
Residential real estate	\$ 2,111	\$ (913)	\$ 3	\$ 370	\$ 1,571
Home equity	299	(60)	-	(157)	82
Commercial real estate	3,113	-	-	(195)	2,918
Construction and land development	617	-	-	(47)	570
Multifamily	572	-	-	(31)	541
Consumer	34	(59)	11	44	30
Commercial business	896	(365)	22	737	1,291
Government	56	-	-	-	56
Total	<u>\$ 7,698</u>	<u>\$ (1,397)</u>	<u>\$ 36</u>	<u>\$ 722</u>	<u>\$ 7,059</u>

The Bancorp's activity in the allowance for loan losses is summarized below for the nine months ended September 30, 2016:

Allowance for loan losses:					
Residential real estate	\$ 1,448	\$ (305)	\$ 1	\$ 342	\$ 1,486
Home equity	263	-	-	26	289
Commercial real estate	2,986	-	-	239	3,225
Construction and land development	692	-	-	29	721
Multifamily	758	-	-	22	780
Consumer	38	(24)	5	32	51
Commercial business	698	-	28	171	897
Government	70	-	-	(15)	55
Total	<u>\$ 6,953</u>	<u>\$ (329)</u>	<u>\$ 34</u>	<u>\$ 846</u>	<u>\$ 7,504</u>

The Bancorp's individually impaired loans are summarized below:

<i>(Dollars in thousands)</i>	<i>Ending Balances</i>				
	<i>Individually evaluated impairment reserves</i>	<i>Collectively evaluated impairment reserves</i>	<i>Loan receivables</i>	<i>Loans individually evaluated for impairment</i>	<i>Purchased credit impaired loans individually evaluated for impairment</i>

The Bancorp's allowance for loan losses impairment evaluation and loan receivables are summarized below at September 30, 2017:

Residential real estate	\$ 27	\$ 1,544	\$ 171,667	\$ 495	\$ 773	\$ 170,399
Home equity	-	82	35,357	-	-	35,357
Commercial real estate	136	2,782	203,388	557	-	202,831
Construction and land development	-	570	53,983	134	-	53,849
Multifamily	-	541	37,402	-	-	37,402
Consumer	-	30	383	-	-	383
Commercial business	562	729	75,954	749	-	75,205
Government	-	56	29,830	-	-	29,830
Total	\$ 725	\$ 6,334	\$ 607,964	\$ 1,935	\$ 773	\$ 605,256

The Bancorp's allowance for loan losses impairment evaluation and loan receivables are summarized below at December 31, 2016:

Residential real estate	\$ 879	\$ 1,232	\$ 173,262	\$ 1,419	\$ 956	\$ 170,887
Home equity	-	299	32,575	-	-	32,575
Commercial real estate	3	3,110	195,438	322	-	195,116
Construction and land development	-	617	38,937	134	-	38,803
Multifamily	-	572	36,086	-	-	36,086
Consumer	-	34	524	-	-	524
Commercial business	354	542	77,299	687	-	76,612
Government	-	56	29,529	-	-	29,529
Total	\$ 1,236	\$ 6,462	\$ 583,650	\$ 2,561	\$ 956	\$ 580,132

The Bancorp's credit quality indicators are summarized below at September 30, 2017 and December 31, 2016:

Credit Exposure - Credit Risk Portfolio By Creditworthiness Category							
September 30, 2017							
<i>(Dollars in thousands)</i>	2	3	4	5	6	7	8
Loan Segment	Moderate	Above average acceptable	Acceptable	Marginally acceptable	Pass/monitor	Special mention	Substandard
Residential real estate	\$ 444	\$ 10,789	\$ 93,622	\$ 8,020	\$ 51,256	\$ 4,135	\$ 3,401
Home equity	50	1,016	33,266	-	276	233	516
Commercial real estate	-	2,433	80,119	74,764	38,816	6,699	557
Construction and land development	399	525	18,106	25,287	9,532	-	134
Multifamily	-	-	20,584	14,803	1,844	171	-
Consumer	58	7	318	-	-	-	-
Commercial business	5,556	17,985	18,915	20,196	11,613	470	1,219
Government	-	2,318	24,937	2,575	-	-	-
Total	\$ 6,507	\$ 35,073	\$ 289,867	\$ 145,645	\$ 113,337	\$ 11,708	\$ 5,827

December 31, 2016							
Loan Segment	2	3	4	5	6	7	8
Loan Segment	Moderate	Above average acceptable	Acceptable	Marginally acceptable	Pass/monitor	Special mention	Substandard
Residential real estate	\$ -	\$ 6,068	\$ 94,394	\$ 7,085	\$ 57,644	\$ 4,015	\$ 4,056
Home equity	82	1,172	30,459	-	250	236	376
Commercial real estate	248	2,708	93,293	64,950	28,306	5,611	322
Construction and land development	-	439	11,355	18,912	8,097	-	134
Multifamily	-	-	17,123	16,836	1,939	188	-
Consumer	90	4	430	-	-	-	-
Commercial business	6,315	15,043	24,754	18,787	10,653	533	1,214
Government	-	955	25,474	3,100	-	-	-
Total	\$ 6,735	\$ 26,389	\$ 297,282	\$ 129,670	\$ 106,889	\$ 10,583	\$ 6,102

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 these 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 – Above average acceptable risk

Borrower generates sufficient cash flow to fund debt service and some working assets and/or capital expansion needs. Profitability and key balance sheet ratios are at or slightly above peers. Current trends are positive or stable. Earnings may be level or trending down slightly or be erratic; however, positive strengths are offsetting. Risk of default is reasonable but may warrant collateral protection.

4 – Acceptable risk

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.

5 – Marginally acceptable risk

Borrower may exhibit excessive growth, declining earnings, strained cash flow, increasing leverage and/or weakening market position that indicate above average risk. Limited additional debt capacity, modest coverage, and average or below average asset quality, margins and market share. Interim losses and/or adverse trends may occur, but not to the level that would affect the Bank's position. The potential for default is higher than normal but considered marginally acceptable based on prospects for improving financial performance and the strength of the collateral.

6 – 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.

7 – 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 service of debt. The perceived risk in continued lending is 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.

8 – 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.

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

During the first nine months of 2017, no loans were modified as a troubled debt restructuring. No troubled debt restructurings have subsequently defaulted during the periods presented. All of the loans classified as troubled debt restructurings are also considered impaired. 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 Bancorp's individually evaluated impaired loans are summarized below:

	As of September 30, 2017			For the nine months ended September 30, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<i>(Dollars in thousands)</i>					
With no related allowance recorded:					
Residential real estate	\$ 1,208	\$ 3,824	\$ -	\$ 1,302	\$ 48
Home equity	-	-	-	-	-
Commercial real estate	298	298	-	361	4
Construction and land development	134	134	-	134	-
Multifamily	-	-	-	-	-
Commercial business	187	187	-	201	3
With an allowance recorded:					
Residential real estate	60	60	27	300	1
Home equity	-	-	-	-	-
Commercial real estate	259	259	136	139	-
Construction and land development	-	-	-	-	-
Multifamily	-	-	-	-	-
Commercial business	562	562	562	481	4
Total:					
Residential real estate	\$ 1,268	\$ 3,884	\$ 27	\$ 1,602	\$ 49
Home equity	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate	\$ 557	\$ 557	\$ 136	\$ 500	\$ 4
Construction & land development	\$ 134	\$ 134	\$ -	\$ 134	\$ -
Multifamily	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial business	\$ 749	\$ 749	\$ 562	\$ 682	\$ 7

	As of December 31, 2016			For the nine months ended September 30, 2016	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<i>(Dollars in thousands)</i>					
With no related allowance recorded:					
Residential real estate	\$ 1,309	\$ 3,293	\$ -	\$ 2,900	\$ 113
Home equity	-	-	-	-	-
Commercial real estate	304	304	-	1,346	-
Construction and land development	134	134	-	134	-
Multifamily	-	-	-	-	-
Commercial business	212	212	-	260	3
With an allowance recorded:					
Residential real estate	1,066	1,066	879	168	4
Home equity	-	-	-	-	-
Commercial real estate	18	18	3	107	5
Construction & land development	-	-	-	-	-
Multifamily	-	-	-	-	-
Commercial business	475	475	354	184	1
Total:					
Residential real estate	\$ 2,375	\$ 4,359	\$ 879	\$ 3,068	\$ 117
Home equity	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate	\$ 322	\$ 322	\$ 3	\$ 1,453	\$ 5
Construction & land development	\$ 134	\$ 134	\$ -	\$ 134	\$ -
Multifamily	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial business	\$ 687	\$ 687	\$ 354	\$ 444	\$ 4

As part of the acquisitions of First Federal Savings and Loan Association of Hammond ("First Federal"), which closed during the second quarter of 2014, and Liberty Savings Bank ("Liberty"), which closed during the third quarter of 2015, the Bancorp acquired loans for which there was evidence of credit quality deterioration since origination and it was determined that it was probable that the Bancorp would be unable to collect all contractually required principal and interest payments. At September 30, 2017, total purchased credit impaired loans with unpaid principal balances totaled \$2.7 million with a recorded investment of \$773 thousand, compared to December 31, 2016, at which unpaid principal balances totaled \$2.9 million with a recorded investment of \$956 thousand. First Federal purchased credit impaired loans with unpaid principal balances totaled \$1.1 million with a recorded investment of \$388 thousand at September 30, 2017, compared to December 31, 2016, at which unpaid principal balances totaled \$1.2 million with a recorded investment of \$507 thousand. Liberty purchased credit impaired loans with unpaid principal balances totaled \$1.6 million with a recorded investment of \$385 thousand at September 30, 2017, compared to December 31, 2016, at which unpaid principal balances totaled \$1.7 million with a recorded investment of \$449 thousand.

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

<i>(Dollars in thousands)</i>	30-59 Days	60-89 Days	Greater Than	Total Past	Current	Total Loans	Recorded Investments Greater than 90 Days Past Due and Accruing
	Past Due	Past Due	90 Days Past Due	Due			
September 30, 2017							
Residential real estate	\$ 3,957	\$ 1,635	\$ 3,046	\$ 8,638	\$ 163,029	\$ 171,667	\$ 380
Home equity	96	46	260	402	34,955	35,357	-
Commercial real estate	98	732	557	1,387	202,001	203,388	-
Construction and land development	-	-	134	134	53,849	53,983	-
Multifamily	163	-	-	163	37,239	37,402	-
Consumer	-	-	-	-	383	383	-
Commercial business	306	53	562	921	75,033	75,954	-
Government	-	-	-	-	29,830	29,830	-
Total	\$ 4,620	\$ 2,466	\$ 4,559	\$ 11,645	\$ 596,319	\$ 607,964	\$ 380
December 31, 2016							
Residential real estate	\$ 3,640	\$ 1,702	\$ 3,804	\$ 9,146	\$ 164,116	\$ 173,262	\$ 436
Home equity	334	73	220	627	31,948	32,575	64
Commercial real estate	208	189	322	719	194,719	195,438	-
Construction and land development	-	-	134	134	38,803	38,937	-
Multifamily	188	-	-	188	35,898	36,086	-
Consumer	-	-	-	-	524	524	-
Commercial business	171	217	466	854	76,445	77,299	-
Government	-	-	-	-	29,529	29,529	-
Total	\$ 4,541	\$ 2,181	\$ 4,946	\$ 11,668	\$ 571,982	\$ 583,650	\$ 500

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

(Dollars in thousands)

	September 30, 2017	December 31, 2016
Residential real estate	\$ 3,307	\$ 4,342
Home equity	516	179
Commercial real estate	557	322
Construction and land development	134	134
Multifamily	-	-
Consumer	-	-
Commercial business	695	628
Government	-	-
Total	<u>\$ 5,209</u>	<u>\$ 5,605</u>

Note 5 - Foreclosed Real Estate

Foreclosed real estate at period-end is summarized below:

	(Dollars in thousands)	
	September 30, 2017	December 31, 2016
Residential real estate	\$ 1,032	\$ 1,810
Home equity	-	-
Commercial real estate	97	161
Construction and land development	676	694
Multifamily	-	-
Consumer	-	-
Commercial business	-	-
Government	-	-
Total	<u>\$ 1,805</u>	<u>\$ 2,665</u>

Note 6 - Goodwill, Other Intangible Assets, and Acquisition Related Accounting

The Bancorp established a goodwill balance totaling \$2.8 million with the acquisitions of First Federal and Liberty. Goodwill of \$2.0 million was established with the acquisition of First Federal and goodwill of \$804 thousand was established with the acquisition of Liberty. Goodwill is tested annually for impairment. Goodwill arising from business combinations represents the value attributable to unidentifiable intangible assets in the business acquired. The Bancorp's goodwill relates to the value inherent in the banking industry and that value is dependent upon the ability of the Bancorp to provide quality, cost effective banking services in a competitive marketplace. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. There has not been any impairment of goodwill identified or recorded. During the second quarter of 2016, original estimates related to Liberty goodwill components were adjusted. Estimates of fair values related to a pool of purchased loans were determined to be lower than originally estimated, which led to the addition of \$178 thousand to goodwill. Fixed asset valuations were also determined to be higher than originally estimated, which led to a reduction of \$109 thousand to goodwill. Also, the valuation of the accrued withdrawal liability for the defined benefit plan was determined to be higher than originally estimated leading to the addition of \$162 thousand to goodwill. Goodwill totaled \$2.8 million at September 30, 2017 and December 31, 2016.

In addition to goodwill, a core deposit intangible of \$93 thousand for the acquisition of First Federal was established and is being amortized over 7.9 years on a straight line basis. Approximately \$9 thousand of amortization was taken during the nine months ended September 30, 2017 and September 30, 2016. It is estimated that an additional \$3 thousand of additional amortization will occur during 2017 and the remaining amount of \$48 thousand will be amortized through to the first quarter of 2022. A core deposit intangible of \$471 thousand for the acquisition of Liberty was established and is being amortized over 8.2 years on a straight line basis. Approximately \$43 thousand of amortization was taken during the nine months ended September 30, 2017 and September 30, 2016. It is estimated that \$14 thousand of additional amortization will occur during 2017 and the remaining amount of \$327 thousand will be amortized through to the third quarter of 2023.

For the First Federal acquisition, as part of the fair value of loans receivable, a net fair value discount was established for residential real estate, including home equity lines of credit, of \$1.1 million that is being accreted over 55 months on a straight line basis. Approximately \$112 thousand of accretion was taken into income for the nine months ended September 30, 2017, compared to \$146 thousand for the nine months ended September 30, 2016. It is estimated that \$46 thousand of additional accretion will occur in 2017, and accretion of \$151 thousand will occur during 2018. Similarly, for the Liberty acquisition, as part of the fair value of loans receivable, a net fair value discount was established for residential real estate, including home equity lines of credit, of \$1.2 million that is being accreted over 44 months on a straight line basis. Approximately \$239 thousand of accretion was taken into income for the nine months ended September 30, 2017, compared to \$274 thousand for the nine months ended September 30, 2016. It is estimated that \$67 thousand of additional accretion will occur in 2017, accretion of \$266 thousand will occur in 2018, and accretion of \$44 thousand will occur during 2019.

For the Liberty acquisition, as part of the fair value of certificates of deposit, a fair value premium was established of \$124 thousand that was amortized over 17 months on a straight line basis. No amortization expense was taken during the nine months ended September 30, 2017, compared to \$66 thousand of amortization taken as expense during the nine months ended September 30, 2016. No additional amortization expense will occur during 2017.

Note 7 - Concentrations of Credit Risk

The primary lending area of the Bancorp encompasses all of Lake County in northwest Indiana, where a majority of loan activity is concentrated. The Bancorp is also an active lender in Porter County, and to a lesser extent, LaPorte, Newton and Jasper counties in Indiana, and Lake, Cook and Will counties in Illinois. Substantially all loans are secured by specific items of collateral including residences, commercial real estate, land development, business assets and consumer assets.

Note 8 - Earnings per Share

Earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding. A reconciliation of the numerators and denominators of the basic and diluted earnings per common share computations for the three and nine months ended September 30, 2017 and 2016 are as follows:

(Dollars in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Basic earnings per common share:				
Net income as reported	\$ 2,248	\$ 2,328	\$ 7,075	\$ 6,813
Weighted average common shares outstanding	2,864,007	2,860,157	2,863,806	2,858,019
Basic earnings per common share	\$ 0.78	\$ 0.81	\$ 2.47	\$ 2.38
Diluted earnings per common share:				
Net income as reported	\$ 2,248	\$ 2,328	\$ 7,075	\$ 6,813
Weighted average common shares outstanding	2,864,007	2,860,157	2,863,806	2,858,019
Add: Dilutive effect of assumed stock option exercises	155	750	147	750
Weighted average common and dilutive potential common shares outstanding	2,864,162	2,860,907	2,863,953	2,858,769
Diluted earnings per common share	\$ 0.78	\$ 0.81	\$ 2.47	\$ 2.38

Note 9 - Stock Based Compensation

The Bancorp's 2015 Stock Option and Incentive Plan (the Plan), which was adopted by the Bancorp's Board of Directors on February 27, 2015 and approved by the Bancorp's shareholders on April 24, 2015, permits the grant of equity awards for up to 250,000 shares of common stock. Awards granted under the Plan may be in the form of incentive stock options, non-qualified stock options, restricted stock, unrestricted stock, performance shares, or performance units.

As required by the Stock Compensation Topic, companies are required to record compensation cost for stock options and awards provided to employees in return for employment service. For the nine months ended September 30, 2017, stock based compensation expense of \$142 thousand was recorded, compared to \$104 thousand for the nine months ended September 30, 2016. It is anticipated that current outstanding unvested options and awards will result in additional compensation expense of approximately \$51 thousand in 2017 and \$147 thousand in 2018.

There were no incentive stock options granted during the first nine months of 2017 or 2016. When options are granted, the cost is measured at the fair value of the options when granted, and this cost is expensed over the employment service period, which is normally the vesting period of the options or awards.

A summary of incentive option activity under the Bancorp's stock option and incentive plans described above for the nine months ended September 30, 2017 follows:

Incentive options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2017	500	\$ 28.50		
Granted	-	-		
Exercised	-	-		
Forfeited	-	-		
Expired	-	\$ -		
Outstanding at September 30, 2017	500	\$ 28.50	0.4	6,500
Exercisable at September 30, 2017	500	\$ 28.50	0.4	6,500

There were 4,575 shares of restricted stock granted during the first nine months of 2017 compared to 8,740 shares granted during the first nine months of 2016. Restricted stock awards are issued with an award price equal to the market price of the Bancorp's common stock on the award date and vest five years after the grant date. Forfeiture provisions exist for personnel that separate employment before the vesting period expires. A summary of restricted stock activity under the Bancorp's incentive stock option and incentive plans described above for the nine months ended September 30, 2017 follows:

Restricted stock	Shares	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2017	28,465	\$ 26.67
Granted	4,575	39.00
Vested	1,625	25.81
Forfeited	725	28.62
Nonvested at September 30, 2017	30,690	\$ 28.51

Note 10 - Adoption of New Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, Revenue Recognition. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Bancorp's year ending December 31, 2018. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Bancorp has not yet determined which application method it will use. Interest income is outside of the scope of the new standard and will not be impacted by the adoption of the standard. The Bancorp is still evaluating the impact of the new standard on its noninterest income.

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU covers various changes to the accounting, measurement, and disclosures related to certain financial instruments, including requiring equity investments to be accounted for at fair value with changes recorded through earnings, the use of the exit price when measuring fair value, and disaggregation of financial assets and liabilities by category for disclosure purposes. The new guidance will be effective for the Bancorp's year ending December 31, 2018. Early adoption is permitted as early as periods ending after December 31, 2017 with some additional options for early application. The Bancorp does not believe adopting the provisions of ASU No. 2016-01 in the future will have a material impact on the consolidated financial statements. The Bancorp has not yet quantified the impact of the change.

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Bancorp's year ending December 31, 2019 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. Management does not believe the adoption of this update will have a material effect on the Bancorp's consolidated financial statements.

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes increased disclosures and various changes to the accounting and measurement of financial assets including the Bancorp's loans and available-for-sale and held-to-maturity debt securities. Each financial asset presented on the balance sheet would have a unique allowance for credit losses valuation account that is deducted from the amortized cost basis to present the net carrying value at the amount expected to be collected on the financial asset. The amendments in this ASU also eliminate the probable initial recognition threshold in current GAAP and instead, reflect an entity's current estimate of all expected credit losses using reasonable and supportable forecasts. The new credit loss guidance will be effective for the Bancorp's year ending December 31, 2020. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the first reporting period in which the guidance is effective. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. Early adoption for all institutions is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Management is in the process of evaluating the impact adoption of this update will have on the Bancorp's consolidated financial statements.

Note 11 - Fair Value

The Fair Value Measurements 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 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 a 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 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 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; 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 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.

The Bancorp's management utilizes a specialist to perform an other-than-temporary impairment analysis for each of its four pooled trust preferred securities. The analysis is performed semiannually on June 30 and December 31 and 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 then 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 semi-annual 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, respectively), 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, and bank call reports filed with the FDIC and the Office of the Comptroller of Currency. 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 (non-interest 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. Based on current market conditions and a review of the trustee reports, management performed an analysis of the four pooled trust preferred securities and no additional impairment was taken at September 30, 2017. A specialist will be used to review all four pooled trust preferred securities again at December 31, 2017.

The table below shows the credit loss roll forward on a year-to-date basis 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-temporary impairment**

Ending balance, December 31, 2016	\$	271
Additions not previously recognized		-
Ending balance, September 30, 2017	\$	271

The following table contains information regarding the Bancorp's pooled trust preferred securities impairment evaluation as of June 30, 2017:

Cusip	74043CAC1	74042TAJ0	01449TAB9	01450NAC6
Deal name	PreTSL XXIV	PreTSL XXVII	Alesco IX	Alesco XVII
Class	B-1	C-1	A-2A	B
Lowest credit rating assigned	CCC	CC	BB	CCC
Number of performing banks	62	33	62	51
Number of performing insurance companies	13	7	10	n/a
Number of issuers in default	16	7	2	4
Number of issuers in deferral	2	2	2	1
Defaults & deferrals as a % of performing collateral	26.56%	20.06%	4.22%	8.11%
Subordination:				
As a % of performing collateral	23.55%	8.35%	52.53%	35.58%
As a % of performing collateral - adjusted for projected future defaults	18.93%	1.24%	49.17%	31.69%
Other-than-temporary impairment model assumptions:				
Defaults:				
Year 1 - issuer average	1.90%	2.40%	2.20%	1.90%
Year 2 - issuer average	1.90%	2.40%	2.20%	1.90%
Year 3 - issuer average	1.90%	2.40%	2.20%	1.90%
> 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	\$ 132	\$ 36	\$ 62

(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 preceding table, 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 September 30, 2017, 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 a 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 September 30, 2017, three of the trust preferred securities with a cost basis of \$3.6 million continue to be 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 Value on a Recurring Basis

There were no transfers to or from Levels 1 and 2 during the nine months ended September 30, 2017. Assets measured at fair value on a recurring basis are summarized below:

(Dollars in thousands)	(Dollars in thousands)			
	Fair Value Measurements at September 30, 2017 Using			
	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale debt securities:				
Money market fund	\$ 1,711	\$ 1,711	\$ -	\$ -
U.S. government sponsored entities	3,914	-	3,914	-
Collateralized mortgage obligations and residential mortgage-backed securities	141,575	-	141,575	-
Municipal securities	93,088	-	93,088	-
Collateralized debt obligations	3,264	-	-	3,264
Total securities available-for-sale	<u>\$ 243,552</u>	<u>\$ 1,711</u>	<u>\$ 238,577</u>	<u>\$ 3,264</u>

(Dollars in thousands)	(Dollars in thousands)			
	Fair Value Measurements at December 31, 2016 Using			
	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale debt securities:				
Money market fund	\$ 222	\$ 222	\$ -	\$ -
U.S. government sponsored entities	16,274	-	16,274	-
Collateralized mortgage obligations and residential mortgage-backed securities	117,975	-	117,975	-
Municipal securities	96,745	-	96,745	-
Collateralized debt obligations	2,409	-	-	2,409
Total securities available-for-sale	<u>\$ 233,625</u>	<u>\$ 222</u>	<u>\$ 230,994</u>	<u>\$ 2,409</u>

A roll forward of available-for-sale securities, which require significant adjustment based on unobservable data, are presented in the following table:

	(Dollars in thousands)	
	Estimated Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Available-for- sale securities	
Beginning balance, January 1, 2016	\$	2,734
Principal payments		(107)
Total unrealized losses, included in other comprehensive income		(218)
Transfers in and/or (out) of Level 3		-
Ending balance, December 31, 2016	<u>\$</u>	<u>2,409</u>
Beginning balance, January 1, 2017	\$	2,409
Principal payments		(136)
Total unrealized gains, included in other comprehensive income		991
Transfers in and/or (out) of Level 3		-
Ending balance, September 30, 2017	<u>\$</u>	<u>3,264</u>

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

(Dollars in thousands)				
Fair Value Measurements at September 30, 2017 Using				
(Dollars in thousands)	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ 1,983	\$ -	\$ -	\$ 1,983
Foreclosed real estate	1,805	-	-	1,805

(Dollars in thousands)				
Fair Value Measurements at December 31, 2016 Using				
(Dollars in thousands)	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ 2,282	\$ -	\$ -	\$ 2,282
Foreclosed real estate	2,665	-	-	2,665

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 a present value of 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 recorded investment in impaired loans was approximately \$2.7 million and the related specific reserves totaled approximately \$725 thousand, resulting in a fair value of impaired loans totaling approximately \$2.0 million, at September 30, 2017. The recorded investment of impaired loans was approximately \$3.5 million and the related specific reserves totaled approximately \$1.2 million, resulting in a fair value of impaired loans totaling approximately \$2.3 million, at December 31, 2016. 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 numerical range of unobservable inputs for these valuation assumptions is not meaningful to this presentation.

The following table shows carrying values and related estimated fair values of financial instruments as of the dates indicated. Estimated fair values are further categorized by the inputs used to measure fair value. Items that are not financial instruments are not included.

(Dollars in thousands)	September 30, 2017		Estimated Fair Value Measurements at September 30, 2017 Using		
	Carrying Value	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Financial assets:</u>					
Cash and cash equivalents	\$ 14,128	\$ 14,128	\$ 14,128	\$ -	\$ -
Securities available-for-sale	243,552	243,552	1,711	238,577	3,264
Loans held-for-sale	2,007	2,049	2,049	-	-
Loans receivable, net	600,905	594,357	-	-	594,357
Federal Home Loan Bank stock	3,000	3,000	-	3,000	-
Accrued interest receivable	3,021	3,021	-	3,021	-
<u>Financial liabilities:</u>					
Non-interest bearing deposits	118,797	118,797	118,797	-	-
Interest bearing deposits	638,763	637,759	465,938	171,821	-
Repurchase agreements	15,946	15,942	14,191	1,751	-
Borrowed funds	41,421	41,417	283	41,134	-
Accrued interest payable	45	45	-	45	-

(Dollars in thousands)	December 31, 2016		Estimated Fair Value Measurements at December 31, 2016 Using		
	Carrying Value	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	\$ 45,109	\$ 45,109	\$ 45,109	\$ -	\$ -
Securities available-for-sale	233,625	233,625	222	230,994	2,409
Loans held-for-sale	2,193	2,242	2,242	-	-
Loans receivable, net	575,952	568,855	-	-	568,855
Federal Home Loan Bank stock	3,000	3,000	-	3,000	-
Accrued interest receivable	3,086	3,086	-	3,086	-
Financial liabilities:					
Non-interest bearing deposits	111,800	111,800	111,800	-	-
Interest bearing deposits	667,971	667,227	482,307	184,920	-
Repurchase agreements	13,998	13,995	11,439	2,556	-
Borrowed funds	25,828	25,840	700	25,140	-
Accrued interest payable	41	41	-	41	-

The following methods were used to estimate the fair value of financial instruments presented in the preceding table for the periods ended September 30, 2017 and December 31, 2016:

Cash and cash equivalents carrying amounts approximate fair value. The fair values of securities available-for-sale are obtained from broker pricing (Level 2), with the exception of collateralized debt obligations, which are valued by a third-party specialist (Level 3). Loans held-for-sale comprise residential mortgages and are priced based on values established by the secondary mortgage markets (Level 1). The estimated fair value for net loans receivable is based on estimates of the rate the Bancorp would charge for similar such loans, applied for the time period until estimated repayment, in addition to appraisals which may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach (Level 3). Federal Home Loan Bank stock is estimated at book value due to restrictions that limit the sale or transfer of the security. Fair value of accrued interest receivable and payable approximates book value, as the carrying values are determined using the observable interest rate, balance, and last payment date.

Non-interest and interest bearing deposits, which include checking, savings, and money market deposits, are estimated to have fair values based on the amount payable as of the reporting date (Level 1). The fair value of fixed-maturity certificates of deposit (included in interest bearing deposits) are based on estimates of the rate the Bancorp would pay on similar deposits, applied for the time period until maturity (Level 2). Estimated fair values for short-term repurchase agreements, which represent sweeps from demand deposits to accounts secured by pledged securities, are estimated based on the amount payable as of the reporting date (Level 1). Longer-term repurchase agreements, with contractual maturity dates of three months or more, are based on estimates of the rate the Bancorp would pay on similar deposits, applied for the time period until maturity (Level 2). Short-term borrowings are generally only held overnight, therefore, their carrying amount is a reasonable estimate of fair value (Level 1). The fair value of FHLB Advances (included in borrowed funds) are estimated by discounting the future cash flows using quoted rates from the FHLB for similar advances with similar maturities (Level 2). The estimated fair value of other financial instruments, and off-balance sheet loan commitments, approximate cost and are not considered significant to this presentation.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Summary

NorthWest Indiana Bancorp (the "Bancorp") is a financial holding company registered with the Board of Governors of the Federal Reserve System. Peoples Bank SB ("the Bank"), an Indiana savings bank, and NWIN Risk Management, Inc., a captive insurance company, are wholly-owned subsidiaries of the Bancorp. The Bancorp has no other business activity other than being a holding company for the Bank and NWIN Risk Management, Inc.

At September 30, 2017, the Bancorp had total assets of \$916.3 million, total loans receivable of \$608.0 million and total deposits of \$757.6 million. Stockholders' equity totaled \$91.1 million or 9.94% of total assets, with a book value per share of \$31.82. Net income for the quarter ended September 30, 2017, was \$2.2 million, or \$0.78 earnings per common share for both basic and diluted calculations. For the quarter ended September 30, 2017, the return on average assets (ROA) was 0.98%, while the return on average stockholders' equity (ROE) was 9.80%. Net income for the nine months ended September 30, 2017, was \$7.1 million, or \$2.47 earnings per common share for both basic and diluted calculations. For the nine months ended September 30, 2017, the ROA was 1.04%, while the ROE was 10.54%.

Financial Condition

During the nine months ended September 30, 2017, total assets increased by \$2.7 million (0.3%), with interest-earning assets increasing by \$7.1 million (0.8%). At September 30, 2017, interest-earning assets totaled \$859.3 million compared to \$852.2 million at December 31, 2016. Earning assets represented 93.8% of total assets at September 30, 2017 and 93.3% of total assets at December 31, 2016. The increase in total assets and interest earning assets for the nine months was the result of internally generated growth.

Net loans receivable totaled \$600.9 million at September 30, 2017, compared to \$576.0 million at December 31, 2016. The loan portfolio, which is the Bancorp's largest asset, is the primary source of both interest and fee income. The Bancorp's lending strategy emphasizes quality loan growth, product diversification, and competitive and profitable pricing.

The Bancorp's end-of-period loan balances were as follows:

(Dollars in thousands)	September 30, 2017 (unaudited)		December 31, 2016	
	Balance	% Loans	Balance	% Loans
Residential real estate	\$ 171,667	28.2%	\$ 173,262	29.7%
Home equity	35,357	5.8%	32,575	5.6%
Commercial real estate	203,388	33.5%	195,438	33.5%
Construction and land development	53,983	8.9%	38,937	6.7%
Multifamily	37,402	6.2%	36,086	6.2%
Consumer	383	0.1%	524	0.1%
Commercial business	75,954	12.5%	77,299	13.2%
Government	29,830	4.8%	29,529	5.0%
Loans receivable	<u>\$ 607,964</u>	<u>100.0%</u>	<u>\$ 583,650</u>	<u>100.0%</u>
Adjustable rate loans / loans receivable	\$ 349,022	57.4%	\$ 332,650	57.0%

	September 30, 2017 (unaudited)	December 31, 2016
Loans receivable to total assets	66.3%	63.9%
Loans receivable to earning assets	70.8%	68.5%
Loans receivable to total deposits	80.3%	74.8%

The Bancorp is primarily a portfolio lender. Mortgage banking activities historically have been limited to the sale of fixed rate mortgage loans with contractual maturities greater than 15 years. These loans are identified as held for sale when originated and sold, on a loan-by-loan basis, in the secondary market. The Bancorp will also retain fixed rate mortgage loans with a contractual maturity greater than 15 years on a limited basis. During the nine months ended September 30, 2017, the Bancorp originated \$31.6 million in new fixed rate mortgage loans for sale, compared to \$42.1 million during the nine months ended September 30, 2016. Net gains realized from the mortgage loan sales totaled \$883 thousand for the nine months ended September 30, 2017, compared to \$1.1 million for the nine months ended September 30, 2016. At September 30, 2017, the Bancorp had \$2.0 million in loans that were classified as held for sale, compared to \$2.2 million at December 31, 2016.

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 net of 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.

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 \$5.6 million at September 30, 2017, compared to \$6.1 million at December 31, 2016, a decrease of \$516 thousand or 8.5%. The decrease in non-performing loans for the first nine months of 2017 is primarily due to a partial charge-off totaling \$829 thousand for twenty-six Investor Owned Residential Real Estate loans. The ratio of non-performing loans to total loans was 0.92% at September 30, 2017, compared to 1.05% at December 31, 2016. The ratio of non-performing loans to total assets was 0.61% at September 30, 2017, compared to 0.67% at December 31, 2016. At September 30, 2017, all non-performing loans are also accounted for on a non-accrual basis, except for seven residential real estate loans totaling \$380 thousand that remained accruing and more than 90 days past due.

Loans internally classified as substandard totaled \$5.8 million at September 30, 2017, compared to \$6.1 million at December 31, 2016, a decrease of \$276 thousand or 4.5%. The decrease in substandard loans is primarily due to a partial charge-off totaling \$829 thousand for twenty-six Investor Owned Residential Real Estate loans, a charge-off totaling \$358 thousand for five commercial business loans, and one residential real estate loan totaling \$272 thousand that was upgraded to watch. The decrease is largely offset by \$526 thousand in two commercial business loans, \$241 thousand in four commercial real estate loans, and \$185 thousand in one home equity loan that was added to the substandard classification. 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 September 30, 2017 or December 31, 2016. 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 as substandard. Watch loans totaled \$11.7 million at September 30, 2017, compared to \$10.6 million at December 31, 2016, an increase of \$1.1 million or 10.6%. The increase in watch loans is primarily due to the addition of two non-related commercial real estate loans totaling \$1.3 million.

A loan is considered impaired when, based on current information and events, it is probable that a borrower will be unable to pay all amounts due according to the contractual terms of the loan agreement. At September 30, 2017, impaired loans totaled \$2.7 million, compared to \$3.5 million at December 31, 2016, a decrease of \$811 thousand or 23.1%. The decrease in impaired loans for the first nine months of 2017 is primarily due to a partial charge-off totaling \$829 thousand for twenty-six Investor Owned Residential Real Estate loans which was offset by the addition of two commercial business loans totaling \$526 thousand and four commercial real estate loans totaling \$241 thousand. The September 30, 2017 impaired loan balances consist of seven commercial real estate loans, seven commercial business loans, and one construction and land development loan, all of which total \$1.4 million that are secured by business assets and real estate, and are personally guaranteed by the owners of the businesses. In addition, 70 Investor Owned Residential Real Estate and purchased credit impaired loans totaling \$1.3 million have also been classified as impaired. At September 30, 2017 the ALL contained \$725 thousand in specific reserves for impaired loans, compared to \$1.2 million at December 31, 2016. There were no other loans considered for impairment as of September 30, 2017. 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.

Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date. Purchased loans with evidence of credit quality deterioration since origination are considered purchased credit impaired loans. Expected future cash flows at the purchase date in excess of the fair value of loans are recorded as interest income over the life of the loans if the timing and amount of the future cash flows is reasonably estimable ("accretible yield"). The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretible difference and represents probable losses in the portfolio. In determining the acquisition date fair value of purchased credit impaired loans, and in subsequent accounting, the Bancorp aggregates these purchased loans into pools of loans by common risk characteristics, such as credit risk rating and loan type. Subsequent to the purchase date, increases in cash flows over those expected at the purchase date are recognized as interest income prospectively. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. During the second quarter of 2016, initial estimates of fair values related to a pool of Liberty loans were found to be lower than expected. This change led to the addition of \$178 thousand to non-accretible discount. At September 30, 2017, purchased credit impaired loans with unpaid principal balances totaled \$2.7 million with a recorded investment of \$773 thousand.

At September 30, 2017, the Bancorp classified three loans totaling \$325 thousand 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. The Bancorp's troubled debt restructurings include one accruing residential real estate loan in the amount of \$272 thousand for which an extension of amortization and reduction in rate was granted and two accruing commercial business loans totaling \$53 thousand for which a reduction in principal payments was granted. The valuation basis for the Bancorp's troubled debt restructurings is based on the present value of expected future 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 September 30, 2017, management is of the opinion that there are no loans, except certain of 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 affect future operations, liquidity or capital resources.

For the nine months ended September 30, 2017, \$722 thousand in provisions to the ALL were required, compared to \$846 thousand for the nine months ended September 30, 2016, a decrease of \$124 thousand or 14.7%. The ALL provision for the current nine month period is primarily a result of overall loan portfolio growth. For the nine months ended September 30, 2017, charge-offs, net of recoveries, totaled \$1.4 million, compared to charge-offs, net of recoveries of \$295 thousand for the nine months ended September 30, 2016. The increase in net charge-offs the first nine months of 2017 is primarily due to a partial charge-off totaling \$829 thousand for twenty-six Investor Owned Residential Real Estate loans related to previous acquisitions and charge-offs totaling \$347 thousand to four commercial business loans. The net loan charge-offs for the first nine months of 2017 were comprised of \$911 thousand in residential real estate loans, \$48 thousand in consumer loans, \$344 thousand in commercial business loans, and \$60 thousand in home equity 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 considered risks associated with the local economy, changes in loan balances and mix, and asset quality.

The ALL-to-total loans was 1.16% at September 30, 2017, compared to 1.32% at December 31, 2016. The ALL-to-non-performing loans (coverage ratio) was 126.3% at September 30, 2017, compared to 126.1% at December 31, 2016. The September 30, 2017 balance in the ALL account of \$7.1 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 September 30, 2017, foreclosed real estate totaled \$1.8 million, which was comprised of sixteen properties, compared to \$2.7 million and twenty-six properties at December 31, 2016. The decrease in foreclosed real estate is the result of the sale of properties. Net gains from the sale of foreclosed real estate totaled \$95 for the nine months ended September 30, 2017, and were the result of proceeds received from the sale of foreclosed properties. At the end of September 2017 all of the Bancorp's foreclosed real estate is located within its primary market area.

The primary objective of the Bancorp's investment portfolio is to provide for the liquidity needs of the Bancorp and to contribute to profitability by providing a stable flow of dependable earnings. Funds are generally invested in federal funds, interest bearing balances in other financial institutions, U.S. government securities, federal agency obligations, obligations of state and local municipalities and corporate securities. The securities portfolio, all of which is designated as available-for-sale, totaled \$243.6 million at September 30, 2017, compared to \$233.6 million at December 31, 2016, an increase of \$10.0 million (4.3%). The increase in the securities portfolio is a result of continued reinvestment of income and gains in that portfolio. At September 30, 2017, the securities portfolio represented 28.3% of interest-earning assets and 26.6% of total assets compared to 27.4% of interest-earning assets and 25.6% of total assets at December 31, 2016.

The Bancorp's end-of-period investment portfolio and other short-term investments and stock balances were as follows:

(Dollars in thousands)	September 30, 2017 (unaudited)		December 31, 2016	
	Balance	% Securities	Balance	% Securities
Money market fund	\$ 1,711	0.7%	\$ 222	0.1%
U.S. government sponsored entities	3,914	1.6%	16,274	7.0%
Collateralized mortgage obligations and residential mortgage-backed securities	141,575	58.1%	117,975	50.5%
Municipal securities	93,088	38.2%	96,745	41.4%
Collateralized debt obligations	3,264	1.4%	2,409	1.0%
Total securities available-for-sale	<u>\$ 243,552</u>	<u>100.0%</u>	<u>\$ 233,625</u>	<u>100.0%</u>

(Dollars in thousands)	September 30, 2017 (unaudited)	December 31, 2016	YTD Change	
	Balance	Balance	\$	%
Interest bearing deposits in other financial institutions	\$ 2,306	\$ 29,556	\$ (27,250)	-92.2%
Fed funds sold	468	215	253	117.7%
Federal Home Loan Bank stock	3,000	3,000	-	0.0%

The net decrease in interest bearing balances in other financial institutions is primarily the result of the seasonality of municipality deposit accounts and a decrease in certificates of deposit. The net increase in fed funds sold is primarily the result of timing of liquidity needs. Federal Home Loan Bank stock corresponds to stock ownership requirements based on borrowing needs.

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.

The Bancorp's end-of-period deposit portfolio balances were as follows:

(Dollars in thousands)	September 30, 2017 (unaudited)	December 31, 2016	YTD Change	
	Balance	Balance	\$	%
Checking	\$ 284,187	\$ 288,149	\$ (3,962)	-1.4%
Savings	132,397	127,626	4,771	3.7%
Money market	168,151	178,332	(10,181)	-5.7%
Certificates of deposit	172,825	185,664	(12,839)	-6.9%
Total deposits	<u>\$ 757,560</u>	<u>\$ 779,771</u>	<u>\$ (22,211)</u>	<u>-2.8%</u>

The Bancorp's core deposits include checking, savings, and money market accounts. The overall increase in core deposits is a result of management's sales efforts along with current customer preferences for short-term, liquid investment alternatives.

The Bancorp's borrowed funds are primarily used to fund asset growth not supported by deposit generation. The Bancorp's end-of-period borrowing balances were as follows:

(Dollars in thousands)	September 30,	December 31,	YTD	
	2017 (unaudited) Balance	2016 Balance	\$	%
Repurchase agreements	\$ 15,946	\$ 13,998	\$ 1,948	13.9%
Borrowed funds	41,421	25,828	15,593	60.4%
Total borrowed funds	<u>\$ 57,367</u>	<u>\$ 39,826</u>	<u>\$ 17,541</u>	<u>44.0%</u>

Repurchase agreements increased as part of normal account fluctuations within that product line. Borrowed funds decreased as FHLB fixed advances matured and were not replaced.

Liquidity and Capital Resources

For the Bancorp, liquidity management refers to the ability 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 other financial institutions, 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 the nine months ended September 30, 2017, cash and cash equivalents decreased by \$31.0 million compared to a \$5.0 million increase for the nine months ended September 30, 2016. The primary sources of cash and cash equivalents were sales of loans originated for sale, proceeds from maturities, pay downs, calls, and sales of available-for-sale securities, and borrowed funds. The primary uses of cash and cash equivalents were the purchase of securities, loan originations, decreases in deposits, and the repayment of FHLB advances. Cash provided by operating activities totaled \$9.1 million for the nine months ended September 30, 2017, compared to cash provided of \$5.5 million for the nine month period ended September 30, 2016. The increase in cash from operating activities was primarily a result of an increase in clearing accounts that facilitate customer transactions. Cash outflows from investing activities totaled \$33.0 million for the current period, compared to cash outflows of \$27.9 million for the nine months ended September 30, 2016. Cash outflows for the current nine months were primarily related to the origination of loans receivable and maturities and pay downs of securities. Net cash outflows from financing activities totaled \$7.1 million during the current period compared to net cash inflows of \$27.4 million for the nine months ended September 30, 2016. The net cash outflows from financing activities was primarily a result of deposits and repayment of FHLB advances. On a cash basis, the Bancorp paid dividends on common stock of \$2.4 million for the nine months ended September 30, 2017 and \$2.3 million for the nine months ended September 30, 2016.

At September 30, 2017, outstanding commitments to fund loans totaled \$130.8 million. Approximately 51.0% of the commitments were at variable rates. Standby letters of credit, which are conditional commitments issued by the Bancorp to guarantee the performance of a customer to a third party, totaled \$10.2 million at September 30, 2017. Management believes that the Bancorp has sufficient cash flow and borrowing capacity to fund all outstanding commitments and letters of credit, while maintaining proper levels of liquidity.

Management strongly believes that maintaining a high level of capital enhances safety and soundness. During the nine months ended September 30, 2017, stockholders' equity increased by \$7.0 million (8.3%). During the nine months ended September 30, 2017, stockholders' equity was primarily increased by net income of \$7.1 million and an increase to net unrealized gains on security sales of \$2.3 million. Decreasing stockholders' equity was the declaration of \$2.5 million in cash dividends. On April 24, 2014 the Bancorp's Board of Directors authorized a stock repurchase program to repurchase up to 50,000 shares of the Bancorp's outstanding common stock, from time to time and subject to market conditions, on the open market or in privately negotiated transactions. The stock repurchase program does not expire and is only limited by the number of shares that can be purchased. The stock repurchase program will be reviewed annually by the Board of Directors. No shares were repurchased during the first nine months of 2017 or 2016.

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 multiple tiers. The first tier (Common Equity Tier 1 Capital) includes common shareholders' equity, after deductions for various items including goodwill and certain other intangible assets, and after certain other adjustments. Common Equity Tier 1 Capital also includes accumulated other comprehensive income (for organizations that do not make opt-out elections). The next tier (Tier 1 Capital) is comprised of Common Equity Tier 1 Capital plus other qualifying capital instruments such as perpetual noncumulative preferred stock and junior subordinated debt issued to trusts, and other adjustments. The third tier (Tier 2 Capital) includes instruments such as subordinated debt that have a minimum original maturity of at least five years and are subordinated to the claims of depositors and general creditors, total capital minority interest not included in Tier 1 Capital, and limited amounts of the allowance for loan losses, less applicable regulatory adjustments and deductions. The Bancorp and the Bank are required to maintain a Common Equity Tier 1 Capital ratio of 4.5%, a Tier 1 Capital ratio of 6%, and a Total Capital ratio (comprised of Tier 1 Capital plus Tier 2 Capital) of 8%. In addition, the capital regulations provide for a minimum leverage ratio (Tier 1 capital to adjusted average assets) of 4%.

The Dodd-Frank Act required the FRB to set minimum capital levels for bank holding companies that are as stringent as those required for insured depository subsidiaries. However, under the FRB's "Small Bank Holding Company" exemption from consolidated bank holding company capital requirements, bank holding companies and savings and loan holding companies with less than \$1 billion in consolidated assets, such as the Bancorp, are exempt from consolidated regulatory capital requirements, unless the FRB determines otherwise in particular cases.

During the nine months ended September 30, 2017, the Bancorp's and Bank's regulatory capital ratios continued to be negatively impacted by regulatory requirements regarding collateralized debt obligations. The regulatory requirements state that for collateralized debt obligations that have been downgraded below investment grade by the rating agencies, increased risk based asset weightings are required. The Bancorp currently holds four pooled trust preferred securities with a cost basis of \$4.9 million. Three of these investments currently have ratings that are below investment grade. As a result, approximately \$19.2 million of risk-based assets are generated by the trust preferred securities in the Bancorp's and Bank's total risk based capital calculation.

The following table shows that, at September 30, 2017, and December 31, 2016, the Bancorp's capital exceeded all applicable regulatory capital requirements. The dollar amounts are in millions.

(Dollars in millions)

At September 30, 2017	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital to risk-weighted assets	\$ 87.4	13.0%	\$ 30.2	4.5%	\$ 43.7	6.5%
Tier 1 capital to risk-weighted assets	\$ 87.4	13.0%	\$ 40.3	6.0%	\$ 53.8	8.0%
Total capital to risk-weighted assets	\$ 94.4	14.1%	\$ 53.8	8.0%	\$ 67.2	10.0%
Tier 1 capital to adjusted average assets	\$ 87.4	9.6%	\$ 36.5	4.0%	\$ 45.6	5.0%

(Dollars in millions)

At December 31, 2016	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital to risk-weighted assets	\$ 82.4	13.1%	\$ 28.3	4.5%	\$ 40.9	6.5%
Tier 1 capital to risk-weighted assets	\$ 82.4	13.1%	\$ 37.8	6.0%	\$ 50.4	8.0%
Total capital to risk-weighted assets	\$ 90.1	14.3%	\$ 50.4	8.0%	\$ 63.0	10.0%
Tier 1 capital to adjusted average assets	\$ 82.4	9.2%	\$ 36.0	4.0%	\$ 45.0	5.0%

In addition, the following table shows that, at September 30, 2017, and December 31, 2016, the Bank's capital exceeded all applicable regulatory capital requirements. The dollar amounts are in millions.

(Dollars in millions)

At September 30, 2017	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital to risk-weighted assets	\$ 85.5	12.7%	\$ 30.2	4.5%	\$ 43.7	6.5%
Tier 1 capital to risk-weighted assets	\$ 85.5	12.7%	\$ 40.3	6.0%	\$ 53.8	8.0%
Total capital to risk-weighted assets	\$ 92.5	13.8%	\$ 53.8	8.0%	\$ 67.2	10.0%
Tier 1 capital to adjusted average assets	\$ 85.5	9.4%	\$ 36.4	4.0%	\$ 45.5	5.0%

(Dollars in millions)

At December 31, 2016	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1 capital to risk-weighted assets	\$ 81.2	12.9%	\$ 28.4	4.5%	\$ 41.0	6.5%
Tier 1 capital to risk-weighted assets	\$ 81.2	12.9%	\$ 37.9	6.0%	\$ 50.5	8.0%
Total capital to risk-weighted assets	\$ 88.9	14.1%	\$ 50.5	8.0%	\$ 63.1	10.0%
Tier 1 capital to adjusted average assets	\$ 81.2	9.0%	\$ 35.9	4.0%	\$ 44.9	5.0%

The Bancorp's ability to pay dividends to its shareholders is primarily 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) 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. An exemption from DFI approval would require that the Bank have been assigned a composite uniform financial institutions rating of 1 or 2 as a result of the most recent federal or state examination; the proposed dividend would not result in a Tier 1 leverage ratio below 7.5%; and that the Bank not be subject to any corrective action, supervisory order, supervisory agreement, or board approved operating agreement. The aggregate amount of dividends that may be declared by the Bank in 2017, without the need for qualifying for an exemption or prior DFI approval, is \$10.2 million plus 2017 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 August 25, 2017 the Board of Directors of the Bancorp declared a third quarter dividend of \$0.29 per share. The Bancorp's third quarter dividend was paid to shareholders on October 5, 2017.

Results of Operations - Comparison of the Quarter Ended September 30, 2017 to the Quarter Ended September 30, 2016

For the quarter ended September 30, 2017, the Bancorp reported net income of \$2.2 million, compared to net income of \$2.3 million for the quarter ended September 30, 2016, a decrease of \$80 thousand (3.4%). For the current quarter the ROA was 0.98%, compared to 1.03% for the quarter ended September 30, 2016. The ROE was 9.80% for the quarter ended September 30, 2017, compared to 10.67% for the quarter ended September 30, 2016.

Net interest income for the three months ended September 30, 2017 was \$7.8 million, an increase of \$190 thousand (2.5%), compared to \$7.6 million for the quarter ended September 30, 2016. The weighted-average yield on interest-earning assets was 3.94% for the three months ended September 30, 2017, compared to 3.86% for the three months ended September 30, 2016. The weighted-average cost of funds for the quarter ended September 30, 2017 was 0.32% compared to 0.29% for the quarter ended September 30, 2016. The impact of the 3.94% return on interest earning assets and the 0.32% cost of funds resulted in an interest rate spread of 3.62% for the current quarter, compared to 3.57% for the quarter ended September 30, 2016. Compared to the three months ended September 30, 2016, total interest income increased by \$262 thousand (3.2%) while total interest expense increased by \$72 thousand (12.3%). The net interest margin on earning assets was 3.63% for the three months ended September 30, 2017, compared to 3.58% for the quarter ended September 30, 2016. On a tax equivalent basis, the Bancorp's net interest margin was 3.86% for the three months ended September 30, 2017, compared to 3.82% for the quarter ended September 30, 2016. Comparing the net interest margin on a tax equivalent basis more accurately compares the returns on tax-exempt loans and securities to those on taxable interest-earning assets.

During the three months ended September 30, 2017, interest income from loans increased by \$164 thousand (2.5%), compared to the three months ended September 30, 2016. The change was due to an increase in average balances and average rate. The weighted-average yield on loans outstanding was 4.50% for the current quarter, compared to 4.45% for the three months ended September 30, 2016. Loan balances averaged \$606.7 million for the current quarter, an increase of \$7.2 million (1.2%) from \$599.5 million for the three months ended September 30, 2016. During the three months ended September 30, 2017, interest income on securities and other interest bearing balances increased by \$98 thousand (6.5%), compared to the quarter ended September 30, 2016. The change was due to an increase in average balances and average rates. The weighted-average yield on securities and other interest bearing balances was 2.56%, for the current quarter, compared to 2.43% for the three months ended September 30, 2016. Securities balances averaged \$244.7 million for the current quarter, up \$2.1 million (0.9%) from \$242.6 million for the three months ended September 30, 2016. Other interest bearing balances averaged \$4.8 million for the current period, up \$166 thousand (3.6%) from \$4.7 million for the three months ended September 30, 2016.

Interest expense on deposits increased by \$73 thousand (16.4%) during the current quarter compared to the three months ended September 30, 2016. The change was due to an increase in average balances outstanding and an increase in the weighted-average rate paid. The weighted-average rate paid on deposits for the three month period ended September 30, 2017 was 0.27% compared to 0.24% for the three months ended September 30, 2016. Total deposit balances averaged \$770.9 million for the current quarter, an increase of \$22.8 million (3.0%) from \$748.2 million for the quarter ended September 30, 2016. Interest expense on borrowed funds decreased by \$1 thousand (0.7%) during the current quarter due to a decrease in average balances compared to the three months ended September 30, 2016. The weighted-average cost of borrowed funds was 1.30% for the current quarter, compared to 1.02% for the three months ended September 30, 2016. Borrowed funds averaged \$43.5 million during the quarter ended September 30, 2017, a decrease of \$12.0 million (21.6%) from \$55.6 million for the quarter ended September 30, 2016. The decrease in borrowed funds is the result of seasonality of inflows of deposits.

Noninterest income for the quarter ended September 30, 2017 was \$2.1 million, a decrease of \$112 thousand (5.1%) from \$2.2 million for the quarter ended September 30, 2016. Fees and service charges expense totaled \$843 thousand for the current quarter, an increase of \$80 thousand (10.5%), compared to \$763 thousand for the quarter ended September 30, 2016. The increase in fees and service charges is the result of the Bancorp's continued focus on maintaining competitive fees within its market place. Fees from wealth management operations totaled \$459 thousand for the current quarter, an increase of \$36 thousand (8.5%), compared to \$423 thousand for the quarter ended September 30, 2016. The increase in wealth management income is related to an increase in the book value of assets under management. Gain on sale of loans held-for-sale, net totaled \$412 thousand for the current quarter, a decrease of \$167 thousand (28.8%), compared to \$579 thousand for the quarter ended September 30, 2016. The decrease in gains from the sale of loans is a result of timing differences in customer demand. Gain on sale of securities, net totaled \$213 thousand for the current quarter, a decrease of \$70 thousand (24.7%), compared to \$283 thousand for the quarter ended September 30, 2016. Current market conditions provided fewer opportunities to maintain securities cash flows, while recognizing gains from the sales of securities. Increase in cash value of bank owned life insurance totaled \$119 thousand for the current quarter, an increase of \$1 thousand (0.8%), compared to \$118 thousand for the quarter ended September 30, 2016. Gain on sale of foreclosed real estate, net totaled \$2 thousand for the current quarter, a decrease of \$4 thousand (66.7%), compared to \$6 thousand for the quarter ended September 30, 2016. Other noninterest income totaled \$27 thousand for the current quarter, an increase of \$12 thousand (80%), compared to \$15 thousand for the quarter ended September 30, 2016.

Noninterest expense for the quarter ended September 30, 2017 was \$6.9 million, an increase of \$377 thousand (5.8%) from \$6.5 million for the three months ended September 30, 2016. Compensation and benefits expense totaled \$4.1 million for the current quarter, an increase of \$193 thousand (4.9%), compared to \$3.9 million for the quarter ended September 30, 2016. The increase in compensation and benefits is the result of a continued focus on talent management and retention. Occupancy and equipment expense totaled \$845 thousand for the current quarter, a decrease of \$55 thousand (6.1%), compared to \$900 thousand for the quarter ended September 30, 2016. The decrease in occupancy and equipment expense is the result of lower building operating expenses. Data processing expense totaled \$364 thousand for the current quarter, an increase of \$21 thousand (6.1%), compared to \$343 thousand for the quarter ended September 30, 2016. Data processing expense has increased as a result of increased system utilization. Marketing expense totaled \$135 thousand for the current quarter, an increase of \$27 thousand (25.0%) compared to \$108 thousand for the quarter ended September 30, 2016. The Bancorp proactively markets its products, but varies its timing based on projected benefits and needs. Federal deposit insurance premiums expense totaled \$84 thousand for the current quarter, a decrease of \$51 thousand (37.8%), compared to \$135 thousand for the quarter ended September 30, 2016. The decrease was the result of lower FDIC premiums. Other expense totaled \$1.4 million for the current quarter, an increase of \$242 thousand (20.8%), compared to \$1.2 million for the quarter ended September 30, 2016. The increase in other operating expenses is related to generally higher costs related to foreclosure and collection expense as well as higher third party costs. The Bancorp's efficiency ratio was 70.3% for the quarter ended September 30, 2017, compared to 67.0% for the three months ended September 30, 2016. The increase in the efficiency ratio was a result of lower noninterest income and higher 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.

Income tax expenses for the three months ended September 30, 2017 totaled \$509 thousand, compared to income tax expense of \$631 thousand for the three months ended September 30, 2016, a decrease of \$122 thousand (19.3%). The combined effective federal and state tax rates for the Bancorp was 18.5% for the three months ended September 30, 2017, compared to 21.3% for the three months ended September 30, 2016. The Bancorp's lower current quarter effective tax rate is a result of increasing investment in low income housing projects, increasing investment in the Bancorp's real estate investment trust, as well as a self-insurance program through a wholly owned captive insurance company.

Results of Operations - Comparison of the Nine Months Ended September 30, 2017 to the Nine Months Ended September 30, 2016

For the nine months ended September 30, 2017, the Bancorp reported net income of \$7.1 million, compared to net income of \$6.8 million for the nine months ended September 30, 2016, an increase of \$262 thousand (3.8%). For the current nine months the ROA was 1.04%, compared to 1.03% for the nine months ended September 30, 2016. The ROE was 10.54% for the nine months ended September 30, 2017, compared to 10.63% for the nine months ended September 30, 2016.

Net interest income for the nine months ended September 30, 2017 was \$22.9 million, an increase of \$469 thousand (2.1%), compared to \$22.5 million for the nine months ended September 30, 2016. The weighted-average yield on interest-earning assets was 3.89% for the nine months ended September 30, 2017, compared to 3.90% for the nine months ended September 30, 2016. The decrease of the weighted-average yield for interest earning assets was affected by approximately \$200 thousand dollars of outstanding interest income received from the payoff of one non-accruing commercial real estate loan with a balance of \$522 thousand during the first nine months of 2016. The weighted-average cost of funds for the nine months ended September 30, 2017 and September 30, 2016, was 0.30%. The impact of the 3.89% return on interest earning assets and the 0.30% cost of funds resulted in an interest rate spread of 3.59% for the current nine months, compared to 3.60% for the nine months ended September 30, 2016. Compared to the nine months ended September 30, 2016, total interest income increased by \$546 thousand (2.3%) while total interest expense increased by \$77 thousand (4.4%). The net interest margin for earning assets was 3.60% for the nine months ended September 30, 2017, compared to 3.62% for the nine months ended September 30, 2016. On a tax equivalent basis, the Bancorp's net interest margin was 3.84% for the nine months ended September 30, 2017, compared to 3.86% for the nine months ended September 30, 2016. Comparing the net interest margin on a tax equivalent basis more accurately compares the returns on tax-exempt loans and securities to those on taxable interest-earning assets.

During the nine months ended September 30, 2017, interest income from loans increased by \$277 thousand (1.4%), compared to the nine months ended September 30, 2016. The change was primarily due to an increase in average balances. The weighted-average yield on loans outstanding was 4.42% for the current nine months, compared to 4.48% for the nine months ended September 30, 2016. Loan balances averaged \$600.7 million for the current nine months, an increase of \$16.4 million (2.8%) from \$584.3 million for the nine months ended September 30, 2016. During the nine months ended September 30, 2017, interest income on securities and other interest bearing balances increased by \$269 thousand (5.9%), compared to the nine months ended September 30, 2016. The increase was due to an increase in weighted-average balances and weighted-average yield. The weighted-average yield on securities and other interest bearing balances was 2.60%, for the current nine months, compared to 2.53% for the nine months ended September 30, 2016. Securities balances averaged \$241.4 million for the current nine months, up \$995 thousand (0.4%) from \$240.4 million for the nine months ended September 30, 2016. Other interest bearing balances averaged \$7.0 million for the current period, up \$3.3 million (89.2%) from \$3.7 million for the nine months ended September 30, 2016.

Interest expense on deposits increased by \$160 thousand (12.2%) during the current nine months compared to the nine months ended September 30, 2016. The change was due to an increase in average balances and the weighted-average rate paid on deposits. The weighted-average rate paid on deposits for the nine months ended September 30, 2017 was 0.26%, compared to 0.24%, for the nine months ended September 30, 2016. Total deposit balances averaged \$770.1 million for the current nine months, up \$41.6 million (5.7%) from \$728.5 million for the nine months ended September 30, 2016. Interest expense on borrowed funds decreased by \$83 thousand (18.7%) during the current nine months due to lower average balances, as compared to the nine months ended September 30, 2016. The weighted-average cost of borrowed funds was 1.22% for the current nine months, compared to 1.00% for the nine months ended September 30, 2016. Borrowed funds averaged \$39.6 million during the nine months ended September 30, 2017, a decrease of \$19.3 million (32.8%) from \$58.9 million for the nine months ended September 30, 2016. The decrease was a result of timing in customer deposits and withdrawals for the period.

Noninterest income for the nine months ended September 30, 2017 was \$5.8 million, an increase of \$125 thousand (2.2%) from \$5.7 million for the nine months ended September 30, 2016. During the current nine months, fees and service charges totaled \$2.4 million, an increase of \$261 thousand (12.2%) from \$2.1 million for the nine months ended September 30, 2016. The increase in fees and service charges is the result of the Bancorp's continued focus on maintaining competitive fees within its market place. Fees from wealth management operations totaled \$1.27 million for the nine months ended September 30, 2017, a decrease of \$13 thousand (1.0%) from \$1.28 million for the nine months ended September 30, 2016. The decrease in wealth management income is related to book value changes in assets under management. Gains from loan sales totaled \$883 thousand for the current nine months, a decrease of \$237 thousand (21.2%), compared to \$1.1 million for the nine months ended September 30, 2016. The decrease in gains from the sale of loans is a result of timing differences in customer demand. Gains from the sale of securities totaled \$758 thousand for the current nine months, an increase of \$58 thousand (8.3%) from \$700 thousand for the nine months ended September 30, 2016. Current market conditions during the nine months provided opportunities to manage securities cash flows, while recognizing gains from the sales of securities. Income from an increase in the cash value of bank owned life insurance totaled \$349 thousand for the nine months ended September 30, 2017, a decrease of \$5 thousand (1.4%), compared to \$354 thousand for the nine months ended September 30, 2016. Gains on foreclosed real estate totaled \$95 thousand for the nine months ended September 30, 2017, an increase of \$15 thousand (18.8%) from \$80 thousand in gains for the nine months ended September 30, 2016. Other noninterest income totaled \$64 thousand for the nine months ended September 30, 2017, an increase of \$46 thousand (255.6%) from \$18 thousand for the nine months ended September 30, 2016. The increase in other noninterest income is the result of rental income from foreclosed real estate.

Noninterest expense for the nine months ended September 30, 2017 was \$19.3 million, an increase of \$658 thousand (3.5%) from \$18.6 million for the nine months ended September 30, 2016. During the current nine months, compensation and benefits totaled \$10.8 million, an increase of \$313 thousand (3.0%) from \$10.5 million for the nine months ended September 30, 2016. The increase in compensation and benefits is the result of a continued focus on talent management. Occupancy and equipment totaled \$2.5 million for the current nine months, a decrease of \$226 thousand (8.2%), compared to \$2.8 million for the nine months ended September 30, 2016. The decrease in occupancy and equipment expense is the result of lower building operating expenses. Data processing expense totaled \$1.1 million for the nine months ended September 30, 2017, an increase of \$87 thousand (8.7%) from \$1.0 million for the nine months ended September 30, 2016. Data processing expense has increased as a result of increased system utilization. Marketing expense related to banking products totaled \$469 thousand for the current nine months, an increase of \$117 thousand (33.2%) from \$352 thousand for the nine months ended September 30, 2016. The Bancorp continues to proactively market its products, but varies its timing based on projected benefits and needs. Federal deposit insurance premium expense totaled \$242 thousand for the nine months ended September 30, 2017, a decrease of \$161 thousand (40.0%) from \$403 thousand for the nine months ended September 30, 2016. The decrease was the result of lower FDIC premiums. Other expenses related to banking operations totaled \$4.1 million for the nine months ended September 30, 2017, an increase of \$528 thousand (14.9%) from \$3.5 million for the nine months ended September 30, 2016. The increase in other operating expenses is related to generally higher cost related to foreclosure and collection expense as well as higher third party costs. The Bancorp's efficiency ratio was 66.9% for the nine months ended September 30, 2017, compared to 66.0% for the nine months ended September 30, 2016. The efficiency ratio increased as a result of higher 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.

Income tax expenses for the nine months ended September 30, 2017 totaled \$1.7 million, compared to income tax expense of \$1.9 million for the nine months ended September 30, 2016, a decrease of \$202 thousand (10.5%). The combined effective federal and state tax rates for the Bancorp was 19.5% for the nine months ended September 30, 2017, compared to 22.0% for the nine months ended September 30, 2016. The Bancorp's lower current nine month effective tax rate is a result of increasing investment in low income housing projects, increasing investment in the Bancorp's real estate investment trust, as well as a self-insurance program through a wholly owned captive insurance company.

Critical Accounting Policies

Critical accounting policies are those accounting policies that management believes are most important to the portrayal of the Bancorp's financial condition and that require management's most difficult, subjective or complex judgments. The Bancorp's critical accounting policies from December 31, 2016 remain unchanged.

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, including those identified in the Bancorp's 2016 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

The Bancorp maintains disclosure controls and procedures (as defined in Sections 13a – 15(e) and 15d – 15(e)) of regulations promulgated under the Securities Exchange Act of 1934 (the "Exchange Act") that are designed to ensure that information required to be disclosed by the Bancorp in the reports that it files or submits under the "Exchange Act" is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by the Bancorp in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Bancorp's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. The Bancorp's chief executive officer and chief financial officer evaluate the effectiveness of the Bancorp's disclosure controls and procedures as of the end of each quarter. Based on that evaluation as of September 30, 2017, the Bancorp's chief executive officer and chief financial officer have concluded that such disclosure controls and procedures were effective as of that date in ensuring that information required to be disclosed by the Bancorp under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

(b) Changes in Internal Control Over Financial Reporting

There was no change in the Bancorp's internal control over financial reporting identified in connection with the Bancorp's evaluation of controls that occurred during the nine months ended September 30, 2017 that has materially affected, or is reasonably likely to materially affect, the Bancorp's internal control over financial reporting.

PART II - Other Information

Item 1. Legal Proceedings

There are no matters reportable under this item.

Item 1A. Risk Factors

Not Applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On April 24, 2014 the Bancorp's Board of Directors authorized a stock repurchase program to repurchase up to 50,000 shares of the Bancorp's outstanding common stock, from time to time and subject to market conditions, on the open market or in privately negotiated transactions. The stock repurchase program does not expire and is only limited by the number of shares that can be purchased. The stock repurchase program will be reviewed annually by the Board of Directors. No shares were repurchased during the nine months ended September 30, 2017 under the stock repurchase program.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Program(1)
January 1, 2017 - January 31, 2017	-	N/A	-	48,828
February 1, 2017 - February 28, 2017	-	N/A	-	48,828
March 1, 2017 - March 31, 2017	-	N/A	-	48,828
April 1, 2017 - April 30, 2017	-	N/A	-	48,828
May 1, 2017 - May 31, 2017	-	N/A	-	48,828
June 1, 2017 - June 30, 2017	-	N/A	-	48,828
July 1, 2017 - July 31, 2017	-	N/A	-	48,828
August 1, 2017 - August 31, 2017	-	N/A	-	48,828
September 1, 2017 - September 30, 2017	-	N/A	-	48,828
	-	N/A	-	48,828

- (1) The stock repurchase program was announced on April 24, 2014, whereby the Bancorp is authorized to repurchase up to 50,000 shares of the Bancorp's common stock outstanding. There is no express expiration date for this program.

Item 3. Defaults Upon Senior Securities

There are no matters reportable under this item.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

There are no matters reportable under this item.

Item 6. Exhibits

Exhibit Number	Description
10.1	Employment Agreement between NorthWest Indiana Bancorp, Peoples Bank SB, and Benjamin J. Bochnowski dated August 1, 2017 (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on August 4, 2017).
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.
32.1	Section 1350 Certifications.
101	The following materials from the Bancorp's Form 10-Q for the quarterly period ended September 30, 2017, formatted in an XBRL Interactive Data File: (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Changes in Stockholders' Equity; (iv) Consolidated Statement of Comprehensive Income; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements, with detailed tagging of notes and financial statement schedules.

SIGNATURES

Pursuant to the requirements 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

Date: October 23, 2017

/s/ Benjamin J. Bochnowski
Benjamin J. Bochnowski
President and Chief Executive Officer

Date: October 23, 2017

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

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, Benjamin J. Bochnowski, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: October 23, 2017

/s/ Benjamin J. Bochnowski
Benjamin J. Bochnowski
President and Chief Executive Officer

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

I, Robert T. Lowry, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: October 23, 2017

/s/ Robert T. Lowry

Robert T. Lowry
Executive 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 Quarterly Report on Form 10-Q of NorthWest Indiana Bancorp (the "Company") for the quarterly period ended September 30, 2017, as filed with the Securities and Exchange Commission (the "Report"), each of Benjamin J. Bochnowski, President and Chief Executive Officer of the Company, and Robert T. Lowry, Executive 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.

Date: October 23, 2017

/s/ Benjamin J. Bochnowski
Benjamin J. Bochnowski
President and Chief Executive Officer

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

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to NorthWest Indiana Bancorp and will be retained by NorthWest Indiana Bancorp and furnished to the Securities and Exchange Commission or its staff upon request.
