

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **December 31, 2019**

OR

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

For the transition period from _____ to _____

Commission file number 0-26128

NorthWest Indiana Bancorp
(Exact name of registrant as specified in its charter)

Indiana
(State or other jurisdiction of
incorporation or organization)

35-1927981
(I.R.S. Employer Identification No.)

9204 Columbia Avenue
Munster, Indiana
(Address of principal executive offices)

46321
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: **None.**

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
N/A	N/A	N/A

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, without par value**

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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:

Large accelerated filer:
Non-Accelerated filer:

Accelerated filer:
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

Based on the average bid and ask prices for the registrant's Common Stock at June 30, 2019, at that date, the aggregate market value of the registrant's Common Stock held by nonaffiliates of the registrant (assuming solely for the purposes of this calculation that all directors and executive officers of the registrant are "affiliates") was \$127,245,516.

There were 3,463,136 shares of the registrant's Common Stock, without par value, outstanding at March 13, 2020.

DOCUMENTS INCORPORATED BY REFERENCE

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

1. Definitive Proxy Statement for the 2020 Annual Meeting of Shareholders. (Part III)

NorthWest Indiana Bancorp
Index

	<u>Page Number</u>
<u>PART I.</u>	
Item 1. Business	3
Item 1A. Risk Factors	32
Item 1B. Unresolved Staff Comments	32
Item 2. Properties	32
Item 3. Legal Proceedings	33
Item 4. Mine Safety Disclosures	33
Item 4.5 Executive Officers of the Bancorp	33
<u>PART II.</u>	
Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	35
Item 6. Selected Financial Data	36
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	37
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	50
Item 8. Financial Statements	51
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	95
Item 9A. Controls and Procedures	95
Item 9B. Other Information	96
<u>PART III.</u>	
Item 10. Directors, Executive Officers and Corporate Governance	97
Item 11. Executive Compensation	97
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	97
Item 13. Certain Relationships and Related Transactions, and Director Independence	97
Item 14. Principal Accountant Fees and Services	97
<u>PART IV.</u>	
Item 15. Exhibits and Financial Statement Schedules	98
<u>SIGNATURES</u>	100
EXHIBIT INDEX	

PART I

Item 1. Business

General

NorthWest Indiana Bancorp, an Indiana corporation (the “Bancorp” or “NWIN”), was incorporated on January 31, 1994, and is the holding company for Peoples Bank SB, an Indiana savings bank (the “Bank”). The Bank is a wholly owned subsidiary of the Bancorp. The Bancorp’s business activities include being a holding company for the Bank and the Bank’s wholly owned subsidiaries, as well as a holding company for NWIN Risk Management, Inc., a captive insurance company.

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

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

On July 26, 2018, the Bancorp completed its acquisition of First Personal Financial Corp., a Delaware corporation (“First Personal”) pursuant to an Agreement and Plan of Merger dated February 20, 2018 (the “First Personal Merger Agreement”), between the Bancorp and First Personal. Pursuant to the terms of the First Personal Merger Agreement, First Personal merged with and into the Bancorp, with the Bancorp as the surviving corporation (the “First Personal Merger”). Simultaneous with the First Personal Merger, First Personal Bank, an Illinois state chartered commercial bank and wholly-owned subsidiary of First Personal, merged with and into the Bank, with the Bank as the surviving institution. In connection with the First Personal Merger, each First Personal stockholder holding 100 or more shares of First Personal common stock received fixed consideration of (i) 0.1246 shares of Bancorp common stock, and (ii) \$6.67 per share in cash for each outstanding share of First Personal common stock. Stockholders holding less than 100 shares of First Personal common stock received \$12.12 in cash and no stock consideration for each outstanding share of First Personal common stock. Any fractional shares of Bancorp common stock that a First Personal stockholder would have otherwise received in the First Personal Merger were cashed out in the amount of such fraction multiplied by \$42.95. The Bancorp issued a total of approximately 161,875 shares of Bancorp common stock to the former First Personal stockholders, and paid cash consideration of approximately \$8.7 million. Based upon the closing price of the Bancorp’s common stock on July 25, 2018, the transaction had an implied valuation of approximately \$15.6 million. The acquisition represented the Bank’s first expansion into the South Suburban Chicagoland market, and expanded the Bank’s full-service retail banking network to 19 banking centers.

On January 24, 2019, the Bancorp completed its previously announced acquisition of AJS Bancorp, Inc., a Maryland corporation ("AJSB"), pursuant to an Agreement and Plan of Merger dated July 30, 2018 between the Bancorp and AJSB (the "AJSB Merger Agreement"). Pursuant to the terms of the AJSB Merger Agreement, AJSB merged with and into the Bancorp, with the Bancorp as the surviving corporation. Simultaneously with the AJSB Merger, A.J. Smith Federal Savings Bank, a federally chartered savings bank and wholly-owned subsidiary of AJSB, merged with and into Peoples Bank SB, with Peoples Bank SB as the surviving bank. In connection with the AJSB Merger, each AJSB stockholder holding 100 or more shares of AJSB common stock received fixed consideration of (i) 0.2030 shares of NWIN common stock, and (ii) \$7.20 per share in cash for each outstanding share of AJSB's common stock. Stockholders holding less than 100 shares of AJSB common stock received \$16.00 in cash and no stock consideration for each outstanding share of AJSB common stock. Any fractional shares of NWIN common stock that an AJSB stockholder would have otherwise received in the AJSB Merger were cashed out in the amount of such fraction multiplied by \$43.01. The Bancorp issued 416,478 shares of Bancorp common stock to the former AJSB stockholders, and paid cash consideration of approximately \$15.7 million. Based upon the closing price of NWIN's common stock on January 23, 2019, the transaction had an implied valuation of approximately \$33.2 million, which includes unallocated shares held by the AJSB Employee Stock Ownership Plan ("ESOP"), some of which were cancelled in connection with the closing to satisfy the ESOP's outstanding loan balance. As a result of the acquisition, the Bank was able to further expand its retail banking network in the South Suburban Chicagoland market, bringing the total number of its full-service banking centers to 22.

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

Forward-Looking Statements

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

Lending Activities

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

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

Under Indiana Law, an Indiana stock savings bank generally may not make any loan to a borrower or its related entities if the total of all such loans by the savings bank exceeds 15% of its unimpaired capital and unimpaired surplus (plus up to an additional 10% of unimpaired capital and unimpaired surplus, in the case of loans fully collateralized by readily marketable collateral); provided, however, that certain specified types of loans are exempted from these limitations or subject to different limitations. The maximum amount that the Bank could have loaned to one borrower and the borrower's related entities at December 31, 2019, under the 15% of capital and surplus limitation was approximately \$17,681,000. At December 31, 2019, the Bank had no loans that exceeded the regulatory limitations.

[Table of Contents](#)

At December 31, 2019, there were no concentrations of loans in any type of industry that exceeded 10% of total loans that were not otherwise disclosed as a loan category.

Loan Portfolio. The following table sets forth selected data relating to the composition of the Bancorp's loan portfolio by type of loan and type of collateral at the end of each of the last five years. The amounts are stated in thousands (000's).

	2019	2018	2017	2016	2015
Type of loan:					
Conventional real estate loans:					
Construction and development	\$ 87,710	\$ 64,433	\$ 50,746	\$ 38,937	\$ 41,524
Loans on existing properties (1)	683,135	569,384	463,368	437,361	432,020
Consumer (2)	17,132	6,043	461	524	535
Commercial business	103,088	103,439	76,851	77,299	68,757
Government	15,804	21,101	28,785	29,529	29,062
Loans receivable (3)	<u>\$ 906,869</u>	<u>\$ 764,400</u>	<u>\$ 620,211</u>	<u>\$ 583,650</u>	<u>\$ 571,898</u>
Type of collateral:					
Real estate:					
1-to-4 family	\$ 348,513	\$ 268,805	\$ 208,910	\$ 205,838	\$ 213,756
Other dwelling units, land and commercial real estate	422,332	365,012	305,204	270,461	259,789
Consumer	16,366	5,813	321	424	461
Commercial business	102,879	103,012	76,666	76,735	68,308
Government	15,804	21,101	28,785	29,529	29,062
Loans receivable (4)	<u>\$ 905,894</u>	<u>\$ 763,743</u>	<u>\$ 619,886</u>	<u>\$ 582,987</u>	<u>\$ 571,376</u>
Average loans outstanding during the period (3)	<u>\$ 876,611</u>	<u>\$ 684,159</u>	<u>\$ 602,426</u>	<u>\$ 587,119</u>	<u>\$ 522,278</u>

(1) Includes residential and commercial construction loans converted to permanent term loans and commercial real estate loans.

(2) Includes overdrafts to deposit accounts.

(3) Net of unearned income and net deferred loan fees.

(4) Net of unearned income and net deferred loan fees. Does not include unsecured loans.

Loan Maturity Schedule. The following table sets forth certain information at December 31, 2019 regarding the dollar amount of loans in the Bancorp's portfolio based on their contractual terms to maturity. Demand loans, loans having no schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. Contractual principal repayments of loans do not necessarily reflect the actual term of the loan portfolio. The average life of mortgage loans is substantially less than their contractual terms because of loan prepayments and because of enforcement of due-on-sale clauses, which give the Bancorp the right to declare a loan immediately due and payable in the event, among other things, that the borrower sells the property subject to the mortgage. The amounts are stated in thousands (000's).

	Maturing within one year	After one but within five years	After five years	Total
Real estate	\$ 63,011	\$ 137,112	\$ 570,723	\$ 770,846
Consumer	22	3,701	13,409	17,132
Commercial business, and other	40,015	57,848	21,028	118,891
Total loans receivable	<u>\$ 103,048</u>	<u>\$ 198,661</u>	<u>\$ 605,160</u>	<u>\$ 906,869</u>

The following table sets forth the dollar amount of all loans due after one year from December 31, 2019, which have predetermined interest rates or have floating or adjustable interest rates. The amounts are stated in thousands (000's).

	Predetermined rates	Floating or adjustable rates	Total
Real estate	\$ 292,755	\$ 415,079	\$ 707,834
Consumer	17,110	-	17,110
Commercial business, and other	63,128	15,749	78,877
Total loans receivable	<u>\$ 372,993</u>	<u>\$ 430,828</u>	<u>\$ 803,821</u>

Lending Area. The primary lending area of the Bancorp encompasses Lake County in northwest Indiana and Cook County in northeast Illinois, where collectively 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 DuPage, Lake, and Will counties in Illinois.

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

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

Designated officers have authorities, established by the Board of Directors, to approve loans. Loans up to \$2,500,000 are approved by the loan officers' loan committee. Loans from \$2,500,000 to \$5,000,000 are approved by the senior officers' loan committee (SOLC). All loans in excess of \$5,000,000, up to the legal lending limit of the Bank, must be approved by the Bank's Board of Directors or its Executive Committee. (All members of the Bank's Board of Directors and Executive Committee are also members of the Bancorp's Board of Directors and Executive Committee, respectively.) Certain loan renewals and extensions may not require approval by the Board of Directors or the Executive Committee as long as there is no material change, credit downgrade, significant change in borrower or guarantor status, material release or change in collateral value or the eligible loan renewal or extension is not outside the current concentration limits set by the Board of Directors. The maximum in-house legal lending limit as set by the Board of Directors is the lower of 10% of the Bank's risk based capital or \$8,000,000. Requests that exceed this amount will be considered on a case-by-case basis, after taking into consideration the legal lending limit, by specific Board action. The Bank will not extend credit to any of its executive officers, directors, or principal shareholders or to any related interest of that person, except in compliance with the insider lending restrictions of Regulation O under the Federal Reserve Act and in an amount that, when aggregated with all other extensions of credit to that person, exceeds \$500,000 unless: (1) the extension of credit has been approved in advance by a majority of the entire Board of Directors of the Bank, and (2) the interested party has abstained from participating directly or indirectly in the voting.

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

The Current Lending Programs

Residential Mortgage Loans. The primary lending activity of the Bancorp has been the granting of conventional mortgage loans to enable borrowers to purchase existing homes, refinance existing homes, or construct new homes. Conventional loans are made up to a maximum of 97% of the purchase price or appraised value, whichever is less. For loans made in excess of 80% of value, private mortgage insurance is generally required in an amount sufficient to reduce the Bancorp's exposure to 80% or less of the appraised value of the property. Loans insured by private mortgage insurance companies can be made for up to 97% of value. During 2019, 70% of mortgage loans closed were conventional loans with borrowers having 20% or more equity in the property. This type of loan does not require private mortgage insurance because of the borrower's level of equity investment.

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

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

The Bancorp's Adjustable Rate Mortgage Loans ("ARMs") include offerings that reprice annually or are "Mini-Fixed." The "Mini-Fixed" mortgage reprices annually after a one, three, five, seven or ten year period. ARM originations totaled \$17.0 million for 2019 and \$16.2 million for 2018. During 2019, ARMs represented 13.6% of total mortgage loan originations. The ability of the Bancorp to successfully market ARM's depends upon loan demand, prevailing interest rates, volatility of interest rates, public acceptance of such loans and terms offered by competitors.

Construction Loans. Construction loans on residential properties are made primarily to individuals and contractors who are under contract with individual purchasers. These loans are personally guaranteed by the borrower. The maximum loan-to-value ratio is 89% of either the current appraised value or the cost of construction, whichever is less. Residential construction loans are typically made for periods of six months to one year.

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

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

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

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

Consumer Loans. The Bancorp offers consumer loans to individuals for personal, household or family purposes. Consumer loans are either secured by adequate collateral, or unsecured. Unsecured loans are based on the strength of the applicant's financial condition. All borrowers must meet current underwriting standards. The consumer loan program includes both fixed and variable rate products. On a limited basis, the Bancorp purchases indirect dealer paper from various well-established businesses in its immediate banking area.

Home Equity Line of Credit. The Bancorp offers a fixed and variable rate revolving line of credit secured by the equity in the borrower's home. Both products offer an interest only option where the borrower pays interest only on the outstanding balance each month. Equity lines will typically require a second mortgage appraisal and a second mortgage lender's title insurance policy. Loans are generally made up to a maximum of 89% of the appraised value of the property less any outstanding liens.

Home Improvement Loans and Equity Loans—Fixed Term. Home improvement and equity loans are made up to a maximum of 85% of the appraised value of the improved property, less any outstanding liens. These loans are offered on both a fixed and variable rate basis with a maximum term of 240 months. All home equity loans are made on a direct basis to borrowers.

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

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

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

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

The Bancorp's mortgage loan collection procedures provide that, when a mortgage loan is 15 days or more delinquent, the borrower will be contacted by mail and payment requested. If the delinquency continues, subsequent efforts will be made to contact the delinquent borrower. In certain instances, the Bancorp will recast the loan or grant a limited moratorium on loan payments to enable the borrower to reorganize his, her, or its financial affairs. If the loan continues in a delinquent status for 120 days, the Bancorp will generally initiate foreclosure proceedings. Any property acquired as the result of foreclosure or by voluntary transfer of property made to avoid foreclosure is classified as foreclosed real estate until such time as it is sold or otherwise disposed of by the Bancorp. Foreclosed real estate is recorded at fair value at the date of foreclosure. At foreclosure, any write-down of the property is charged to the allowance for loan losses. Costs relating to improvement of property are capitalized, whereas holding costs are expensed. Valuations are periodically performed by management, and a valuation allowance is established by a charge to operations if the carrying value of a property exceeds its estimated fair value less selling costs. Subsequent gains or losses on disposition, including expenses incurred in connection with the disposition, are charged to operations. Collection procedures for consumer loans provide that when a consumer loan becomes ten days delinquent, the borrower will be contacted by mail and payment requested. If the delinquency continues, subsequent efforts will be made to contact the delinquent borrower. In certain instances, the Bancorp may grant a payment deferral. If a loan continues to be delinquent after 60 days and all collection efforts have been exhausted, the Bancorp will initiate legal proceedings. Collection procedures for commercial business loans provide that when a commercial loan becomes ten days delinquent, the borrower will be contacted by mail and payment requested. If the delinquency continues, subsequent efforts will be made to contact the delinquent borrower pursuant to the commercial loan collection policy. In certain instances, the Bancorp may grant a payment deferral or restructure the loan. Once it has been determined that collection efforts are unsuccessful, the Bancorp will initiate legal proceedings.

[Table of Contents](#)

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

	2019	2018	2017	2016	2015
Loans accounted for on a non-accrual basis:					
Real estate:					
Residential	\$ 5,267	\$ 5,405	\$ 3,858	\$ 4,521	\$ 4,172
Commercial	658	695	466	456	1,007
Commercial business	582	495	672	628	22
Consumer	-	-	-	-	-
Total	<u>\$ 6,507</u>	<u>\$ 6,595</u>	<u>\$ 4,996</u>	<u>\$ 5,605</u>	<u>\$ 5,201</u>
Accruing loans which are contractually past due 90 days or more:					
Real estate:					
Residential	\$ 471	\$ 172	\$ 227	\$ 500	\$ 377
Commercial	61	-	-	-	-
Commercial business	288	149	-	-	-
Consumer	46	-	-	-	-
Total	<u>\$ 866</u>	<u>\$ 321</u>	<u>\$ 227</u>	<u>\$ 500</u>	<u>\$ 377</u>
Loans that qualify as troubled debt restructurings and accruing:					
Real estate:					
Residential	\$ 494	\$ 598	\$ 302	\$ -	\$ -
Commercial	823	1,074	181	-	4,419
Commercial business	459	234	52	60	74
Consumer	-	-	-	-	-
Total	<u>\$ 1,776</u>	<u>\$ 1,906</u>	<u>\$ 535</u>	<u>\$ 60</u>	<u>\$ 4,493</u>
Total of non-accrual, 90 days past due and accruing, and restructurings	<u>\$ 9,149</u>	<u>\$ 8,822</u>	<u>\$ 5,758</u>	<u>\$ 6,165</u>	<u>\$ 10,071</u>
Ratio of non-performing loans to total assets	0.56%	0.63%	0.56%	0.67%	0.64%
Ratio of non-performing loans to total loans	0.81%	0.90%	0.84%	1.05%	0.98%
* non-performing loans include non-accrual loans and accruing loans which are contractually past due 90 days or more					
Foreclosed real estate	<u>\$ 1,083</u>	<u>\$ 1,627</u>	<u>\$ 1,699</u>	<u>\$ 2,665</u>	<u>\$ 1,590</u>
Ratio of foreclosed real estate to total assets	0.08%	0.15%	0.18%	0.29%	0.18%

During 2019, gross interest income of \$565 thousand would have been recorded on loans accounted for on a non-accrual basis if the loans had been current throughout the period. Interest on such loans included in income during the period amounted to \$15 thousand.

Federal regulations require savings banks to classify their own loans and to establish appropriate general and specific allowances, subject to regulatory review. These regulations are designed to encourage management to evaluate loans on a case-by-case basis and to discourage automatic classifications. Loans classified as substandard or doubtful must be evaluated by management to determine loan loss reserves. Loans classified as loss must either be written off or reserved for by a specific allowance. Amounts reported in the general loan loss reserve are included in the calculation of the Bancorp's total risk-based capital requirement (to the extent that the amount does not exceed 1.25% of total risk-based assets), but are not included in Tier 1 leverage ratio calculations and Tier 1 risk-based capital requirements.

Substandard loans include non-performing loans and potential problem loans, where information about possible credit issues or other conditions causes management to question the ability of such borrowers to comply with loan covenants or repayment terms. No loans were internally classified as doubtful or loss at December 31, 2019 or December 31, 2018.

The Bancorp's substandard loans are summarized below:

(Dollars in thousands)

Loan Segment	December 31, 2019	December 31, 2018
Residential real estate	\$ 4,491	\$ 5,366
Home equity	507	373
Commercial real estate	1,565	1,770
Construction and land development	-	-
Multifamily	802	-
Farmland	-	-
Commercial business	727	728
Consumer	-	-
Manufactured homes	-	-
Government	-	-
Total	<u>\$ 8,092</u>	<u>\$ 8,237</u>

In addition to identifying and monitoring non-performing and other classified loans, management maintains a list of special mention loans. Special mention loans represent loans management is closely monitoring due to one or more factors that may cause the loan to become classified as substandard.

The Bancorp's special mention loans are summarized below:

(Dollars in thousands)

Loan Segment	December 31, 2019	December 31, 2018
Residential real estate	\$ 4,203	\$ 3,908
Home equity	813	657
Commercial real estate	5,380	4,715
Construction and land development	-	-
Multifamily	-	149
Farmland	-	-
Commercial business	2,228	2,958
Consumer	-	-
Manufactured homes	-	20
Government	-	-
Total	<u>\$ 12,624</u>	<u>\$ 12,407</u>

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. 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 ("accretable yield"). The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable 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.

The Bancorp's impaired loans, including purchased credit impaired loans, are summarized below:

(Dollars in thousands)

Loan Segment	December 31, 2019	December 31, 2018
Residential real estate	\$ 2,223	\$ 1,550
Home equity	437	264
Commercial real estate	1,565	2,105
Construction and land development	-	-
Multifamily	802	-
Farmland	-	-
Commercial business	2,191	1,863
Consumer	-	-
Manufactured homes	-	-
Government	-	-
Total	\$ 7,218	\$ 5,782

At times, the Bancorp will modify the terms of a loan to forego a portion of interest or principal or reduce the interest rate on the loan to a rate materially less than market rates, or materially extend the maturity date of a loan as part of a troubled debt restructuring. 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.

The Bancorp's troubled debt restructured loans are summarized below:

(Dollars in thousands)

Loan Segment	December 31, 2019		December 31, 2018	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Residential real estate	6	\$ 480	5	\$ 457
Home equity	6	176	5	141
Commercial real estate	3	822	4	1,074
Construction and land development	-	-	-	-
Multifamily	-	-	-	-
Farmland	-	-	-	-
Commercial business	7	622	5	359
Consumer	-	-	-	-
Manufactured homes	-	-	-	-
Government	-	-	-	-
Total	22	\$ 2,100	19	\$ 2,031

The increase in the nonperforming, special mention and impaired loans reflected in the tables above for the twelve months ending December 31, 2019, are the result of the completion of the AJSB acquisition as well as four commercial real estate loans to two borrowers and eleven commercial business loans to eight borrowers which were not related to the acquisition. The decrease in the substandard loans reflected in the tables above for the twelve months ending December 31, 2019, are the result of the removal of numerous residential loans, which was offset by the AJSB acquisition as well as one commercial real estate loan and eight commercial business loans to five borrowers.

[Table of Contents](#)

The table that follows sets forth the allowance for loan losses and related ratios for the periods indicated. The amounts are stated in thousands (000's).

	2019	2018	2017	2016	2015
Balance at beginning of period	\$ 7,962	\$ 7,482	\$ 7,698	\$ 6,953	\$ 6,361
Loans charged-off:					
Real estate residential	(160)	(242)	(1,019)	(529)	(239)
Commercial real estate	(229)	(119)	-	-	(59)
Commercial real estate participations	-	-	-	-	-
Commercial business	(1,178)	(592)	(386)	-	(77)
Consumer	(54)	(58)	(71)	(33)	(30)
Total charge-offs	(1,621)	(1,011)	(1,476)	(562)	(405)
Recoveries:					
Residential real estate	29	1	3	2	9
Commercial real estate	-	24	-	-	22
Commercial real estate participations	-	-	-	-	-
Commercial business	25	134	39	28	10
Consumer	20	24	18	9	2
Total recoveries	74	183	60	39	43
Net (charge-offs) / recoveries	(1,547)	(828)	(1,416)	(523)	(362)
Provision for loan losses	2,584	1,308	1,200	1,268	954
Balance at end of period	\$ 8,999	\$ 7,962	\$ 7,482	\$ 7,698	\$ 6,953
ALL to loans outstanding	0.99%	1.04%	1.21%	1.32%	1.22%
ALL to nonperforming loans	122.05%	115.12%	143.26%	126.10%	124.66%
Net charge-offs / recoveries to average loans outstanding during the period	-0.18%	-0.12%	-0.23%	-0.09%	-0.06%

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

	2019		2018		2017		2016		2015		2014	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Real estate loans:												
Residential	2,035	38.4	1,917	35.2	1,734	33.7	2,410	35.3	1,711	37.4	1,877	38.8
Commercial and other dwelling	5,400	46.6	4,563	47.7	4,365	49.2	4,302	46.3	4,436	45.4	3,658	43.7
Consumer loans	43	1.9	82	0.7	31	0.1	34	0.1	38	0.1	18	0.1
Commercial business and other	1,521	13.1	1,400	16.4	1,352	17.0	952	18.3	768	17.1	808	17.4
Total	8,999	100.0	7,962	100.0	7,482	100.0	7,698	100.0	6,953	100.0	6,361	100.0

Investment Activities

The primary objective of the investment portfolio is to provide for the liquidity needs of the Bancorp and to contribute to profitability by providing a stable flow of dependable earnings. Securities can be classified as either held-to-maturity (HTM) or available-for-sale (AFS) at the time of purchase. No securities are classified as trading or as held-to-maturity. AFS securities are those the Bancorp may decide to sell if needed for liquidity, asset-liability management or other reasons. During 2019, the Bancorp did not hold as investments any derivative instruments and was not involved in hedging activities as defined by Accounting Standards Codification Topic 815 Derivatives and Hedging. It has been the policy of the Bancorp to invest its excess cash in U.S. government agency securities, mortgage-backed securities, collateralized mortgage obligations, and municipal securities. In addition, short-term funds are generally invested as interest bearing balances in financial institutions and federal funds. At December 31, 2019, the Bancorp's investment portfolio totaled \$277.2 million. In addition, the Bancorp had \$15.5 million of federal funds sold, and \$3.9 million in FHLB stock.

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

	2019	2018	2017
Money market fund	\$ 9,670	\$ 2,480	\$ 476
U.S. government agencies:			
Available-for-sale	13,058	7,894	3,890
Mortgage-backed securities (1):			
Available-for-sale	77,316	50,583	47,314
Collateralized Mortgage Obligations (1):			
Available-for-sale	73,672	84,698	85,624
Municipal Securities:			
Available-for-sale	102,427	94,064	103,747
Trust Preferred Securities:			
Available-for-sale	1,076	2,049	3,439
Totals	<u>\$ 277,219</u>	<u>\$ 241,768</u>	<u>\$ 244,490</u>

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

The contractual maturities and weighted average yields for the U.S. government securities, agency securities, municipal securities, and trust preferred securities at December 31, 2019, are summarized in the table below. Securities not due at a single maturity date, such as mortgage-backed securities and collateralized mortgage obligations are not included in the following table. The carrying values are stated in thousands (000's).

[Table of Contents](#)

Yields presented are not on a tax-equivalent basis.

	Within 1 Year		1 - 5 Years		5 - 10 Years		After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Money market fund:	\$ 9,670	1.52%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%
U.S. government Agencies:								
AFS	3,003	2.63%	-	0.00%	10,055	3.21%	-	0.00%
Municipal Securities:								
AFS	911	5.43%	3,197	4.81%	7,648	4.37%	90,671	4.02%
Trust Preferred Securities:								
AFS	-	0.00%	-	0.00%	-	0.00%	1,076	2.64%
Totals	<u>\$ 13,584</u>	<u>2.03%</u>	<u>\$ 3,197</u>	<u>4.81%</u>	<u>\$ 17,703</u>	<u>3.71%</u>	<u>\$ 91,747</u>	<u>4.00%</u>

The Bancorp currently holds two trust preferred securities and the securities' quarterly interest payments have been placed in "payment in kind" status. Payment in kind status results in a temporary delay in the payment of interest. As a result of a delay in the collection of the interest payments, management placed these securities in non-accrual status. At December 31, 2019, the cost basis of the two trust preferred securities on non-accrual status totaled \$2.2 million.

Sources of Funds

General. Deposits are the major source of the Bancorp's funds for lending and other investment purposes. In addition to deposits, the Bancorp derives funds from maturing investment securities and certificates of deposit, dividend receipts from the investment portfolio, loan principal repayments, repurchase agreements, advances from the Federal Home Loan Bank of Indianapolis (FHLB) and other borrowings. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by general interest rates and money market conditions. Borrowings may be used on a short-term basis to compensate for reductions in the availability of other sources of funds. They may also be used on a longer-term basis for general business purposes. The Bancorp uses repurchase agreements, as well as a line-of-credit and advances from the FHLB for borrowings. At December 31, 2019, the Bancorp had \$11.5 million in repurchase agreements. Other borrowings totaled \$14.0 million, all of which were FHLB advances.

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

[Table of Contents](#)

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

	2019		2018		2017	
	Amount	Rate %	Amount	Rate %	Amount	Rate %
Noninterest bearing demand deposits	\$ 169,781	-	\$ 124,866	-	\$ 117,656	-
Interest bearing demand deposits	217,222	0.22	190,372	0.15	169,980	0.08
MMDA accounts	193,915	0.99	157,228	0.45	170,211	0.26
Savings accounts	211,492	0.17	144,746	0.08	131,908	0.08
Certificates of deposit	316,277	1.77	222,267	1.21	180,413	0.77
Total deposits	<u>\$ 1,108,687</u>	<u>0.75</u>	<u>\$ 839,479</u>	<u>0.45</u>	<u>\$ 770,168</u>	<u>0.27</u>

Maturities of time certificates of deposit and other time deposits of \$100 thousand or more at December 31, 2019, are summarized as follows. The amounts are stated in thousands (000's).

3 months or less	\$ 46,706
Over 3 months through 6 months	45,299
Over 6 months through 12 months	57,569
Over 12 months	21,992
Total	<u>\$ 171,566</u>

Borrowings. Borrowed money is used on a short-term basis to compensate for reductions in the availability of other sources of funds and is generally accomplished through repurchase agreements, as well as, through a line of credit and advances from the FHLB. Repurchase agreements generally mature within one year and are generally secured by U.S. government securities or U.S. agency securities, under the Bancorp's control. FHLB advances with maturities ranging from one year to five years are used to fund securities and loans of comparable duration, as well as to reduce the impact that movements in short-term interest rates have on the Bancorp's overall cost of funds. Fixed rate advances are payable at maturity, with a prepayment penalty.

[Table of Contents](#)

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

Repurchase agreements:	At December 31,		
	2019	2018	2017
Balance	\$ 11,499	\$ 11,628	\$ 11,300
Securities underlying the agreements:			
Ending carrying amount	16,961	16,262	18,053
Ending fair value	16,961	16,262	18,053
Weighted average rate (1)	1.51%	1.44%	0.91%

	For year ended December 31,		
	2019	2018	2017
Highest month-end balance	\$ 20,628	\$ 16,672	\$ 17,720
Average outstanding balance	12,928	12,754	13,734
Weighted average rate on securities sold under agreements to repurchase (2)	1.80%	1.38%	0.82%

	At December 31,		
	2019	2018	2017
Fixed rate short-term advances from the FHLB	\$ 8,000	\$ 9,000	\$ 6,100
Fixed rate long-term advances from the FHLB	6,000	14,000	11,000
Variable advances from the FHLB	-	20,000	-
FHLB line-of-credit	-	-	3,181
Overdrawn due from other financial institutions	-	-	600
Total borrowings	\$ 14,000	\$ 43,000	\$ 20,881

(1) The weighted average rate for each period is calculated by weighting the principal balances outstanding for the various interest rates.

(2) The weighted average rate is calculated by dividing the interest expense for the period by the average daily balances of securities sold under agreements to repurchase for the period.

Wealth Management Group

Bancorp's Wealth Management Group provides estate and retirement planning, guardianships, land trusts, profit sharing and 401(k) retirement plans, IRA and Keogh accounts, investment agency accounts, and serves as personal representative of estates and acts as trustee for revocable and irrevocable trusts. At December 31, 2019, the market value of the Wealth Management Group's assets totaled \$342.9 million, an increase of \$33.9 million, compared to December 31, 2018.

Analysis of Profitability and Key Operating Ratios

Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential.

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

[Table of Contents](#)

The following table presents the weighted average yields on loans and securities, the weighted average cost of interest bearing deposits and other borrowings, and the interest rate spread for the year ended December 31, 2019.

Weighted average yield:	
Securities	2.64%
Loans receivable	5.07%
Federal Home Loan Bank stock	4.49%
Total interest-earning assets	4.43%
Weighted average cost:	
Deposit accounts	0.75%
Borrowed funds	2.67%
Total interest-bearing liabilities	0.80%
Interest rate spread:	
Weighted average yield on interest-earning assets minus the weighted average cost of interest-bearing funds	3.63%

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

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

	Year ended December 31,		
	2019	2018	2017
Return on average assets	0.94%	0.93%	0.98%
Return on average equity	9.54%	9.88%	9.90%
Average equity-to-average assets ratio	9.86%	9.43%	9.94%
Dividend payout ratio	35.10%	37.62%	36.76%

	At December 31,		
	2019	2018	2017
Total stockholders' equity to total assets	10.09%	9.26%	9.93%

[Table of Contents](#)

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

	Year ended December 31, 2019			Year ended December 31, 2018			Year ended December 31, 2017		
	Average Balance	Interest Income/Expense	Average Rate	Average Balance	Interest Income/Expense	Average Rate	Average Balance	Interest Income/Expense	Average Rate
Assets:									
Interest bearing balances in financial institutions									
	\$ 35,656	\$ 669	1.88%	\$ 5,996	\$ 167	2.79%	\$ 5,114	\$ 54	1.06%
Federal funds sold	5,170	178	3.44	901	10	1.11	960	4	0.42
Nontaxable Securities	91,489	2,856	3.12	91,458	3,043	3.33	94,238	3,143	3.34
Taxable Securities	169,413	4,092	2.42	150,048	3,838	2.56	148,264	3,298	2.22
Total investments	<u>301,728</u>	<u>7,795</u>	2.58	<u>248,403</u>	<u>7,058</u>	2.84	<u>248,576</u>	<u>6,499</u>	2.61
Loans:*									
Real estate mortgage loans	739,360	37,574	5.08	567,949	27,091	4.77	495,448	22,697	4.58
Commercial business loans	126,719	6,451	5.09	113,545	5,079	4.47	108,083	4,143	3.83
Consumer loans	10,532	430	4.08	2,665	222	8.33	382	19	4.97
Total loans	<u>876,611</u>	<u>44,455</u>	5.07	<u>684,159</u>	<u>32,392</u>	4.73	<u>603,913</u>	<u>26,859</u>	4.45
Total interest-earning assets	1,178,339	52,250	4.43	932,562	39,450	4.23	852,489	33,358	3.91
Allowance for loan losses	(8,660)			(7,512)			(7,239)		
Cash and due from banks	23,237			10,813			12,171		
Premises and equipment	28,355			21,835			19,621		
Other assets	64,693			44,210			34,036		
Total assets	<u>\$ 1,285,964</u>			<u>\$ 1,001,908</u>			<u>\$ 911,078</u>		
Liabilities:									
Demand deposit	\$ 169,781	\$ -	-%	\$ 124,866	\$ -	-%	\$ 117,656	\$ -	-%
NOW accounts	217,222	476	0.22	190,372	288	0.15	169,980	129	0.08
Money market demand accounts	193,915	1,924	0.99	157,228	705	0.45	170,211	437	0.26
Savings accounts	211,492	354	0.17	144,746	118	0.08	131,908	110	0.08
Certificates of deposit	316,277	5,605	1.77	222,267	2,688	1.21	180,413	1,383	0.77
Total interest-bearing deposits	<u>1,108,687</u>	<u>8,359</u>	0.75	<u>839,479</u>	<u>3,799</u>	0.45	<u>770,168</u>	<u>2,059</u>	0.27
Repurchase Agreements	12,928	233	1.80	12,754	176	1.38	13,734	113	0.82
Borrowed funds	18,702	500	2.67	44,628	1,116	2.50	28,326	420	1.48
Total interest-bearing liabilities	<u>1,140,317</u>	<u>9,092</u>	0.80	<u>896,861</u>	<u>5,091</u>	0.57	<u>812,228</u>	<u>2,592</u>	0.32
Other liabilities	18,802			10,587			8,312		
Total liabilities	<u>1,159,119</u>			<u>907,448</u>			<u>820,540</u>		
Stockholders' equity	126,845			94,460			90,538		
Total liabilities and stockholders' equity	<u>\$ 1,285,964</u>			<u>\$ 1,001,908</u>			<u>\$ 911,078</u>		
Net interest income		<u>\$ 43,158</u>			<u>\$ 34,359</u>			<u>\$ 30,766</u>	
Net interest spread			3.63%			3.66%			3.59%
Net interest margin**			3.66%			3.68%			3.61%

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

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

[Table of Contents](#)

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

	Year Ended December 31,			Year Ended December 31,		
	2019	vs.	2018	2018	vs.	2017
	Increase / (Decrease) Due To			Increase / (Decrease) Due To		
	Volume	Rate	Total	Volume	Rate	Total
Interest income:						
Loans receivable	\$ 9,460	\$ 2,603	\$ 12,063	\$ 3,858	\$ 1,675	\$ 5,533
Securities	533	(466)	67	(27)	474	447
Other interest-earning assets	288	382	670	10	102	112
Total interest-earning assets	10,281	2,519	12,800	3,841	2,251	6,092
Interest Expense:						
Deposits	1,482	3,078	4,560	1,540	200	1,740
Borrowed Funds	(596)	37	(559)	242	517	759
Total interest-bearing liabilities	886	3,115	4,001	1,782	717	2,499
Net change in net interest income/(expense)	\$ 9,395	\$ (596)	\$ 8,799	\$ 2,059	\$ 1,534	\$ 3,593

Subsidiary Activities

NWIN Risk Management, Inc. is a wholly owned subsidiary of the Bancorp. The subsidiary provides captive insurance for the subsidiaries of the Bancorp. At December 31, 2019, the Bancorp had an investment balance of \$1.7 million in NWIN Risk Management, Inc.

Peoples Service Corporation, a wholly owned subsidiary of the Bank was incorporated under the laws of the State of Indiana. The subsidiary currently provides insurance and annuity investments to the Bank's wealth management customers. At December 31, 2019, the Bank had an investment balance of \$164 thousand in Peoples Service Corporation.

NWIN, LLC is a wholly owned subsidiary of the Bank. NWIN, LLC was incorporated under the laws of the State of Nevada as an investment subsidiary. The investment subsidiary currently holds Bank security investments, which are managed by a professional portfolio manager. In addition, the investment subsidiary is the parent of a real estate investment trust, NWIN Funding, Inc., that invests in real estate loans originated by the Bank. At December 31, 2019, the Bank had an investment balance of \$357.9 million in NWIN, LLC.

NWIN Funding, Inc. is a subsidiary of NWIN, LLC, and was formed as an Indiana Real Estate Investment Trust (REIT). The formation of NWIN Funding, Inc. provides the Bancorp with a vehicle that may be used to raise capital utilizing portfolio mortgages as collateral, without diluting stock ownership. In addition, NWIN Funding, Inc. will receive favorable state tax treatment for income generated by its operations. At December 31, 2019, the REIT held assets of \$57.4 million in real estate loans.

Columbia Development Company, LLC is a wholly owned subsidiary of the Bank and was incorporated under the laws of the State of Indiana. The subsidiary holds real estate properties that the Bank has acquired through the foreclosure process. At December 31, 2019, the Bank had an investment balance of \$4.5 million in Columbia Development Company, LLC.

The consolidated financial statements include NorthWest Indiana Bancorp (the Bancorp), its wholly owned subsidiaries, Peoples Bank SB (the Bank), NWIN Risk Management, Inc. and the Bank's wholly owned subsidiaries, Peoples Service Corporation, NWIN, LLC 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 dependent upon the earnings of the Bank. All significant inter-company accounts and transactions have been eliminated in consolidation.

Competition

The Bancorp's primary market area for deposits, loans and financial services encompasses Lake and Porter Counties, in Northwest Indiana, and Cook County in northeast Illinois. All of the Bancorp's banking centers and offices are located in its primary market area. Approximately ninety-two percent of the Bancorp's business activities are within this area.

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

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

The activities of the Bancorp and the Bank in the geographic market served involve competition with other banks as well as with other financial institutions and enterprises, many of which have substantially greater resources than those available to the Bancorp. In addition, non-bank financial services companies with which the Bancorp and Bank compete, while subject to regulation by the CFPB, are generally not subject to the same type of extensive regulation by the federal and state banking agencies applicable to the Bancorp and the Bank.

Personnel

As of December 31, 2019, the Bank had 246 full-time and 44 part-time employees. The employees are not represented by a collective bargaining agreement. Management believes its employee relations are good. The Bancorp has six executive officers and has no other employees. The Bancorp's officers also are full-time employees of the Bank, and are compensated by the Bank.

Regulation and Supervision

Bank Holding Company Regulation. The Bancorp is registered as a bank holding company for the Bank and has elected to be a financial holding company under the Gramm-Leach-Bliley Act of 1999. As a bank holding company and financial holding company, the Bancorp is subject to the regulation and supervision of the FRB under the Bank Holding Company Act of 1956, as amended (the "BHCA"). Bank holding companies are required to file periodic reports with and are subject to periodic examination by the FRB.

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

The Change in Bank Control Act ("CBCA") prohibits a person or group of persons from acquiring "control" of a bank holding company unless the FRB has been notified and has not objected to the transaction. Under a rebuttable presumption established by the FRB, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act, such as the Bancorp, would, under the circumstances set forth in the presumption, constitute acquisition of control of the Bancorp. In addition, the CBCA prohibits any entity from acquiring 25% (the BHCA has a lower limit for acquirers that are existing bank holding companies) or more of a bank holding company's or bank's voting securities, or otherwise obtaining control or a controlling influence over a bank holding company or bank without the approval of the FRB. On January 31, 2020, the FRB approved the issuance of a final rule (which becomes effective April 1, 2020) that clarifies and codifies the FRB's standards for determining whether one company has control over another. The final rule establishes four categories of tiered presumptions of noncontrol that are based on the percentage of voting shares held by the investor (less than 5%, 5-9.9%, 10-14.9% and 15-24.9%) and the presence of other indicia of control. As the percentage of ownership increases, fewer indicia of control are permitted without falling outside of the presumption of noncontrol. These indicia of control include nonvoting equity ownership, director representation, management interlocks, business relationship and restrictive contractual covenants. Under the final rule, investors can hold up to 24.9% of the voting securities and up to 33% of the total equity of a company without necessarily having a controlling influence.

Under the Dodd Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), a bank holding company is expected to serve as a source of financial and managerial strength to its subsidiary bank(s). Pursuant to this requirement, a bank holding company should stand ready to use its resources to provide adequate capital funds to its subsidiary bank(s) during periods of financial stress or adversity. This support may be required by the FRB at times when the Bancorp may not have the resources to provide it or, for other reasons, would not be inclined to provide it. Additionally, under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), a bank holding company is required to provide limited guarantee of the compliance by any insured depository institution subsidiary that may become "undercapitalized" (as defined in the statute) with the terms of any capital restoration plan filed by such subsidiary with its appropriate federal banking agency.

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

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

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

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

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

Capital Requirements. Federal regulations require FDIC insured depository institutions, including state chartered FRB member banks, to meet several minimum capital standards: (i) a common equity Tier 1 capital to risk-based assets ratio of 4.5%; (ii) a Tier 1 capital to risk-based assets ratio of 6.0%; (iii) a total capital to risk-based assets ratio of 8%; and (iv) a 4% Tier 1 capital to total assets leverage ratio.

Common equity Tier 1 capital is generally defined as common shareholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and Additional Tier 1 capital. Additional Tier 1 capital generally includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus Additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock, and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income ("AOCI"), up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Institutions that have not exercised the AOCI opt-out have AOCI incorporated into common equity Tier 1 capital (including unrealized gains and losses on available-for-sale securities). Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, and residual interests) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien one to four-family residential mortgages, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of 150% is assigned to certain past due loans and a risk weight of between 0% to 600% is assigned to permissible equity interests, depending on certain specified factors.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions by the institution and certain discretionary bonus payments to management if an institution does not hold a “capital conservation buffer” consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement was phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increased each year until the buffer requirement became fully effective on January 1, 2019.

The FRB has authority to establish individual minimum capital requirements in appropriate cases upon a determination that an institution’s capital level is or may become inadequate in light of the particular risks or circumstances. As of December 31, 2019, the Bank met all applicable capital adequacy requirements.

Bank holding companies are generally subject to consolidated capital requirements established by the FRB. 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 \$3 billion in consolidated assets, such as the Bancorp, are exempt from consolidated regulatory capital requirements, unless the FRB determines otherwise in particular cases.

Federal law establishes a system of prompt corrective action to resolve the problems of undercapitalized institutions. The law requires that certain supervisory actions be taken against undercapitalized institutions, the severity of which depends on the degree of undercapitalization. The FRB has adopted regulations to implement the prompt corrective action legislation as to state member banks. An institution is deemed to be “well capitalized” if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater, and a common equity Tier 1 ratio of 6.5% or greater. An institution is “adequately capitalized” if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater, and a common equity Tier 1 ratio of 4.5% or greater. An institution is “undercapitalized” if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0%, or a common equity Tier 1 ratio of less than 4.5%. An institution is deemed to be “significantly undercapitalized” if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0%, or a common equity Tier 1 ratio of less than 3.0%. An institution is considered to be “critically undercapitalized” if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

Subject to a narrow exception, a receiver or conservator is required to be appointed for an institution that is “critically undercapitalized” within specified time frames. The regulations also provide that a capital restoration plan must be filed with the FRB within 45 days of the date an institution is deemed to have received notice that it is “undercapitalized,” “significantly undercapitalized,” or “critically undercapitalized.” Compliance with the plan must be guaranteed by any parent holding company up to the lesser of 5% of the institution’s total assets when it was deemed to be undercapitalized or the amount necessary to achieve compliance with applicable capital requirements. In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. The FRB could also take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors. Significantly and critically undercapitalized institutions are subject to additional mandatory and discretionary measures.

[Table of Contents](#)

The following table shows that, at December 31, 2019, and December 31, 2018, the Bancorp's capital exceeded all applicable regulatory capital requirements. The dollar amounts are in millions.

(Dollars in millions)

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 2019						
Common equity tier 1 capital to risk-weighted assets	\$ 110.8	11.8%	\$ 42.4	4.5%	N/A	N/A
Tier 1 capital to risk-weighted assets	\$ 110.8	11.8%	\$ 56.5	6.0%	N/A	N/A
Total capital to risk-weighted assets	\$ 119.8	12.7%	\$ 75.3	8.0%	N/A	N/A
Tier 1 capital to adjusted average assets	\$ 110.8	8.5%	\$ 52.3	4.0%	N/A	N/A

(Dollars in millions)

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 2018						
Common equity tier 1 capital to risk-weighted assets	\$ 92.8	11.6%	\$ 26.1	4.5%	N/A	N/A
Tier 1 capital to risk-weighted assets	\$ 92.8	11.6%	\$ 42.2	6.0%	N/A	N/A
Total capital to risk-weighted assets	\$ 100.8	12.6%	\$ 64.2	8.0%	N/A	N/A
Tier 1 capital to adjusted average assets	\$ 92.8	8.6%	\$ 43.2	4.0%	N/A	N/A

In addition, the following table shows that, at December 31, 2019, and December 31, 2018, the Bank's capital exceeded all applicable regulatory capital requirements. The dollar amounts are in millions.

(Dollars in millions)

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 2019						
Common equity tier 1 capital to risk-weighted assets	\$ 108.9	11.6%	\$ 42.4	4.5%	\$ 61.2	6.5%
Tier 1 capital to risk-weighted assets	\$ 108.9	11.6%	\$ 56.5	6.0%	\$ 75.3	8.0%
Total capital to risk-weighted assets	\$ 117.9	12.5%	\$ 75.3	8.0%	\$ 94.1	10.0%
Tier 1 capital to adjusted average assets	\$ 108.9	8.3%	\$ 52.3	4.0%	\$ 65.3	5.0%

(Dollars in millions)

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 2018						
Common equity tier 1 capital to risk-weighted assets	\$ 89.9	11.2%	\$ 36.2	4.5%	\$ 52.2	6.5%
Tier 1 capital to risk-weighted assets	\$ 89.9	11.2%	\$ 48.2	6.0%	\$ 64.3	8.0%
Total capital to risk-weighted assets	\$ 97.9	12.2%	\$ 64.3	8.0%	\$ 80.3	10.0%
Tier 1 capital to adjusted average assets	\$ 89.9	8.4%	\$ 42.9	4.0%	\$ 53.6	5.0%

In December 2017, the Basel Committee on Banking Supervision published the last version of the Basel III accord, generally referred to as "Basel IV." The Basel Committee stated that a key objective of the revisions incorporated into the framework is to reduce excessive variability of risk-weighted assets ("RWA"), which will be accomplished by enhancing the robustness and risk sensitivity of the standardized approaches for credit risk and operational risk, which will facilitate the comparability of banks' capital ratios; constraining the use of internally modeled approaches; and complementing the risk-weighted capital ratio with a finalized leverage ratio and a revised and robust capital floor. The leadership of the FRB, Office of the Comptroller of the Currency ("OCC"), and FDIC, who are tasked with implementing Basel IV, supported the revisions. Under the current U.S. capital rules, operational risk capital requirements and a capital floor apply only to advanced approaches institutions, and not to the Bancorp. The impact of Basel IV on the Bancorp will depend on the manner in which it is implemented by the federal banking regulators.

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

New Accounting Standards With Regulatory Effect. In June 2016, the Financial Accounting Standards Board (“FASB”) issued an accounting standard update, “Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments,” which replaces the current “incurred loss” model for recognizing credit losses with an “expected loss” model referred to as the Current Expected Credit Loss (“CECL”) model. Under the CECL model, the Bancorp will be required to present certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. On December 21, 2018, the federal banking agencies approved a final rule modifying their regulatory capital rules and providing an option to phase in over a period of three years the day-one regulatory capital effects of the CECL model. The final rule also revises the agencies’ other rules to reflect the update to the accounting standards. The final rule took effect April 1, 2019. The new CECL standard will become effective for the Bancorp for fiscal year ending December 31, 2023 and for interim periods within the fiscal year. The Bancorp’s management is currently evaluating the impact the CECL model will have on the Bancorp’s accounting. Additional detail around managements current efforts can be found in Note 1 to the financial statements, under ASU No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments* .

Dividend Limitations. The Bancorp is a legal entity separate and distinct from the Bank. The primary source of the Bancorp’s cash flow, including cash flow to pay dividends on the Bancorp’s Common Stock, is the payment of dividends to the Bancorp by the Bank. Under Indiana law, the Bank may pay dividends of so much of its undivided profits (generally, earnings less losses, bad debts, taxes and other operating expenses) as is considered expedient by the Bank’s Board of Directors. However, the Bank must obtain the approval of the DFI for the payment of a dividend if the total of all dividends declared by the Bank during the current year, including the proposed dividend, would exceed the sum of retained net income for the year to date plus its retained net income for the previous two years. For this purpose, “retained net income” means net income as calculated for call report purposes, less all dividends declared for the applicable period. 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 FDIC has the authority to prohibit the Bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice in light of the financial condition of the Bank. In addition, under FRB supervisory policy, a bank holding company generally should not maintain its existing rate of cash dividends on common shares unless (i) the organization’s net income available to common shareholders over the past year has been sufficient to fully fund the dividends and (ii) the prospective rate of earnings retention appears consistent with the organization’s capital needs, assets, quality, and overall financial condition. The FRB expects bank holding companies to consult with it in advance of declaring dividends that could raise safety and soundness concerns (i.e., such as when the dividend is not supported by earnings or involves a material increase in the dividend rate) and in advance of repurchasing shares of common or preferred stock.

Federal Deposit Insurance. Deposits in the Bank are insured by the Deposit Insurance Fund of the FDIC up to a maximum amount, which is generally \$250,000 per depositor, subject to aggregation rules. There is no unlimited insurance coverage for noninterest bearing transaction accounts. Rather, deposits held in noninterest bearing transaction accounts are aggregated with interest bearing deposits the owner may hold in the same ownership category, and the combined insured up to at least \$250,000. The Bank is subject to deposit insurance assessments by the FDIC pursuant to its regulations establishing a risk-related deposit insurance assessment system, based on the institution’s capital levels and risk profile. Under the FDIC’s risk-based assessment system, insured institutions are assigned to one of four risk-weighted categories based on supervisory evaluations, regulatory capital levels, and certain other factors with less risky institutions paying lower assessments. An institution’s initial assessment rate depends upon the category to which it is assigned. There are also adjustments to a bank’s initial assessment rates based on levels of long-term unsecured debt, secured liabilities in excess of 25% of domestic deposits and, for certain institutions, brokered deposit levels. Pursuant to FDIC rules adopted under the Dodd-Frank Act (described below), initial assessments ranged from 5 to 35 basis points of the institution’s total assets minus its tangible equity. The Bank paid net deposit insurance assessments of \$297 thousand during the year ended December 31, 2019. During 2019, the Deposit Insurance Fund exceeded its outlined reserve ratio, and as a result the Bank received one-time assessment credits. For 2019, the deposit insurance assessment rate before applying one-time assessment credits was approximately 0.057% of insured deposits. No institution may pay a dividend if it is in default of the federal deposit insurance assessment.

The Bank was also subject to assessment for the Financing Corporation (FICO) to service the interest on the FICO's bond obligations. The amount assessed on individual institutions, including the Bank, by FICO is in addition to the amount paid for deposit insurance according to the risk-related assessment rate schedule. These assessments will continue until the FICO bonds matured in 2019. During 2019, the FICO assessment rate was 0.01 basis points for each \$100 of insured deposits. The Bank paid interest payment assessments of approximately \$3 thousand during the year ended December 31, 2019. Future increases in deposit insurance premiums or changes in risk classification would increase the Bank's deposit related costs.

Under the Dodd-Frank Act, the FDIC is authorized to set the reserve ratio for the Deposit Insurance Fund at no less than 1.35%, and must achieve the 1.35% designated reserve ratio by September 30, 2020. The FDIC must offset the effect of the increase in the minimum designated reserve ratio from 1.15% to 1.35% on insured depository institutions of less than \$10 billion, and may declare dividends to depository institutions when the reserve ratio at the end of a calendar quarter is at least 1.5%, although the FDIC has the authority to suspend or limit such permitted dividend declarations. The FDIC has set the designated reserve ratio for the deposit insurance fund at 2% of estimated insured deposits, which the FDIC has established as a long-term goal. On September 30, 2018, the DIF reserve ratio reached 1.36 percent, exceeding the statutorily required minimum reserve ratio of 1.35 percent ahead of the September 30, 2020 deadline required under the Dodd-Frank Act.

Under the Dodd-Frank Act, the assessment base for deposit insurance premiums is calculated as average consolidated total assets minus average tangible equity. Tangible equity for this purpose means Tier 1 capital. The rate schedules set forth in the rule governing the assessment base are scaled to the increase in the assessment base, including schedules that go into effect as the reserve ratio reaches 1.15%, 2%, and 2.5%.

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

- For small Risk category I banks, the rates range from 5-9 basis points.
- The rates for small institutions in Risk Categories II, III and IV are 14, 23 and 35 basis points, respectively.
- For large institutions and large, highly complex institutions, the rate schedule ranges from 5 to 35 basis points.

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

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

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

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank of Indianapolis, which is one of eleven regional Federal Home Loan Banks. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from funds deposited by member institutions and proceeds from the sale of consolidated obligations of the Federal Home Loan Bank system. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of trustees of the Federal Home Loan Bank. As a member, the Bank is required to purchase and maintain stock in the Federal Home Loan Bank of Indianapolis in an amount equal to the greater of 1% of its aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year or 5% of our outstanding advances from the Federal Home Loan Bank. At December 31, 2019, the Bank was in compliance with this requirement.

At December 31, 2019, the Bancorp owned \$3.9 million of stock of the Federal Home Loan Bank of Indianapolis ("FHLBI") and had outstanding borrowings of \$14.0 million from the FHLBI. The FHLBI stock entitles the Bancorp to dividends from the FHLBI. The Bancorp recognized dividend income of approximately \$175 thousand in 2019. At December 31, 2019, the Bancorp's excess borrowing capacity based on collateral from the FHLBI was \$146.1 million. Generally, the loan terms from the FHLBI are better than the terms the Bancorp can receive from other sources making it cheaper to borrow money from the FHLBI.

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

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

Gramm-Leach-Bliley Act. Under the Gramm-Leach-Bliley Act ("Gramm-Leach"), bank holding companies are permitted to offer their customers virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. In order to engage in these new financial activities, a bank holding company must qualify and register with the FRB as a "financial holding company" by demonstrating that each of its bank subsidiaries is well capitalized, well managed and has at least a satisfactory rating under the CRA. As previously discussed, the Bancorp has elected to become a financial holding company under Gramm-Leach.

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

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

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

Cybersecurity Guidelines. The federal banking agencies have adopted guidelines for establishing information security standards and cybersecurity programs for implementing safeguards under the supervision of the board of directors. These guidelines, along with related regulatory materials, increasingly focus on risk management and processes related to information technology and the use of third parties in the provision of financial services. In October 2016, the federal banking agencies issued an advance notice of proposed rulemaking on enhanced cybersecurity risk-management and resilience standards that would apply to large and interconnected banking organizations and to services provided by third parties to these firms. These enhanced standards would apply only to depository institutions and depository institution holding companies with total consolidated assets of \$50 billion or more, which would not currently include the Bancorp. However, similar standards and/or regulations may be adopted or implemented by federal and state banking agencies in the future which may be applicable to community banking organizations such as the Bancorp.

Recent cyberattacks against banks and other financial institutions that resulted in unauthorized access to confidential customer information have prompted the federal banking regulators to issue extensive guidance on cybersecurity. Among other things, financial institutions are expected to design multiple layers of security controls to establish lines of defense and ensure that their risk management processes address the risks posed by compromised customer credentials, including security measures to authenticate customers accessing internet-based services. A financial institution also should have a robust business continuity program to recover from a cyberattack and procedures for monitoring the security of third-party service providers that may have access to nonpublic data at the institution. During 2019, the Bancorp did not discover any material cybersecurity incidents.

Consumer Financial Protection Bureau. The Dodd-Frank Act established the Consumer Financial Protection Bureau (“CFPB”) within the Federal Reserve, which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of Gramm-Leach and certain other statutes. Many of the consumer financial protection functions formerly assigned to the federal banking and other designated agencies are now performed by the CFPB. The CFPB has a large budget and staff, and has the authority to implement regulations under federal consumer protection laws and enforce those laws against, and examine, financial institutions. The CFPB has examination and primary enforcement authority with respect to depository institutions with \$10 billion or more in assets. Smaller institutions are subject to rules promulgated by the CFPB but continue to be examined and supervised by the federal banking regulators for consumer compliance purposes. The CFPB has the authority to prevent unfair, deceptive or abusive practice in connection with the offering of consumer financial products. Additionally, this bureau is authorized to collect fines and provide consumer restitution in the event of violations, engage in consumer financial education, track consumer complaints, request data, and promote the availability of financial services to underserved consumers and communities.

Moreover, the Dodd-Frank Act authorized the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower’s ability to repay. In addition, the CFPB has published several final regulations impacting the mortgage industry, including rules related to ability-to-pay, mortgage servicing, and mortgage loan originator compensation. The ability-to-repay rule makes lenders liable if they fail to assess ability to repay under a prescribed test, but also creates a safe harbor for so-called “qualified mortgages.” Failure to comply with the ability-to-repay rule may result in possible CFPB enforcement action and special statutory damages plus actual, class action, and attorneys’ fees damages, all of which a borrower may claim in defense of a foreclosure action at any time. The Dodd-Frank Act also permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations. Federal preemption of state consumer protection law requirements, traditionally an attribute of the federal savings association charter, also was modified by the Dodd-Frank Act and requires a case-by-case determination of preemption by the OCC and eliminates preemption for subsidiaries of a bank. Depending on the implementation of this revised federal preemption standard, the operations of the Bank could become subject to additional compliance burdens in the states in which it operates.

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

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

Federal Securities Law. The shares of Common Stock of the Bancorp have been registered with the SEC under the Securities Exchange Act (the "1934 Act"). The Bancorp is subject to the information, proxy solicitation, insider trading restrictions and other requirements of the 1934 Act and the rules of the SEC there under. If the Bancorp has fewer than 1,200 record shareholders, it may deregister its shares under the 1934 Act and cease to be subject to the foregoing requirements.

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

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

Federal Reserve Monetary Policies. The Bancorp's earnings and growth, as well as the earnings and growth of the banking industry in general, are affected by the monetary and credit policies of monetary authorities, including the FRB. An important function of the FRB is to regulate the national supply of bank credit in order to combat recession and curb inflationary pressures. Among the instruments of monetary policy used by the FRB to implement these objectives are open market operations in U.S. government securities, changes in reserve requirements against member bank deposits, and changes in the Federal Reserve discount rate. These instruments are used in varying combinations to influence overall growth of bank loans, investments, and deposits, and may also affect interest rates charged on loans or paid for deposits. The monetary policies of the FRB have had a significant impact on the operating results of financial institutions in the past and are expected to continue to have effects in the future.

In view of continually changing conditions in the national economy and in money markets, as well as the effect of credit policies by monetary and fiscal authorities, including the FRB, it is difficult to predict the impact of possible future changes in interest rates, deposit levels, and loan demand, or their effect on the Bancorp's business and earnings or on the financial condition of the Bancorp's various customers.

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

Federal Taxation

For federal income tax purposes, the Bank reports its income and expenses on the accrual method of accounting. The Bancorp and the Bank file a consolidated federal income tax return for each fiscal year ending December 31.

State Taxation

The Bank is subject to Indiana's Financial Institutions Tax ("FIT"), which is imposed at a flat rate of 6.25% on "adjusted gross income". This rate is scheduled to decrease over the succeeding years as follows: to 6.0% for 2020, to 5.5% for 2021, to 5.0% for 2022, and to 4.9% for 2023 and thereafter. Additionally, the Bank is subject to Illinois state tax which is imposed at a flat rate of 9.5%. "Adjusted gross income," for purposes of FIT, begins with taxable income as defined by Section 63 of the Internal Revenue Code of 1986, as amended (the "Code") and, thus, incorporates federal tax law to the extent that it affects the computation of taxable income. Federal taxable income is then adjusted by several Indiana and Illinois modifications. Other applicable state taxes include generally applicable sales and use taxes plus real and personal property taxes.

Accounting for Income Taxes

At December 31, 2019, the Bancorp has consolidated total deferred tax assets of \$6.6 million and consolidated total deferred tax liabilities of \$3.3 million, resulting in a consolidated net deferred tax asset of \$3.3 million, net of a \$92 thousand valuation allowance. The valuation allowance of \$92 thousand was provided for the state tax credit, as management does not believe these amounts will be fully utilized before statutory expiration.

Item 1A. Risk Factors

Not applicable.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The Bancorp maintains its corporate office at 9204 Columbia Avenue, Munster, Indiana, from which it oversees the operation of the Bank's 22 banking locations. The Bancorp owns all of its office properties.

As of December 31, 2019, the Bank operated 16 branches in Northwest Indiana, with 15 of the branches located in Lake County and one branch located in Porter County, Indiana, and six branches located in Cook County, Illinois. The Bank owns all of its branch properties. All of the Bank's branches are equipped with automated teller machines and a majority of the branches have drive-through facilities.

The Bank outsources its core processing activities to Fidelity National Information Services, Inc., or FIS Corporation located in Jacksonville, Florida. FIS provides real time services for loans, deposits, retail delivery systems, card solutions, electronic banking, and wealth management. The net book value of the Bank's property, premises and equipment totaled \$29.4 million at December 31, 2019.

Item 3. Legal Proceedings

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 4.5 Executive Officers of the Bancorp

Pursuant to General Instruction G(3) of Form 10-K, the following information is included as an unnumbered item in this Part I in lieu of being included in the Bancorp's Proxy Statement for the 2020 Annual Meeting of Shareholders:

The executive officers of the Bancorp are as follows:

Executive Officer	Age at December 31, 2019	Position
David A. Bochnowski	74	Executive Chairman
Benjamin J. Bochnowski	39	President, Chief Executive Officer
Robert T. Lowry	58	Executive Vice President, Chief Financial Officer and Treasurer
Leane E. Cerven	61	Executive Vice President, General Counsel, Corporate Secretary
Tanya A. Leetz	49	Executive Vice President, Chief Information and Technology Officer
Todd Scheub	52	Executive Vice President, Chief Banking Officer

The following is a description of the principal occupation and employment of the executive officers of the Bancorp during at least the past five years:

David A. Bochnowski, is the Executive Chairman of the Bancorp and Bank. His duties include assisting his successor in the transition into the role of Chief Executive Officer of the Company and Bank, assisting the Company and Bank with their strategic goals and budgeting process, and engaging in community and banking activities supporting the mission of the Company and Bank. He formerly served as the Chief Executive Officer for thirty-five years, retiring from that position in April of 2016. He has been Chairman of the Company and Bank since 1995. He has been a director since 1977 and was the Bank's legal counsel from 1977 to 1981. Mr. Bochnowski is the past Chairman of America's Community Bankers, now merged with the American Bankers Association. He is a past Chairman of the American Banker Association's Government Relations Council. He was selected by the Securities and Exchange Commission to serve on the Commission's Advisory Council on Small and Emerging Companies. He is a former Chairman of the Indiana Department of Financial Institutions; former director of the Federal Home Loan Bank of Indianapolis, and, a former member of the Federal Reserve Thrift Advisory Council. He is a trustee and treasurer of the Munster Community Hospital, a director of the Community Health Care System, serves as Vice-Chairman of Calumet College, and serves on the board of Trustees of Valparaiso University. He is a former Chairman of the Legacy Foundation of Lake County, a former Director of One Region, a former Director of Habitat for Humanity, and a former director of the Local Initiatives Support Corporation (LISC), among others. Before joining the Bank, Mr. Bochnowski was an attorney in private practice. He holds an undergraduate Bachelor of Science and Juris Doctor degrees from Georgetown University and a Master's Degree from Howard University. He served as an officer in the United States Army and received a Bronze Star for his service in the Vietnam conflict. Mr. Bochnowski is the father of Benjamin Bochnowski, the President and Chief Executive Officer of the Bancorp and Bank.

Benjamin J. Bochnowski currently serves as President and Chief Executive Officer of the Bancorp. Mr. Bochnowski joined the Bancorp in 2010, became Executive Vice President and Chief Operating Officer of the Bancorp in 2013, and was promoted to President and Chief Operating Officer in 2015. He became the Chief Executive Officer in 2016. He was appointed to the Board of the Indiana Department of Financial Institutions by the Governor of Indiana in 2019. He is also a Director and member of the Executive Committee of the Indiana Bankers Association, and serves on the Membership Committee of the American Bankers Association. He also serves as the Chairman of the Board of Directors of One Region, a non-profit business organization focused on population growth. Mr. Bochnowski volunteers with the Volunteer Income Tax Assistance (VITA) Program for low income individuals, and has been a mentor for the Entrepreneurship Boot Camp for Veterans at Purdue University.

Robert T. Lowry is Executive Vice President, Chief Financial Officer and Treasurer of the Bancorp and the Bank. He is responsible for finance, accounting, financial reporting, human resources, and risk management activities. Mr. Lowry has been with the Bank since 1985 and has previously served as the Bank's Assistant Controller, Internal Auditor and Controller. Mr. Lowry is a Certified Public Accountant (CPA) licensed in Indiana and a Chartered Global Management Accountant (CGMA). Mr. Lowry holds a Master's of Business Administration Degree from Indiana University and is a graduate of America's Community Bankers National School of Banking. Mr. Lowry has taught online courses for the American Bankers Association that focused on capital and liquidity management, interest rate risk and investments. Mr. Lowry is currently serving on the board of the Food Bank of Northwest Indiana as board chairman and chair of the executive committee. In addition, Mr. Lowry is a volunteer for the IRS Volunteer Income Tax Assistance (VITA) program. He is a member of the American Institute of Certified Public Accountants, the Indiana CPA Society and the Financial Managers Society.

Leane English Cerven is Executive Vice President, General Counsel, and Corporate Secretary of NorthWest Indiana Bancorp and Peoples Bank SB. She provides legal, regulatory and corporate governance support to the Bancorp and the Bank, and is responsible for the transfer agency. Ms. Cerven has been employed by the Bancorp and the Bank since 2010. Prior to joining the Bancorp and the Bank, she was Vice President and Legal Counsel for Bank One and an Associate Attorney with Mayer, Brown & Platt. She is licensed to practice law in Indiana and Illinois. Ms. Cerven holds a J.D. from Valparaiso University School of Law and a B.A. (Political Science/Spanish) from the University of Minnesota, Minneapolis. She is a 2014 graduate of the American Bankers Association Stonier Graduate School of Banking, chair of the Stonier Graduate School of Banking Advisory Board, and a Stonier capstone advisor. She is also a co-chair of the ABA's General Counsels Group. She serves on the Board of South Shore Arts, Munster, Indiana and the Bioethics Committees for St. Catherine Hospital, East Chicago, Indiana and St. Mary Medical Center, Hobart, Indiana.

Tanya A. Leetz is Executive Vice President, Chief Information and Technology Officer of the Bancorp and the Bank. She is responsible for the Solutions Group which encompasses the Bank's Project and Change Management, Operations, Secure Collaboration & Integration, and Customer Experience Teams. She serves as liaison to the Sales and Brand Group. Ms. Leetz joined the Bank in 1994 and has previously served as trust administrator, management development, information systems manager, and chief operating officer. She is a Certified Information Security Manager (CISM) and Certified in Risk and Information Systems Control (CRISC). Ms. Leetz holds a Master's Degree in Business Administration and a Bachelor of Science Degree in Financial Planning from Purdue University. She also graduated from America's Community Bankers National School of Banking. Ms. Leetz currently serves as the Chair of the Boys and Girls Clubs of Greater Northwest Indiana Board and is involved in other community activities. She is a member of the Information Systems Audit and Control Association and serves as an advisory member of a national technology committee.

Todd M. Scheub is Executive Vice President, Chief Banking Officer of the Bancorp and the Bank. He is responsible for the Bank's Wealth Management group, Retail Banking group, Marketing, Commercial, and Retail lending groups as well as the management of asset quality in the loan portfolio. Mr. Scheub joined the Bank in 1996 and has previously held positions in the commercial lending group. He provides oversight to the sales group in wealth management, retail banking, business and retail lending as well as chairing the Senior Officer's Loan Committee. Additionally he provides oversight to the Bank's Marketing group. He is the liaison to the solutions group, risk management, executive management, and the Board of Directors on all items related to the Bank's sales groups. Mr. Scheub holds a Bachelor of Science Degree in Business and a Master's Degree in Business Administration from Indiana University Northwest. He also graduated from America's Community Bankers National School of Banking. Mr. Scheub is a Board Member at Campagna Academy, Lake County Economic Alliance, and the Indiana University Northwest Business School Advisory Board.

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

The Bancorp's Common Stock is not listed on any national securities exchange, but rather is quoted in the over-the-market on the OTC Pink Marketplace, which is maintained by OTC Markets Group, Inc., and on the OTC Bulletin Board, which is maintained by the Financial Industry Regulatory Authority, Inc., under the symbol "NWIN." The Bancorp's stock is not actively traded. As of March 13, 2020, the Bancorp had 3,463,136 shares of common stock outstanding and 614 stockholders of record. This does not reflect the number of persons or entities who may hold their stock in nominee or "street" name through brokerage firms. Any over-the-counter market quotations reflect inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

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 twelve months ended December 31, 2019 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, 2019 – January 31, 2019	-	N/A	-	48,828
February 1, 2019 – February 28, 2019	-	N/A	-	48,828
March 1, 2019 – March 31, 2019	-	N/A	-	48,828
April 1, 2019 – April 30, 2019	-	N/A	-	48,828
May 1, 2019 – May 31, 2019	-	N/A	-	48,828
June 1, 2019 – June 30, 2019	-	N/A	-	48,828
July 1, 2019 – July 31, 2019	-	N/A	-	48,828
August 1, 2019 – August 31, 2019	-	N/A	-	48,828
September 1, 2019 – September 30, 2019	-	N/A	-	48,828
October 1, 2019 – October 31, 2019	-	N/A	-	48,828
November 1, 2019 – November 30, 2019	-	N/A	-	48,828
December 1, 2019 – December 31, 2019	-	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 6. Selected Financial Data

<i>Fiscal Year Ended</i>	December 31, 2018	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015
Statement of Income:					
Total interest income	\$ 52,250	\$ 39,450	\$ 33,358	\$ 32,399	\$ 29,383
Total interest expense	9,092	5,091	2,592	2,345	2,013
Net interest income	43,158	34,359	30,766	30,054	27,370
Provision for loan losses	2,584	1,308	1,200	1,268	954
Net interest income after provision for loan losses	40,574	33,051	29,566	28,786	26,416
Noninterest income	10,670	9,099	7,752	7,613	6,850
Noninterest expense	37,388	31,383	25,488	24,709	23,616
Net noninterest expense	26,718	22,284	17,736	17,096	16,766
Income tax expenses/(benefit)	1,759	1,430	2,869	2,548	1,798
Net income	\$ 12,097	\$ 9,337	\$ 8,961	\$ 9,142	\$ 7,852
Basic earnings per common share	\$ 3.53	\$ 3.17	\$ 3.13	\$ 3.20	\$ 2.75
Diluted earnings per common share	\$ 3.53	\$ 3.17	\$ 3.13	\$ 3.20	\$ 2.75
Cash dividends declared per common share	\$ 1.23	\$ 1.19	\$ 1.15	\$ 1.11	\$ 1.06

	December 31, 2018	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015
Balance Sheet:					
Total assets	\$ 1,328,722	\$ 1,096,158	\$ 927,259	\$ 913,626	\$ 864,893
Loans receivable	906,869	764,400	620,211	583,650	571,898
Investment securities	277,219	241,768	244,490	233,625	233,350
Deposits	1,154,370	929,786	793,004	779,771	714,875
Borrowed funds	25,499	54,628	32,181	39,826	58,001
Total stockholders' equity	134,103	101,464	92,060	84,108	80,909

	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015
Interest Rate Spread During Period:					
Average effective yield on loans and investment securities	4.43%	4.22%	3.91%	3.89%	3.84%
Average effective cost of deposits and borrowings	0.80%	0.57%	0.32%	0.30%	0.28%
Interest rate spread	3.63%	3.65%	3.59%	3.59%	3.56%
Net interest margin	3.66%	3.67%	3.61%	3.61%	3.58%
Return on average assets	0.94%	0.93%	0.98%	1.03%	0.96%
Return on average equity	9.54%	9.88%	9.90%	10.65%	9.90%

	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015
Common equity tier 1 capital to risk-weighted assets	11.8%	11.6%	12.9%	13.1%	12.4%
Tier 1 capital to risk-weighted assets	11.8%	11.6%	12.9%	13.1%	12.4%
Total capital to risk-weighted assets	12.7%	12.6%	14.0%	14.3%	13.5%
Tier 1 capital to adjusted average assets	8.5%	8.6%	9.6%	9.2%	9.0%
Allowance for loan losses to total loans	0.99%	1.04%	1.21%	1.32%	1.22%
Allowance for loan losses to non-performing loans	122.05%	115.12%	143.26%	126.10%	124.66%
Non-performing loans to total loans	0.81%	0.90%	0.84%	1.05%	0.98%
Total loan accounts	7,272	6,176	5,680	5,655	5,628
Total deposit accounts	43,116	36,039	31,080	31,175	30,968
Total Banking Centers (all full service)	22	19	16	16	16

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

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

A summary of the Bancorp's significant accounting policies are detailed in Note 1 to the Bancorp's consolidated financial statements included in this report. Preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period, as well as the disclosures provided. Actual results could differ from those estimates. Estimates associated with the allowance for loan losses, 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.

At December 31, 2019, the Bancorp had total assets of \$1.3 billion and total deposits of \$1.2 billion. The Bancorp's deposit accounts are insured up to applicable limits by the Deposit Insurance Fund (DIF) that is administered by the Federal Deposit Insurance Corporation (FDIC), an agency of the federal government. At December 31, 2019, stockholders' equity totaled \$134.1 million, with book value per share at \$38.85. Net income for 2019 was \$12.1 million, or \$3.53 basic and diluted earnings per common share. The return on average assets was 0.94%, while the return on average stockholders' equity was 9.54%.

Recent Developments

Acquisition of AJSB. On January 24, 2019, the Bancorp completed its acquisition of AJSB, pursuant to an Agreement and Plan of Merger dated July 30, 2018 (the "AJSB Merger Agreement") between the Bancorp and AJSB. Pursuant to the terms of the AJSB Merger Agreement, AJSB merged with and into the Bancorp, with the Bancorp as the surviving corporation (the "AJSB Merger"). Simultaneous with the AJSB Merger, A.J. Smith Federal Savings Bank, a federally chartered savings bank and wholly-owned subsidiary of AJSB, merged with and into the Bank, with the Bank as the surviving institution.

In connection with the AJSB Merger, each AJSB stockholder holding 100 or more shares of AJSB common stock received fixed consideration of (i) 0.2030 shares of the Bancorp common stock, and (ii) \$7.20 per share in cash for each outstanding share of AJSB common stock. Stockholders holding less than 100 shares of AJSB common stock received \$16.00 in cash and no stock consideration for each outstanding share of AJSB common stock. Any fractional shares of Bancorp common stock that an AJSB stockholder would have otherwise received in the AJSB Merger were cashed out in the amount of such fraction multiplied by \$43.01.

The Bancorp issued 416,478 shares of Bancorp common stock to the former AJSB stockholders, and paid cash consideration of approximately \$15.7 million. Based upon the closing price of NWIN's common stock on January 23, 2019, the transaction had an implied valuation of approximately \$33.2 million, which includes unallocated shares held by the AJSB Employee Stock Ownership Plan ("ESOP"), some of which were cancelled in connection with the closing to satisfy the ESOP's outstanding loan balance. As of December 31, 2019, acquisition costs related to the AJSB Merger equaled approximately \$2.1 million. The acquisition further expanded the Bank's banking center network in Cook County, Illinois, expanding the Bank's full-service retail banking network to 22 banking centers.

Acquisition of First Personal. On July 26, 2018, the Bancorp completed its previously announced acquisition of First Personal, pursuant to an Agreement and Plan of Merger dated February 20, 2018 (the "First Personal Merger Agreement") between the Bancorp and First Personal. Pursuant to the terms of the First Personal Merger Agreement, First Personal merged with and into the Bancorp, with the Bancorp as the surviving corporation (the "First Personal Merger"). Simultaneous with the First Personal Merger, First Personal Bank, an Illinois state chartered commercial bank and wholly-owned subsidiary of First Personal, merged with and into Peoples Bank SB, with Peoples Bank as the surviving institution. The acquisition represented the Bank's first expansion into the South Suburban Chicagoland market, and expanded the Bank's full-service retail banking network to 19 banking centers.

In connection with the First Personal Merger, each First Personal stockholder holding 100 or more shares of First Personal common stock received fixed consideration of (i) 0.1246 shares of Bancorp common stock, and (ii) \$6.67 per share in cash for each outstanding share of First Personal common stock. Stockholders holding less than 100 shares of First Personal common stock received \$12.12 in cash and no stock consideration for each outstanding share of First Personal common stock. Any fractional shares of Bancorp common stock that a First Personal stockholder would have otherwise received in the First Personal Merger were cashed out in the amount of such fraction multiplied by \$42.95.

The Bancorp issued a total of 161,875 shares of Bancorp common stock to the former First Personal stockholders, and paid cash consideration of approximately \$8.7 million. Based upon the closing price of Bancorp's common stock on July 25, 2018, the transaction had an implied valuation of approximately \$15.6 million.

Financial Condition

During the year ended December 31, 2019, total assets increased by \$232.6 million (21.2%), to \$1.3 billion, with interest-earning assets increasing by \$204.2 million (20.1%). At December 31, 2019, interest-earning assets totaled \$1.2 billion and represented 92.0% of total assets. Loans totaled \$906.9 million and represented 74.2% of interest-earning assets, 68.3% of total assets and 78.6% of total deposits. The loan portfolio, which is the Bancorp's largest asset, is a significant source of both interest and fee income.

(Dollars in thousands)	December 31, 2019		December 31, 2018	
	Balance	% Loans	Balance	% Loans
Residential real estate	\$ 299,333	33.0%	\$ 223,323	29.2%
Home equity	49,181	5.4%	45,483	6.0%
Commercial real estate	283,108	31.2%	253,104	33.1%
Construction and land development	87,710	9.7%	64,433	8.4%
Multifamily	51,286	5.7%	47,234	6.2%
Farmland	227	0.0%	240	0.0%
Consumer	1,193	0.1%	643	0.1%
Manufactured Homes	15,939	1.8%	5,400	0.7%
Commercial business	103,088	11.4%	103,439	13.5%
Government	15,804	1.7%	21,101	2.8%
Loans receivable	<u>\$ 906,869</u>	<u>100.0%</u>	<u>\$ 764,400</u>	<u>100.0%</u>
Adjustable rate loans / loans receivable	\$ 504,941	55.7%	\$ 437,928	57.3%

	December 31, 2019	December 31, 2018
Loans receivable to total assets	68.3%	69.7%
Loans receivable to earning assets	74.2%	75.1%
Loans receivable to total deposits	78.6%	82.2%

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 twelve months ended December 31, 2019, the Bancorp originated \$78.2 million in new fixed rate mortgage loans for sale, compared to \$55.5 million during the twelve months ended December 31, 2018. Net gains realized from the mortgage loan sales totaled \$1.9 million for the twelve months ended December 31, 2019, compared to \$1.6 million for the twelve months ended December 31, 2018. At December 31, 2019, the Bancorp had \$6.1 million in loans that were classified as held for sale, compared to \$2.9 million at December 31, 2018.

[Table of Contents](#)

Non-performing loans include those loans that are 90 days or more past due and accruing and those loans that have been placed on non-accrual status. At December 31, 2019, all non-performing loans are also accounted for on a non-accrual basis, except for six residential loan totaling \$451 thousand, three commercial business loans totaling \$288 thousand, one commercial real estate loan totaling \$61 thousand, one manufactured home loan totaling \$46 thousand, and one home equity loan totaling \$20 thousand that remained accruing and more than 90 days past due.

The Bancorp's nonperforming loans are summarized below:

(Dollars in thousands)

Loan Segment	December 31, 2019	December 31, 2018
Residential real estate	\$ 4,826	\$ 5,257
Home equity	492	320
Commercial real estate	719	695
Construction and land development	-	-
Multifamily	420	-
Farmland	-	-
Commercial business	870	644
Consumer	-	-
Manufactured homes	46	-
Government	-	-
Total	<u>\$ 7,373</u>	<u>\$ 6,916</u>
Nonperforming loans to total loans	0.81%	0.90%
Nonperforming loans to total assets	0.55%	0.63%

Substandard loans include non-performing loans and potential problem loans, where information about possible credit issues or other conditions causes management to question the ability of such borrowers to comply with loan covenants or repayment terms. No loans were internally classified as doubtful or loss at December 31, 2019 or December 31, 2018.

The Bancorp's substandard loans are summarized below:

(Dollars in thousands)

Loan Segment	December 31, 2019	December 31, 2018
Residential real estate	\$ 4,491	\$ 5,366
Home equity	507	373
Commercial real estate	1,565	1,770
Construction and land development	-	-
Multifamily	802	-
Farmland	-	-
Commercial business	727	728
Consumer	-	-
Manufactured homes	-	-
Government	-	-
Total	<u>\$ 8,092</u>	<u>\$ 8,237</u>

[Table of Contents](#)

In addition to identifying and monitoring non-performing and other classified loans, management maintains a list of special mention loans. Special mention loans represent loans management is closely monitoring due to one or more factors that may cause the loan to become classified as substandard.

The Bancorp's special mention loans are summarized below:

(Dollars in thousands)

Loan Segment	December 31, 2019	December 31, 2018
Residential real estate	\$ 4,203	\$ 3,908
Home equity	813	657
Commercial real estate	5,380	4,715
Construction and land development	-	-
Multifamily	-	149
Farmland	-	-
Commercial business	2,228	2,958
Consumer	-	-
Manufactured homes	-	20
Government	-	-
Total	<u>\$ 12,624</u>	<u>\$ 12,407</u>

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. 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 ("accretable yield"). The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable 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.

The Bancorp's impaired loans, including purchased credit impaired loans, are summarized below:

(Dollars in thousands)

Loan Segment	December 31, 2019	December 31, 2018
Residential real estate	\$ 2,223	\$ 1,550
Home equity	437	264
Commercial real estate	1,565	2,105
Construction and land development	-	-
Multifamily	802	-
Farmland	-	-
Commercial business	2,191	1,863
Consumer	-	-
Manufactured homes	-	-
Government	-	-
Total	<u>\$ 7,218</u>	<u>\$ 5,782</u>

At times, the Bancorp will modify the terms of a loan to forego a portion of interest or principal or reduce the interest rate on the loan to a rate materially less than market rates, or materially extend the maturity date of a loan as part of a troubled debt restructuring. 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.

The Bancorp's troubled debt restructured loans are summarized below:

Loan Segment	December 31, 2019		December 31, 2018	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Residential real estate	6	\$ 480	5	\$ 457
Home equity	6	176	5	141
Commercial real estate	3	822	4	1,074
Construction and land development	-	-	-	-
Multifamily	-	-	-	-
Farmland	-	-	-	-
Commercial business	7	622	5	359
Consumer	-	-	-	-
Manufactured homes	-	-	-	-
Government	-	-	-	-
Total	22	\$ 2,100	19	\$ 2,031

The increase in the nonperforming, special mention and impaired loans reflected in the tables above for the twelve months ending December 31, 2019, are the result of the completion of the AJSB acquisition as well as four commercial real estate loans to two borrowers and eleven commercial business loans to eight borrowers which were not related to the acquisition. The decrease in the substandard loans reflected in the tables above for the twelve months ending December 31, 2019, are the result of the removal of numerous residential loans, which was offset by the AJSB acquisition as well as one commercial real estate loan and eight commercial business loans to five borrowers.

At December 31, 2019, 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.

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.

The Bancorp's provision for loan losses for the twelve months ended are summarized below:

(Dollars in thousands)

Loan Segment	December 31, 2019	December 31, 2018
Residential real estate	\$ 228	\$ 340
Home equity	21	84
Commercial real estate	667	305
Construction and land development	342	138
Multifamily	57	(150)
Farmland	-	-
Commercial business	1,295	522
Consumer	(5)	85
Manufactured homes	-	-
Government	(21)	(16)
Total	\$ 2,584	\$ 1,308

The Bancorp's charge-off and recovery information is summarized below:

(Dollars in thousands)

Loan Segment	Charge-off	(unaudited) As of December 31, 2019	
		Recoveries	Net Charge-offs
Residential real estate	\$ (160)	\$ 29	\$ (131)
Home equity	-	-	-
Commercial real estate	(229)	-	(229)
Construction and land development	-	-	-
Multifamily	-	-	-
Farmland	-	-	-
Commercial business	(1,178)	25	(1,153)
Consumer	(54)	20	(34)
Manufactured homes	-	-	-
Government	-	-	-
Total	\$ (1,621)	\$ 74	\$ (1,547)

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.

In addition, management considers reserves that are not part of the ALL that have been established from acquisition activity. 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 December 31, 2019, total purchased credit impaired loans nonaccretable and accretable discount totaled \$2.2 million compared to \$3.1 million at December 31, 2018. Additionally, the Bancorp has acquired loans where there was no evidence of credit quality deterioration since origination and has marked these loans to their fair values. As part of the fair value of loans receivable, a net fair value discount was established for loans acquired of \$3.8 million at December 31, 2019, compared to \$1.8 million at December 31, 2018. The increase in the fair value discount and purchase credit impaired discounts, as of December 31, 2019, is the result of the AJSB acquisition. Details on these fair value marks and the additional reserves created can be found in Note 4, Loans Receivable.

A deferred cost reserve is maintained for the portfolio of manufactured home loans that have been purchased. This reserve is available for use for manufactured home loan nonperformance and costs associated with nonperformance. If the segment performs in line with expectation, the deferred cost reserve is paid as an origination cost to the third party originator of the loan.

The Bancorp's allowance to total loans and non-performing loans are summarized below:

(Dollars in thousands)

	December 31, 2019	December 31, 2018
Allowance for loan losses	\$ 8,999	\$ 7,962
Total loans	\$ 906,869	\$ 764,400
Non-performing loans	\$ 7,373	\$ 6,916
ALL-to-total loans	0.99%	1.04%
ALL-to-non-performing loans (coverage ratio)	122.1%	115.1%

The December 31, 2019, balance in the ALL account is considered adequate by management after evaluation of the loan portfolio, past experience and current economic and market conditions. While management may periodically allocate portions of the allowance for specific problem loans, the whole allowance is available for any loan charge offs that occur. The allocation of the ALL reflects performance and growth trends within the various loan categories, as well as consideration of the facts and circumstances that affect the repayment of individual loans, and loans which have been pooled as of the evaluation date, with particular attention given to non-performing loans and loans which have been classified as substandard, doubtful or loss. Management has allocated reserves to both performing and non-performing loans based on current information available.

At December 31, 2019, foreclosed real estate totaled \$1.1 million, which was comprised of seventeen properties, compared to \$1.6 million and twenty-four properties at December 31, 2018. During 2019, loans totaling \$639 thousand were transferred into foreclosed real estate, approximately \$86 thousand of foreclosed real estate resulted from the AJSB acquisition, while net sales of foreclosed real estate totaled \$1.3 million. Net gains from the 2019 sales totaled \$78 thousand. Market value adjustments in 2019 of \$120 thousand were also made. At the end of December 2019, 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 \$277.2 million at December 31, 2019, compared to \$241.8 million at December 31, 2018, an increase of \$35.5 million (14.7%). The increase in the securities portfolio during the year is a result of market value adjustments and investment of excess liquidity. At December 31, 2019, the securities portfolio represented 22.7% of interest-earning assets and 20.9% of total assets compared to 23.7% of interest-earning assets and 22.1% of total assets at December 31, 2018.

As of December 31, 2019, the Bancorp's two investments in trust preferred securities are in "payment in kind" status. Payment in kind status results in a temporary delay in the payment of interest. As a result of a delay in the collection of the interest payments, management placed these securities on non-accrual status. At December 31, 2019, the cost basis of the two trust preferred securities on non-accrual status totaled \$2.2 million.

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

(Dollars in thousands)	December 31, 2019		December 31, 2018	
	Balance	% Securities	Balance	% Securities
Money market fund	\$ 9,670	3.5%	\$ 2,480	1.0%
U.S. government sponsored entities	13,058	4.7%	7,894	3.3%
Collateralized mortgage obligations and residential mortgage-backed securities	150,988	54.5%	135,281	56.0%
Municipal securities	102,427	36.9%	94,064	38.9%
Collateralized debt obligations	1,076	0.4%	2,049	0.8%
Total securities available-for-sale	<u>\$ 277,219</u>	<u>100.0%</u>	<u>\$ 241,768</u>	<u>100.0%</u>

(Dollars in thousands)	December 31, 2019	December 31, 2018	YTD Change	
	Balance	Balance	\$	%
Interest bearing deposits in other financial institutions	\$ 10,750	\$ 3,116	\$ 7,634	245.0%
Fed funds sold	15,544	763	14,781	1937.2%
Certificates of deposit in other financial institutions	2,170	2,024	146	7.2%
Federal Home Loan Bank stock	3,912	3,460	452	13.1%

The net increase in interest bearing deposits in other financial institutions and fed funds sold is primarily the result of the AJSB acquisition and timing of liquidity needs. The increase in Federal Home Loan Bank stock corresponds to stock ownership requirements based the AJSB acquisition.

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)	December 31, 2019	December 31, 2018	YTD Change	
	Balance	Balance	\$	%
Checking	\$ 392,324	\$ 341,677	\$ 50,647	14.8%
Savings	209,945	160,490	49,455	30.8%
Money market	224,398	168,727	55,671	33.0%
Certificates of deposit	327,703	258,892	68,811	26.6%
Total deposits	<u>\$ 1,154,370</u>	<u>\$ 929,786</u>	<u>\$ 224,584</u>	<u>24.2%</u>

The overall increase in total deposits is primarily a result of the acquisition of AJSB, along with internally generated growth. This increase also reflects the cyclical nature and timing of municipality deposits.

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)	December 31, 2019	December 31, 2018	YTD Change	
	Balance	Balance	\$	%
Repurchase agreements	\$ 11,499	\$ 11,628	\$ (129)	-1.1%
Borrowed funds	14,000	43,000	(29,000)	-67.4%
Total borrowed funds	<u>\$ 25,499</u>	<u>\$ 54,628</u>	<u>\$ (29,129)</u>	<u>-53.3%</u>

Repurchase agreements decreased as part of normal account fluctuations within that product line. Borrowed funds decreased as FHLB advances were paid down and matured during the year.

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 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 2019, cash and cash equivalents increased \$30.1 million compared to an increase of \$6.1 million for 2018. During 2019, the primary sources of cash and cash equivalents were from the change in deposits, acquisition of AJSB, maturities and sales of securities, and loan sales and repayments. The primary uses of cash and cash equivalents were for loan originations, purchases of securities, FHLB advance repayments, and the payment of common stock dividends. During 2019, net cash from operating activities totaled \$13.0 million, compared to \$10.5 million for 2018. The increase in cash in-flow from operating activities was primarily due to higher net income year over year. Net cash outflows from investing activities totaled \$30.1 million during 2019, compared to outflows of \$31.2 million during 2018. The changes for the current year were primarily related to the increased cash and cash equivalents from acquisition activity, offset against increased purchases of securities. Net cash inflows from financing activities totaled \$47.1 million in 2019, compared to net cash inflows of \$26.7 million in 2018. The increase during 2019 was primarily due to the increase in deposits. On a cash basis, the Bancorp paid dividends on common stock of \$4.1 million and \$3.4 million during 2019 and 2018, respectively. During 2019, the Bancorp's Board of Directors increased dividends as earnings and capital continued to be sufficient to warrant dividend increases.

Management strongly believes that safety and soundness is enhanced by maintaining a high level of capital. Stockholders' equity totaled \$134.1 million at December 31, 2019, compared to \$101.5 million at December 31, 2018, an increase of \$32.6 million (32.2%). The increase was primarily the result of net income of \$12.1 million, issuance of \$17.5 million shares related to the acquisition of AJSB, and net unrealized gains of available for sale securities of \$7.1 million less \$4.2 million in dividends. At December 31, 2019, book value per share was \$38.85 compared to \$33.50 for 2018.

The Bancorp is subject to risk-based capital guidelines adopted by 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 various tiers, as described in "Recent Developments – Regulatory Capital Rules" above. The following table shows that, at December 31, 2019, the Bancorp's capital exceeded all regulatory capital requirements. The dollar amounts are in millions.

(Dollars in millions)

At December 31, 2019	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	\$ 110.8	11.8%	\$ 42.4	4.5%	N/A	N/A
Tier 1 capital to risk-weighted assets	\$ 110.8	11.8%	\$ 56.5	6.0%	N/A	N/A
Total capital to risk-weighted assets	\$ 119.8	12.7%	\$ 75.3	8.0%	N/A	N/A
Tier 1 capital to adjusted average assets	\$ 110.8	8.5%	\$ 52.3	4.0%	N/A	N/A

[Table of Contents](#)

The following table shows that, at December 31, 2019, the Bank's capital exceeded all regulatory capital requirements. The dollar amounts are in millions.

(Dollars in millions)

At December 31, 2019	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	\$ 108.9	11.6%	\$ 42.4	4.5%	\$ 61.2	6.5%
Tier 1 capital to risk-weighted assets	\$ 108.9	11.6%	\$ 56.5	6.0%	\$ 75.3	8.0%
Total capital to risk-weighted assets	\$ 117.9	12.5%	\$ 75.3	8.0%	\$ 94.1	10.0%
Tier 1 capital to adjusted average assets	\$ 108.9	8.3%	\$ 52.3	4.0%	\$ 65.3	5.0%

The Bancorp's ability to pay dividends to its shareholders is entirely dependent upon the Bank's ability to pay dividends to the Bancorp. Under Indiana law, the Bank may pay dividends from its undivided profits (generally, earnings less losses, bad debts, taxes and other operating expenses) as is considered expedient by the Bank's Board of Directors. However, the Bank must obtain the approval of the Indiana Department of Financial Institutions (DFI) 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 2020, without the need for qualifying for an exemption or prior DFI approval, is its 2020 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 November 22, 2019 the Board of Directors of the Bancorp declared a fourth quarter dividend of \$0.31 per share. The Bancorp's fourth quarter dividend was paid to shareholders on January 7, 2020.

Results of Operations – Comparison of 2019 to 2018

Net income for 2019 was \$12.1 million, compared to \$9.3 million for 2018, an increase of \$2.8 million (29.6%). The twelve-month earnings increase is related to strong loan originations as well as the effects of the mergers with AJSB and First Personal increasing net interest income. The earnings represent a return on average assets of 0.94% for 2019 compared to 0.93% for 2018. The return on average equity was 9.54% for 2019 compared to 9.88% for 2018.

Net interest income for 2019 was \$43.2 million, an increase of \$8.8 million (25.6%) from \$34.4 million for 2018. During the year, the Bancorp's yield on interest earning assets was positively impacted by higher yields and loan growth, while interest expense was driven higher primarily by deposit account growth and an increased cost of funds. The weighted-average yield on interest-earning assets was 4.43% for 2019 compared to 4.23% for 2018. The weighted-average cost of funds was 0.80% for 2019 compared to 0.57% for 2018. The impact of the 4.43% return on interest earning assets and the 0.80% cost of funds resulted in a net interest spread of 3.63% for 2019, compared to a net interest spread of 3.66% for 2018. During 2019, total interest income increased by \$12.8 million (32.4%) while total interest expense increased by \$4.0 million (78.6%). The net interest margin was 3.66% for 2019, compared to 3.68% for 2018. The Bancorp's tax equivalent net interest margin for 2019 was 3.73% compared to 3.81% for 2018. 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.

[Table of Contents](#)

Information relating to the average consolidated balance sheet and the yield on average earning assets and cost of average liabilities for the periods indicated are in the following table. Dividing the related interest, on an annualized basis, by the average balance of assets or liabilities drives the disclosed rates. Average balances are derived from daily balances.

(Dollars in thousands)

	Average Balances, Interest, and Rates					
	December 31, 2019			December 31, 2018		
	Average Balance	Interest	Rate (%)	Average Balance	Interest	Rate (%)
ASSETS						
Interest bearing deposits in other financial institutions	\$ 33,502	\$ 604	1.80	\$ 3,394	\$ 78	2.30
Federal funds sold	5,170	178	3.44	901	40	4.44
Certificates of deposit in other financial institutions	2,154	65	3.02	2,602	59	2.27
Securities available-for-sale	257,003	6,773	2.64	238,375	6,730	2.82
Loans receivable	876,611	44,455	5.07	684,159	32,392	4.73
Federal Home Loan Bank stock	3,899	175	4.49	3,131	151	4.82
Total interest earning assets	1,178,339	\$ 52,250	4.43	932,562	\$ 39,450	4.23
Cash and non-interest bearing deposits in other financial institutions	23,237			10,813		
Allowance for loan losses	(8,660)			(7,512)		
Other noninterest bearing assets	93,048			66,045		
Total assets	<u>\$ 1,285,964</u>			<u>\$ 1,001,908</u>		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Total deposits	\$ 1,108,687	\$ 8,359	0.75	\$ 839,479	\$ 3,799	0.45
Repurchase agreements	12,928	233	1.80	12,754	176	1.38
Borrowed funds	18,702	500	2.67	44,627	1,116	2.50
Total interest bearing liabilities	1,140,317	\$ 9,092	0.80	896,860	\$ 5,091	0.57
Other noninterest bearing liabilities	18,802			10,588		
Total liabilities	1,159,119			907,448		
Total stockholders' equity	126,845			94,460		
Total liabilities and stockholders' equity	<u>\$ 1,285,964</u>			<u>\$ 1,001,908</u>		

The increase in interest income for interest bearing deposits in other financial institutions was the result of higher average balance for the year ended December 31, 2019, compared to the year ended December 31, 2018. The increase in federal funds sold was result of higher average balances for the year ended December 31, 2019, compared to the year ended December 31, 2018. The increase in certificates of deposits in other financial institutions was the result of higher average rates for the year ended December 31, 2019, compared to the year ended December 31, 2018. The increase in interest income for securities available-for-sale was the result of higher average balances for the year ended December 31, 2019, compared to the year ended December 31, 2018. The increase for loans receivable was the result of higher average balances, higher weighted average rates, and the recognition of one-time gains from excess reserves associated with purchase credit impaired loans from the former acquisitions of First Federal Savings & Loan of Hammond and Liberty Savings Bank during the year ended December 31, 2019, compared to the year ended December 31, 2018. The increase in Federal Home Loan Bank stock is the result of higher average balances for the year ended December 31, 2019, compared to the year ended December 31, 2018. The increase in the cost of total deposits was the result of higher average balances and higher weighted average rates for the year ended December 31, 2019, compared to the year ended December 31, 2018. The increase in the cost of repurchase agreements was the result of higher weighted average rates and balances for the year ended December 31, 2019, compared to the year ended December 31, 2018. The decrease in the cost of borrowed was the result of lower average balances for the year ended December 31, 2019, compared to the year ended December 31, 2018.

The following table shows the change in noninterest income for the year ending December 31, 2019, and December 31, 2018.

<i>(Dollars in thousands)</i>	Year Ended December 31,		12/31/2019 vs. 12/31/2018	
	2019	2018		\$ Change vs. % Change
Noninterest income:				
Fees and service charges	4,737	3,866	871	22.5%
Wealth management operations	1,915	1,696	219	12.9%
Gain on sale of loans held-for-sale, net	1,885	1,619	266	16.4%
Increase in cash value of bank owned life insurance	688	494	194	39.3%
Gain on sale of securities, net	621	1,200	(579)	-48.3%
Benefit from bank owned life insurance	205	-	205	0.0%
Gain on sale of foreclosed real estate	78	54	24	44.4%
Other	541	170	371	218.2%
Total noninterest income	10,670	9,099	1,571	17.3%

The increase in fees and service charges is the result of the Bancorp's continued focus on maintaining competitive fees within its market place, as well as the acquisition of AJSB and full-year benefit of the First Personal acquisition. The increase in wealth management income is related to book value changes in assets under management and the timing of one time fees. The increase in gain on sale of loans held for sale is the result of continued efforts on loan growth and normal course of business sales. The increase in cash value of bank owned life insurance is related to the increased bank owned life insurance balances from the AJSB and First Personal acquisitions. The decrease in gains on sale of securities is a result of current market conditions, maintaining current securities cash flows, and the loss associated with the sale of a trust preferred security. Due to a death benefit recorded during the year, the Bancorp will receive a benefit from bank owned life insurance. The increase in other noninterest income is primarily driven by gains made on the sale of fixed assets and gains related to interest rate lock derivatives.

The following table shows the change in noninterest expense for the year ending December 31, 2019, and December 31, 2018.

<i>(Dollars in thousands)</i>	Year Ended December 31,		12/31/2019 vs. 12/31/2018	
	2019	2018		\$ Change vs. % Change
Noninterest expense:				
Compensation and benefits	19,617	16,412	3,205	19.5%
Occupancy and equipment	4,548	3,653	895	24.5%
Data processing	2,967	2,467	500	20.3%
Professional services	803	713	90	12.6%
Marketing	926	707	219	31.0%
Federal deposit insurance premiums	300	410	(110)	-26.8%
Other	8,227	7,021	1,206	17.2%
Total noninterest expense	37,388	31,383	6,005	19.1%

The increase in compensation and benefits is primarily the result of increased headcount due to the acquisitions of AJSB and full-year impact of the First Personal acquisition. Additionally, increases to compensation and benefits can be attributed to management's continued focus on talent management and retention. The increase in occupancy and equipment is primarily related to the AJSB acquisition and full-year impact of the First Personal acquisition, and related assets brought over. The increase in data processing expense is primarily the result of increased utilization of systems. The increase in professional services is the result of the AJSB acquisition and full-year impact of the First Personal acquisition. The increase in marketing expenses is primarily related to the acquisition of AJSB as well as regular advertising initiatives. The decrease in federal deposit insurance premiums is primarily the result of a credit applied by the Federal Deposit Insurance Corporation. The increase in other operating expenses is related to the acquisition costs for AJSB and higher third party costs. The Bancorp's efficiency ratio was 69.5% for the year ended December 31, 2019, compared to 72.2% for the year ended December 31, 2018. The decreased ratio is related primarily to the increase in interest income. The acquisition of AJSB and First Personal acquisitions are discussed in Note 2 of the financial statements.

Income tax expenses for the year ended December 31, 2019 totaled \$1.8 million, compared to income tax expense of \$1.4 for the year ended December 31, 2018, an increase of \$329 thousand (23.0%). The combined effective federal and state tax rates for the Bancorp was 12.7% for the year ended December 31, 2019, compared to 13.3% for the year ended December 31, 2018. The Bancorp's lower current period effective tax rate is a result of a larger increase to tax preferred income relative to earnings, and the tax benefits resulting from a new market tax credit entered into during 2019.

Critical Accounting Policies

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

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

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

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

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

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

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

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

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

Impact of Inflation and Changing Prices

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

Forward-Looking Statements

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 8. Financial Statements

***Report of Independent Registered
Public Accounting Firm***

To the Board of Directors and Stockholders
NorthWest Indiana Bancorp and Subsidiaries

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of NorthWest Indiana Bancorp and Subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited the Company's internal control over financial reporting as of December 31, 2019, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), based on criteria established in Internal Control-Integrated Framework (2013) issued by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our report dated March 13, 2020, expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Plante & Moran, PLLC
Plante & Moran, PLLC

We have served as the Company's auditor since 2010.

Chicago, Illinois
March 13, 2020

Consolidated Balance Sheets

(Dollars in thousands)	December 31,	
	2019	2018
ASSETS		
Cash and non-interest bearing deposits in other financial institutions	\$ 20,964	\$ 13,260
Interest bearing deposits in other financial institutions	10,750	3,116
Federal funds sold	15,544	763
Total cash and cash equivalents	47,258	17,139
Certificates of deposit in other financial institutions	2,170	2,024
Securities available-for-sale	277,219	241,768
Loans held-for-sale	6,091	2,863
Loans receivable	906,869	764,400
Less: allowance for loan losses	(8,999)	(7,962)
Net loans receivable	897,870	756,438
Federal Home Loan Bank stock	3,912	3,460
Accrued interest receivable	4,029	3,632
Premises and equipment	29,407	24,824
Foreclosed real estate	1,083	1,627
Cash value of bank owned life insurance	30,017	23,142
Goodwill	11,109	8,170
Other assets	18,557	11,071
Total assets	<u>\$ 1,328,722</u>	<u>\$ 1,096,158</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 172,094	\$ 127,277
Interest bearing	982,276	802,509
Total	1,154,370	929,786
Repurchase agreements	11,499	11,628
Borrowed funds	14,000	43,000
Accrued expenses and other liabilities	14,750	10,280
Total liabilities	1,194,619	994,694
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 and outstanding: December 31, 2019 - 3,451,797 December 31, 2018 - 3,029,157		
Additional paid-in capital	29,657	11,927
Accumulated other comprehensive (loss) income	4,261	(2,796)
Retained earnings	100,185	92,333
Total stockholders' equity	<u>134,103</u>	<u>101,464</u>
Total liabilities and stockholders' equity	<u>\$ 1,328,722</u>	<u>\$ 1,096,158</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

(Dollars in thousands, except per share data)

	Year Ended December 31,	
	2019	2018
Interest income:		
Loans receivable		
Real estate loans	\$ 37,574	\$ 27,091
Commercial loans	6,451	5,079
Consumer loans	430	222
Total loan interest	44,455	32,392
Securities	6,948	6,881
Other interest earning assets	847	177
Total interest income	52,250	39,450
Interest expense:		
Deposits	8,359	3,799
Repurchase agreements	233	176
Borrowed funds	500	1,116
Total interest expense	9,092	5,091
Net interest income	43,158	34,359
Provision for loan losses	2,584	1,308
Net interest income after provision for loan losses	40,574	33,051
Noninterest income:		
Fees and service charges	4,737	3,866
Wealth management operations	1,915	1,696
Gain on sale of loans held-for-sale, net	1,885	1,619
Increase in cash value of bank owned life insurance	688	494
Gain on sale of securities, net	621	1,200
Benefit from bank owned life insurance	205	-
Gain on sale of foreclosed real estate	78	54
Other	541	170
Total noninterest income	10,670	9,099
Noninterest expense:		
Compensation and benefits	19,617	16,412
Occupancy and equipment	4,548	3,653
Data processing	2,967	2,467
Professional services	803	713
Marketing	926	707
Federal deposit insurance premiums	300	410
Other	8,227	7,021
Total noninterest expense	37,388	31,383
Income before income tax expenses	13,856	10,767
Income tax expenses	1,759	1,430
Net income	\$ 12,097	\$ 9,337
Earnings per common share:		
Basic	\$ 3.53	\$ 3.17
Diluted	\$ 3.53	\$ 3.17
Dividends declared per common share	\$ 1.23	\$ 1.19

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

(Dollars in thousands)

	Year Ended December 31,	
	2019	2018
Net income	\$ 12,097	\$ 9,337
Net change in net unrealized gains and losses on securities available-for-sale:		
Unrealized gain/(loss) arising during the period	9,547	(3,211)
Less: reclassification adjustment for gains included in net income	(621)	(1,200)
Net securities gain/(loss) during the period	8,926	(4,411)
Tax effect	(1,869)	931
Net of tax amount	7,057	(3,480)
Comprehensive income, net of tax	\$ 19,154	\$ 5,857

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

(Dollars in thousands, except per share data)	Common	Additional	Accumulated	Retained	Total
	Stock	Paid-in Capital	Other Comprehensive (Loss)/Income	Earnings	Equity
Balance at January 1, 2018	\$ -	\$ 4,867	\$ 684	\$ 86,509	\$ 92,060
Comprehensive income:					
Net income	-	-	-	9,337	9,337
Net unrealized loss on securities available-for- sale, net of reclassification and tax effects	-	-	(3,480)	-	(3,480)
Comprehensive income					5,857
Net surrender value of 1,658 restricted stock awards		(72)			(72)
Stock-based compensation expense	-	204	-	-	204
Issuance of 161,875 shares at \$42.80 per share, for acquisition of First Personal Financial Corporation		6,928			6,928
Cash dividends, \$1.19 per share	-	-	-	(3,513)	(3,513)
Balance at December 31, 2018	\$ -	\$ 11,927	\$ (2,796)	\$ 92,333	\$ 101,464
Comprehensive income:					
Net income	-	-	-	12,097	12,097
Net unrealized gain on securities available-for- sale, net of reclassification and tax effects	-	-	7,057	-	7,057
Comprehensive income					19,154
Net surrender value of 1,245 restricted stock awards		(63)			(63)
Stock-based compensation expense	-	301	-	-	301
Issuance of 416,478 shares at \$42.00 per share, for acquisition of AJS Bancorp, Inc		17,492			17,492
Cash dividends, \$1.23 per share	-	-	-	(4,245)	(4,245)
Balance at December 31, 2019	\$ -	\$ 29,657	\$ 4,261	\$ 100,185	\$ 134,103

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

NorthWest Indiana Bancorp
Consolidated Statements of Cash Flows

(Dollars in thousands)

	Year ended December 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 12,097	\$ 9,337
Adjustments to reconcile net income to net cash provided by operating activities:		
Origination of loans for sale	(78,175)	(55,525)
Sale of loans originated for sale	76,832	55,643
Depreciation and amortization, net of accretion	1,888	2,594
Deferred tax expense	1,172	256
Amortization of mortgage servicing rights	60	65
Stock based compensation expense	301	204
Net surrender value of restricted stock awards	(63)	(72)
Gain on sale of securities, net	(621)	(1,200)
Gain on sale of loans held-for-sale, net	(1,885)	(1,619)
Gain on sale of premises and equipment, net	(133)	-
Gain on sale of foreclosed real estate	(78)	(54)
Benefit from bank owned life insurance	(205)	-
Provision for loan losses	2,584	1,308
Net change in:		
Interest receivable	(397)	(369)
Other assets	(5,407)	1,044
Accrued expenses and other liabilities	2,987	(1,072)
Total adjustments	(1,140)	1,203
Net cash - operating activities	10,957	10,540
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of certificates of deposit in other financial institutions	739	3,370
Purchase of certificates of deposit in other financial institutions	(885)	(490)
Proceeds from maturities and pay downs of securities available-for-sale	31,595	22,551
Proceeds from sales of securities available-for-sale	37,939	34,545
Purchase of securities available-for-sale	(93,205)	(58,632)
Net change in loans receivable	(54,838)	(50,727)
Sale (purchase) of Federal Home Loan Bank Stock	60	(241)
Purchase of premises and equipment, net	(3,041)	(1,011)
Proceeds from sale of premises and equipment	243	-
Proceeds from sale of foreclosed real estate	1,227	1,565
Write down of foreclosed real estate	120	135
Cash and cash equivalents from acquisition activity, net	52,560	18,261
Change in cash value of bank owned life insurance	(688)	(493)
Net cash - investing activities	(28,174)	(31,167)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in deposits	80,550	11,850
Proceeds from FHLB advances	-	77,000
Repayment of FHLB advances	(29,000)	(51,100)
Repayment of trust preferred security related to First Personal Merger	-	(4,124)
Change in other borrowed funds	(129)	(3,453)
Dividends paid	(4,085)	(3,432)
Net cash - financing activities	47,336	26,741
Net change in cash and cash equivalents	30,119	6,114
Cash and cash equivalents at beginning of period	17,139	11,025
Cash and cash equivalents at end of period	\$ 47,258	\$ 17,139
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 9,099	\$ 4,947
Income taxes	1,605	1,130
Acquisition activity:		
Fair value of assets acquired, including cash and cash equivalents	\$ 172,925	\$ 137,449
Value of goodwill and other intangible assets	5,856	8,481
Fair value of liabilities assumed	145,546	130,313
Cash paid for acquisition	15,743	8,689
Issuance of common stock for acquisition	17,492	6,928
Noncash activities:		
Transfers from loans to foreclosed real estate	\$ 639	\$ 282

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2019 and 2018

NOTE 1 - Summary of Significant Accounting Policies

Principles of Consolidation – The consolidated financial statements include NorthWest Indiana Bancorp (the “Bancorp” or “NWIN”), 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 dependent upon the earnings of the Bank. Peoples Service Corporation provides insurance and annuity investments to the Bank’s wealth management customers. NWIN, LLC is located in Las Vegas, Nevada and serves as the Bank’s investment subsidiary and parent of a real estate investment trust, NWIN Funding, Inc. NWIN Funding, Inc. was formed as an Indiana Real Estate Investment Trust. The formation of NWIN Funding, Inc. provides the Bancorp with a vehicle that may be used to raise capital utilizing portfolio mortgages as collateral, without diluting stock ownership. In addition, NWIN Funding, Inc. receives favorable state tax treatment for income generated by its operations. Columbia Development Company is a limited liability company that serves to hold certain real estate properties that are acquired through foreclosure. All significant inter-company accounts and transactions have been eliminated in consolidation.

Use of Estimates – Preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period, as well as the disclosures provided. Actual results could differ from those estimates. Estimates associated with the allowance for loan losses, 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.

Concentrations of Credit Risk – The Bancorp grants residential, commercial real estate, commercial business and installment loans to customers primarily in Lake County, in northwest Indiana, and Cook County, in northeast Illinois. The Bancorp is also an active lender in Porter County, and to a lesser extent, LaPorte, Newton, and Jasper counties in Indiana, and Lake and Will counties in Illinois. Substantially all loans are secured by specific items of collateral including residences, commercial real estate, business assets, and consumer assets.

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

Certificates of deposits in other financial institutions – Certificates of deposits in other financial institutions generally mature within 5 years and are carried at cost.

Securities – The Bancorp classifies securities into held-to-maturity, available-for-sale, or trading categories. Held-to-maturity securities are those which management has the positive intent and the Bancorp has the ability to hold to maturity, and are reported at amortized cost. Available-for-sale securities are those the Bancorp may decide to sell if needed for liquidity, asset-liability management or other reasons. Available-for-sale securities are reported at fair value, with unrealized gains and losses reported in other comprehensive income, net of tax. At December 31, 2019, and 2018, all of the Bancorp’s securities were classified as available-for-sale. The Bancorp does not have a held to maturity or trading portfolio. Realized gains and losses resulting from the sale of securities recorded on the trade date are computed by the specific identification method. Interest and dividend income, adjusted by amortization of premiums or discounts on a level yield method, are included in earnings. Securities are reviewed for other-than-temporary impairment on a quarterly basis.

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

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

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

Loans and Loan Interest Income – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, and net deferred loan fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments. The accrual of interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Consumer loans are typically charged-off no later than when they reach 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off status at an earlier date if collection of principal or interest is considered doubtful.

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

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

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

Troubled Debt Restructures – A troubled debt restructuring of a loan is undertaken to improve the likelihood that the loan will be repaid in full under the modified terms in accordance with a reasonable repayment schedule. All modified loans are evaluated to determine whether the loan should be reported as a troubled debt restructure (TDR). A loan is a TDR when the Bancorp, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower by modifying or renewing a loan under terms that the Bancorp would not otherwise consider. To make this determination, the Bancorp must determine whether (a) the borrower is experiencing financial difficulties and (b) the Bancorp granted the borrower a concession. This determination requires consideration of all of the facts and circumstances surrounding the modification. An overall general decline in the economy or some level of deterioration in a borrower's financial condition does not inherently mean the borrower is experiencing financial difficulties.

Some of the factors considered by management when determining whether a borrower is experiencing financial difficulties are: (1) is the borrower currently in default on any of its debts, (2) has the borrower declared or is the borrower in the process of declaring bankruptcy, and (3) absent the current modification, the borrower would likely default.

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

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

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

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

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

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

Goodwill and Intangibles – The Bancorp records the assets acquired, including identified intangible assets, and the liabilities assumed in acquisitions at their fair values. These fair values often involve estimates based on third-party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques that may include estimates of attrition, inflation, asset growth rates or other relevant factors. In addition, the determination of the useful lives over which an intangible asset will be amortized is subjective. Under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 350, goodwill and indefinite-lived assets recorded are reviewed for impairment on an annual basis, as well as on an interim basis if events or changes indicate that the asset might be impaired. An impairment loss is recognized for any excess of carrying value over fair value of the goodwill or the indefinite-lived intangible asset.

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

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

At December 31, 2019 and 2018, the Bancorp evaluated tax positions taken for filing with the Internal Revenue Service and all state jurisdictions in which it operates. The Bancorp believes that income tax filing positions will be sustained under examination and does not anticipate any adjustments that would result in a material adverse effect on the Bancorp's financial condition, results of operations, or cash flows. Accordingly, the Bancorp has not recorded any reserves or related accruals for interest and penalties for uncertain tax positions at December 31, 2019 and 2018.

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

Earnings Per Common Share – Basic earnings per common share is net income divided by the weighted-average number of common shares outstanding during the period. The restricted shares issued provide for dividend and voting rights and are therefore considered participating securities. Accordingly, all restricted stock is included in basic earnings per share.

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

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

Restrictions on Cash – Ative contracts entered into by the Bancorp, \$2.3 million was pledged as collateral at December 31, 2019, no funds were pledged at December 31, 2018. These balances are included in interest bearing deposits.

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

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

Reclassification – Certain amounts appearing in the consolidated financial statements and notes thereto for the year ended December 31, 2018, may have been reclassified to conform to the December 31, 2019 presentation.

Trust Assets – Assets of the Bancorp's wealth management department, other than cash on deposit at the Bancorp, are not included in these consolidated financial statements because they are not assets of the Bancorp.

Adoption of New Accounting Pronouncements –

In May 2014, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09 and ASU 2015-14, Revenue from Contracts with Customers (Topic 606), superseding 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 was effective for the Bancorp's year ending December 31, 2018 and has been adopted as of January 1, 2018. The use of the modified retrospective approach has been used for implementing this standard. Interest income is outside of the scope of the new standard and was not impacted by the adoption of the standard. Management mapped noninterest income accounts to their associated income streams and applied the five step model to identify the contract, identify the performance obligations in the contract, determine the total transaction price, allocate the transaction price to each performance obligation, and ensure revenue is recognized when the performance obligation is satisfied. A review of the Bancorp's noninterest income has not resulted in a change in revenue recognition since adoption.

In January 2016, FASB issued 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 was effective for the Bancorp's year ending December 31, 2018 and was adopted on January 1, 2018. The adoption of this ASU has not had a material impact on the consolidated financial statements, as the Bancorp does not hold any equity securities with unrealized gains or losses. The new reporting requirements have been incorporated into the fair value of financial instruments table and disclosures.

In February 2016, FASB issued ASU No. 2016-02, Leases, which superseded the 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 are classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Prior to this ASU, leases were 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 under the new guidance is generally consistent with the prior guidance. The new guidance is effective for the Bancorp's year ending December 31, 2019 and was adopted on January 1, 2019. The adoption of this ASU has not had a material impact on the consolidated financial statements, as the Bancorp does not engage in the leasing of property or in leasing of any significant furniture, fixtures, equipment, or software.

Upcoming Accounting Pronouncements -

In June 2016, FASB issued 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. In October 2019, the FASB voted and approved proposed changes to the effective date of this ASU for smaller reporting companies, such as the Bancorp, and other non-SEC reporting entities. The approval changed the effective date of the ASU to fiscal years beginning after December 15, 2022, including interim periods within those fiscal periods. The new credit loss guidance will be effective for the Bancorp's year ending December 31, 2023. 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. This process of evaluation has engaged multiple areas of the Bancorp's management in discussing loss estimation methods and the application of these methods to specific segments of the loans receivable portfolio. Management has been actively monitoring developments and evaluating the use of different methods allowed. Due to continuing development of understanding of application, additional time is required to understand how this ASU will affect the Bancorp's financial statements. Management plans on running parallel calculations during the year and finalizing a method or methods of adoption in time for the effective date.

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This Standard simplifies the manner in which an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. In computing the implied fair value of goodwill under Step 2, an entity, prior to the amendments in ASU No. 2017-04, had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities, including unrecognized assets and liabilities, in accordance with the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. However, under the amendments in this ASU, an entity should (1) perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and (2) recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, with the understanding that the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, ASU No. 2017-04 removes the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails such qualitative test, to perform Step 2 of the goodwill impairment test. Finally, this ASU amends the Overview and Background sections of the Accounting Standards Codification as part of the FASB's initiative to unify and improve such sections across Topics and Subtopics. The new guidance will be effective for the Company's year ending December 31, 2020.

In March 2017, the FASB issued ASU 2017-08, Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. This Standard amends the amortization period for certain purchased callable debt securities held at a premium. In particular, the amendments in this ASU require the premium to be amortized to the earliest call date. The amendments do not, however, require an accounting change for securities held at a discount; instead, the discount continues to be amortized to maturity. The amendments in this ASU more closely align the amortization period of premiums and discounts to expectations incorporated in market pricing on the underlying securities. In fact, in most cases, market participants price securities to the call date that produces the worst yield when the coupon is above current market rates (i.e., the security is trading at a premium), and price securities to maturity when the coupon is below market rates (i.e., the security is trading at a discount), in anticipation that the borrower will act in its economic best interest. The new guidance will be effective for the Company's year ending December 31, 2020. Management will recognize amortization expense as dictated by the amount of premiums and the differences between maturity and call dates at the time of adoption.

NOTE 2 – Acquisition Activity

On July 26, 2018, the Bancorp completed its acquisition of First Personal Financial Corp., a Delaware corporation ("First Personal"), pursuant to an Agreement and Plan of Merger dated February 20, 2018 between the Bancorp and First Personal (the "First Personal Merger Agreement"). Pursuant to the terms of the First Personal Merger Agreement, First Personal merged with and into the Bancorp, with the Bancorp as the surviving corporation. Simultaneous with the First Personal Merger, First Personal Bank, an Illinois state chartered commercial bank and wholly-owned subsidiary of First Personal, merged with and into the Bank, with the Bank as the surviving institution.

In connection with the First Personal Merger, each First Personal stockholder holding 100 or more shares of First Personal common stock received fixed consideration of (i) 0.1246 shares of Bancorp common stock, and (ii) \$6.67 per share in cash for each outstanding share of First Personal common stock. Stockholders holding less than 100 shares of First Personal common stock received \$12.12 in cash and no stock consideration for each outstanding share of First Personal common stock. Any fractional shares of Bancorp common stock that a First Personal stockholder would have otherwise received in the First Personal Merger were cashed out in the amount of such fraction multiplied by \$42.95.

The Bancorp issued a total of approximately 161,875 shares of Bancorp common stock to the former First Personal stockholders, and paid cash consideration of approximately \$8.7 million. Based upon the closing price of Bancorp's common stock on July 25, 2018, the transaction had an implied valuation of approximately \$15.6 million. The acquisition costs related to the First Personal Merger equaled approximately \$1.8 million. The acquisition represented the Bank's first expansion into the South Suburban Chicagoland market, and expanded the Bank's full-service retail banking network to 19 banking centers. Additionally, upon the closing of the merger the three former First Personal Bank branches in Cook County, Illinois became branches of Peoples Bank, thereby expanding the Peoples Bank branch network into Illinois.

[Table of Contents](#)

Under the acquisition method of accounting, the total purchase price is allocated to net tangible and intangible assets based on their current estimated fair values on the date of the acquisition. Based on the valuations of the fair value of tangible and intangible assets acquired and liabilities assumed, the final purchase price for the First Personal acquisition is allocated as follows:

ASSETS	
Cash and due from banks	\$ 26,950
Certificates of deposit in other financial institutions	3,228
Investment securities, available for sale	2
Commercial	53,026
Residential mortgage	32,542
Consumer	9,004
Total Loans	94,572
Premises and equipment, net	5,799
FHLB stock	219
Goodwill	5,437
Core deposit intangible	3,044
Interest receivable	274
Other assets	6,405
Total assets purchased	\$ 145,930
Common shares issued	6,928
Cash paid	8,689
Total purchase price	\$ 15,617
LIABILITIES	
Deposits	
Non-interest bearing	\$ 14,517
NOW accounts	22,177
Savings and money market	41,852
Certificates of deposits	46,355
Total Deposits	124,901
Borrowings	4,124
Interest payable	32
Other liabilities	1,256
Total liabilities assumed	\$ 130,313

As part of the First Personal merger, the Bancorp acquired First Personal Statutory Trust I. NWIN guaranteed the payment of distributions on the trust preferred securities issued by First Personal Statutory Trust I. First Personal Statutory Trust I issued \$4.124 million in trust preferred securities in May 2004. The trust preferred securities carried a variable rate of interest priced at the three-month LIBOR plus 275 basis points, payable quarterly and due to mature on June 17, 2034. Management of the Bancorp determined that the continued maintenance of the trust preferred securities issued by First Personal Statutory Trust I and the corresponding junior subordinated debentures was unnecessary to the Bancorp's ongoing operations. As a result, the Bancorp's board of directors approved the redemption of the junior subordinated debentures, which resulted in the trustee of the First Personal Statutory Trust I redeeming all \$4.124 million of the trust preferred securities as of December 17, 2018.

On January 24, 2019, the Bancorp completed its previously announced acquisition of AJS Bancorp, Inc., a Maryland corporation ("AJSB"), pursuant to an Agreement and Plan of Merger dated July 30, 2018 between the Bancorp and AJSB (the "AJSB Merger Agreement"). Pursuant to the terms of the AJSB Merger Agreement, AJSB merged with and into NWIN, with NWIN as the surviving corporation. Simultaneously with the AJSB Merger, A.J. Smith Federal Savings Bank, a federally chartered savings bank and wholly-owned subsidiary of AJSB, merged with and into Peoples Bank SB, with Peoples Bank as the surviving bank.

In connection with the AJSB Merger, each AJSB stockholder holding 100 or more shares of AJSB common stock received fixed consideration of (i) 0.2030 shares of NWIN common stock, and (ii) \$7.20 per share in cash for each outstanding share of AJSB's common stock. Stockholders holding less than 100 shares of AJSB common stock received \$16.00 in cash and no stock consideration for each outstanding share of AJSB common stock. Any fractional shares of NWIN common stock that an AJSB stockholder would have otherwise received in the AJSB Merger were cashed out in the amount of such fraction multiplied by \$43.01.

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 (loss) were as follows:

	(Dollars in thousands)			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2019				
Money market fund	\$ 9,670	\$ -	\$ -	\$ 9,670
U.S. government sponsored entities	12,994	64	-	13,058
Collateralized mortgage obligations and residential mortgage-backed securities	149,339	1,745	(96)	150,988
Municipal securities	97,628	4,844	(45)	102,427
Collateralized debt obligations	2,202	-	(1,126)	1,076
Total securities available-for-sale	<u>\$ 271,833</u>	<u>\$ 6,653</u>	<u>\$ (1,267)</u>	<u>\$ 277,219</u>

	(Dollars in thousands)			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2018				
Money market fund	\$ 2,480	\$ -	\$ -	\$ 2,480
U.S. government sponsored entities	7,997	28	(131)	7,894
Collateralized mortgage obligations and residential mortgage-backed securities	137,834	135	(2,688)	135,281
Municipal securities	93,516	1,072	(524)	94,064
Collateralized debt obligations	3,481	-	(1,432)	2,049
Total securities available-for-sale	<u>\$ 245,308</u>	<u>\$ 1,235</u>	<u>\$ (4,775)</u>	<u>\$ 241,768</u>

The estimated fair value of available-for-sale securities and carrying amount, if different, at December 31, 2019, by contractual maturity were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately. Tax-equivalent yields were calculated using the 2019 tax rate.

	(Dollars in thousands)	
	Available-for-sale	
	Estimated Fair Value	Tax-Equivalent Yield (%)
December 31, 2019		
Due in one year or less	\$ 13,584	3.28
Due from one to five years	3,197	4.81
Due from five to ten years	17,703	3.71
Due over ten years	91,747	3.98
Collateralized mortgage obligations and residential mortgage-backed securities	150,988	2.68
Total	<u>\$ 277,219</u>	<u>3.23</u>

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

	(Dollars in thousands)	
	December 31, 2019	December 31, 2018
Proceeds	\$ 37,939	\$ 34,545
Gross gains	888	1,216
Gross losses	(267)	(16)

The tax provisions related to these net realized gains were approximately \$130 thousand for 2019 and \$252 thousand for 2018.

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, 2018	\$	(2,796)
Current period change		7,057
Ending balance, December 31, 2019	\$	4,261

Securities with carrying values of approximately \$65.5 million and \$16.3 million were pledged as of December 31, 2019 and 2018, respectively, as collateral for repurchase agreements, public funds, and for other purposes as permitted or required by law.

Securities with unrealized losses at December 31, 2019 and 2018 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
December 31, 2019						
U.S. government sponsored entities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collateralized mortgage obligations and residential mortgage-backed securities	8,859	(31)	15,065	(65)	23,924	(96)
Municipal securities	4,367	(45)	-	-	4,367	(45)
Collateralized debt obligations	-	-	1,076	(1,126)	1,076	(1,126)
Total temporarily impaired	<u>\$ 13,226</u>	<u>\$ (76)</u>	<u>\$ 16,141</u>	<u>\$ (1,191)</u>	<u>\$ 29,367</u>	<u>\$ (1,267)</u>
Number of securities		8		19		27

	(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, 2018						
U.S. government sponsored entities	\$ -	\$ -	\$ 3,866	\$ (131)	\$ 3,866	\$ (131)
Collateralized mortgage obligations and residential mortgage-backed securities	28,388	(304)	89,234	(2,384)	117,622	(2,688)
Municipal securities	22,678	(367)	3,495	(157)	26,173	(524)
Collateralized debt obligations	-	-	2,049	(1,432)	2,049	(1,432)
Total temporarily impaired	<u>\$ 51,066</u>	<u>\$ (671)</u>	<u>\$ 98,644</u>	<u>\$ (4,104)</u>	<u>\$ 149,710</u>	<u>\$ (4,775)</u>
Number of securities		52		75		127

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

NOTE 4 – Loans Receivable

Year end loans are summarized below:

Loans receivable are summarized below:

(Dollars in thousands)

	December 31, 2019	December 31, 2018
Loans secured by real estate:		
Residential real estate	\$ 299,569	\$ 224,082
Home equity	49,118	45,423
Commercial real estate	283,108	253,104
Construction and land development	87,710	64,433
Multifamily	51,286	47,234
Farmland	227	240
Total loans secured by real estate	771,018	634,516
Commercial business	103,222	103,628
Consumer	627	495
Manufactured homes	13,285	4,798
Government	15,804	21,101
Subtotal	903,956	764,538
Plus (less):		
Net deferred loan origination fees	2,934	530
Undisbursed loan funds	(21)	(668)
Loans receivable	<u>\$ 906,869</u>	<u>\$ 764,400</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, by loan segment, is summarized below for the twelve months ended December 31, 2019:					
Allowance for loan losses:					
Residential real estate	\$ 1,715	\$ (160)	\$ 29	\$ 228	\$ 1,812
Home equity	202	-	-	21	223
Commercial real estate	3,335	(229)	-	667	3,773
Construction and land development	756	-	-	342	1,098
Multifamily	472	-	-	57	529
Farmland	-	-	-	-	-
Commercial business	1,362	(1,178)	25	1,295	1,504
Consumer	82	(54)	20	(5)	43
Manufactured homes	-	-	-	-	-
Government	38	-	-	(21)	17
Total	<u>\$ 7,962</u>	<u>\$ (1,621)</u>	<u>\$ 74</u>	<u>\$ 2,584</u>	<u>\$ 8,999</u>

The Bancorp's activity in the allowance for loan losses, by loan segment, is summarized below for the twelve months ended December 31, 2018:

Allowance for loan losses:					
Residential real estate	\$ 1,568	\$ (194)	\$ 1	\$ 340	\$ 1,715
Home equity	166	(48)	-	84	202
Commercial real estate	3,125	(119)	24	305	3,335
Construction and land development	618	-	-	138	756
Multifamily	622	-	-	(150)	472
Farmland	-	-	-	-	-
Commercial business	1,298	(592)	134	522	1,362
Consumer	31	(58)	24	85	82
Manufactured homes	-	-	-	-	-
Government	54	-	-	(16)	38
Total	<u>\$ 7,482</u>	<u>\$ (1,011)</u>	<u>\$ 183</u>	<u>\$ 1,308</u>	<u>\$ 7,962</u>

[Table of Contents](#)

A deferred cost reserve is maintained for the portfolio of manufactured home loans that have been purchased. This reserve is available for use for manufactured home loan nonperformance and costs associated with nonperformance. If the segment performs in line with expectation, the deferred cost reserve is paid as an origination cost to the third party originator of the loan. The unamortized balance of the deferred cost reserve totaled \$1.9 million and \$697 thousand as of December 31, 2019 and December, 31, 2018, respectively, and is included in net deferred loan origination costs.

The Bancorp's impairment analysis is summarized below:

(Dollars in thousands)	<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>	<i>Loans collectively evaluated for impairment</i>

The Bancorp's allowance for loan losses impairment evaluation and loan receivables are summarized below at December 31, 2019:

Residential real estate	\$ 10	\$ 1,802	\$ 299,333	\$ 642	\$ 1,581	\$ 297,110
Home equity	4	219	49,181	221	216	48,744
Commercial real estate	-	3,773	283,108	1,078	487	281,543
Construction and land development	-	1,098	87,710	-	-	87,710
Multifamily	-	529	51,286	129	673	50,484
Farmland	-	-	227	-	-	227
Commercial business	152	1,352	103,088	1,041	1,150	100,897
Consumer	-	43	627	-	-	627
Manufactured homes	-	-	16,505	-	-	16,505
Government	-	17	15,804	-	-	15,804
Total	\$ 166	\$ 8,833	\$ 906,869	\$ 3,111	\$ 4,107	\$ 899,651

The Bancorp's allowance for loan losses impairment evaluation and loan receivables are summarized below at December 31, 2018:

Residential real estate	\$ 22	1,693	223,323	\$ 570	\$ 980	\$ 221,773
Home equity	9	193	45,483	141	123	45,219
Commercial real estate	210	3,125	253,104	1,703	402	250,999
Construction and land development	-	756	64,433	-	-	64,433
Multifamily	-	472	47,234	-	-	47,234
Farmland	-	-	240	-	-	240
Commercial business	5	1,357	103,439	423	1,440	101,576
Consumer	-	82	643	-	-	643
Manufactured homes	-	-	5,400	-	-	5,400
Government	-	38	21,101	-	-	21,101
Total	\$ 246	\$ 7,716	\$ 764,400	\$ 2,837	\$ 2,945	\$ 758,618

[Table of Contents](#)

The Bancorp's credit quality indicators are summarized below at December 31, 2019 and December 31, 2018:

Credit Exposure - Credit Risk Portfolio By Creditworthiness Category

		December 31, 2019							
<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	Total	
Residential real estate	\$ 827	\$ 119,138	\$ 104,153	\$ 13,463	\$ 53,058	4,203	4,491	\$ 299,333	
Home equity	100	6,536	40,027	264	934	813	507	49,181	
Commercial real estate	-	2,030	82,158	135,058	56,917	5,380	1,565	283,108	
Construction and land development	-	719	26,900	45,751	14,340	-	-	87,710	
Multifamily	-	903	18,107	26,800	4,674	-	802	51,286	
Farmland	-	-	-	-	227	-	-	227	
Commercial business	8,312	13,158	19,638	39,016	20,009	2,228	727	103,088	
Consumer	90	-	537	-	-	-	-	627	
Manufactured homes	3,221	2,413	9,825	184	862	-	-	16,505	
Government	-	1,889	11,505	2,410	-	-	-	15,804	
Total	\$ 12,550	\$ 146,786	\$ 312,850	\$ 262,946	\$ 151,021	\$ 12,624	\$ 8,092	\$ 906,869	

		December 31, 2018							
<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	Total	
Residential real estate	\$ 261	\$ 58,276	\$ 100,374	\$ 10,404	\$ 44,734	\$ 3,908	\$ 5,366	\$ 223,323	
Home equity	192	3,736	40,165	37	323	657	373	45,483	
Commercial real estate	-	5,042	78,611	110,984	51,982	4,715	1,770	253,104	
Construction and land development	-	322	24,271	29,383	10,457	-	-	64,433	
Multifamily	-	569	19,255	23,417	3,844	149	-	47,234	
Farmland	-	-	-	-	240	-	-	240	
Commercial business	10,655	19,127	20,941	34,996	14,034	2,958	728	103,439	
Consumer	202	-	441	-	-	-	-	643	
Manufactured homes	723	2,953	599	196	909	20	-	5,400	
Government	-	2,111	14,795	4,195	-	-	-	21,101	
Total	\$ 12,033	\$ 92,136	\$ 299,452	\$ 213,612	\$ 126,523	\$ 12,407	\$ 8,237	\$ 764,400	

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:

1 – Minimal Risk

Borrower demonstrates exceptional credit fundamentals, including stable and predictable profit margins, strong liquidity and a conservative balance sheet with superior asset quality. Excellent cash flow coverage of existing and projected debt service. Historic and projected performance indicates borrower is able to meet obligations under almost any economic circumstances.

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.

9 – Doubtful

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

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

Five home equity loans totaling \$155 thousand, three residential real estate loans totaling \$138 thousand and two commercial business loans totaling \$358 thousand were new troubled debt restructuring loans during 2019. Two troubled debt restructurings totaling \$163 thousand have subsequently defaulted during the period 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.

[Table of Contents](#)

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

(Dollars in thousands)	As of December 31, 2019			For the twelve months ended December 31, 2019	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential real estate	\$ 2,140	\$ 3,555	\$ -	\$ 1,960	\$ 85
Home equity	429	451	-	380	10
Commercial real estate	1,547	2,141	-	1,578	52
Construction and land development	-	-	-	-	-
Multifamily	802	884	-	581	20
Farmland	-	-	-	-	-
Commercial business	1,814	1,906	-	1,909	81
Consumer	-	-	-	-	-
Manufactured homes	-	-	-	-	-
Government	-	-	-	-	-
With an allowance recorded:					
Residential real estate	83	83	10	143	3
Home equity	8	8	4	50	-
Commercial real estate	18	18	-	382	-
Construction and land development	-	-	-	-	-
Multifamily	-	-	-	-	-
Farmland	-	-	-	-	-
Commercial business	377	377	152	513	4
Consumer	-	-	-	-	-
Manufactured homes	-	-	-	-	-
Government	-	-	-	-	-
Total:					
Residential real estate	\$ 2,223	\$ 3,638	\$ 10	\$ 2,103	\$ 88
Home equity	437	459	4	430	10
Commercial real estate	1,565	2,159	-	1,960	52
Construction & land development	-	-	-	-	-
Multifamily	802	884	-	581	20
Farmland	-	-	-	-	-
Commercial business	2,191	2,283	152	2,422	85
Consumer	-	-	-	-	-
Manufactured homes	-	-	-	-	-
Government	-	-	-	-	-

	As of December 31, 2018			For the twelve months ended December 31, 2018	
	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	\$ 1,389	\$ 3,628	\$ -	\$ 1,244	\$ 79
Home equity	207	214	-	111	2
Commercial real estate	1,624	2,222	-	1,216	64
Construction & land development	-	-	-	54	-
Multifamily	-	-	-	-	-
Farmland	-	-	-	-	-
Commercial business	1,799	2,038	-	880	38
Consumer	-	-	-	-	-
Manufactured homes	-	-	-	-	-
Government	-	-	-	-	-
With an allowance recorded:					
Residential real estate	161	161	22	123	5
Home equity	57	57	9	35	-
Commercial real estate	481	481	210	320	-
Construction & land development	-	-	-	-	-
Multifamily	-	-	-	-	-
Farmland	-	-	-	-	-
Commercial business	64	64	5	140	1
Consumer	-	-	-	-	-
Manufactured homes	-	-	-	-	-
Government	-	-	-	-	-
Total:					
Residential real estate	\$ 1,550	\$ 3,789	\$ 22	\$ 1,367	\$ 84
Home equity	\$ 264	\$ 271	\$ 9	\$ 146	\$ 2
Commercial real estate	\$ 2,105	\$ 2,703	\$ 210	\$ 1,536	\$ 64
Construction & land development	\$ -	\$ -	\$ -	\$ 54	\$ -
Multifamily	\$ -	\$ -	\$ -	\$ -	\$ -
Farmland	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial business	\$ 1,863	\$ 2,102	\$ 5	\$ 1,020	\$ 39
Consumer	\$ -	\$ -	\$ -	\$ -	\$ -
Manufactured homes	\$ -	\$ -	\$ -	\$ -	\$ -
Government	\$ -	\$ -	\$ -	\$ -	\$ -

[Table of Contents](#)

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

<i>(Dollars in thousands)</i>	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investments Greater than 90 Days Past Due and Accruing
December 31, 2019							
Residential real estate	\$ 3,486	\$ 1,332	\$ 3,724	\$ 8,542	\$ 290,791	\$ 299,333	\$ 452
Home equity	90	24	388	502	48,679	49,181	19
Commercial real estate	1,461	170	719	2,350	280,758	283,108	61
Construction and land development	143	289	-	432	87,278	87,710	-
Multifamily	140	-	160	300	50,986	51,286	-
Farmland	-	-	-	-	227	227	-
Commercial business	926	583	870	2,379	100,709	103,088	288
Consumer	-	-	-	-	627	627	-
Manufactured homes	63	36	46	145	16,360	16,505	46
Government	-	-	-	-	15,804	15,804	-
Total	\$ 6,309	\$ 2,434	\$ 5,907	\$ 14,650	\$ 892,219	\$ 906,869	\$ 866
December 31, 2018							
Residential real estate	\$ 3,659	\$ 909	\$ 4,362	\$ 8,930	\$ 214,393	\$ 223,323	\$ 122
Home equity	143	5	304	452	45,031	45,483	50
Commercial real estate	842	18	611	1,471	251,633	253,104	-
Construction and land development	491	533	-	1,024	63,409	64,433	-
Multifamily	-	149	-	149	47,085	47,234	-
Farmland	-	-	-	-	240	240	-
Commercial business	733	260	436	1,429	102,010	103,439	149
Consumer	1	-	-	1	642	643	-
Manufactured homes	-	72	-	72	5,328	5,400	-
Government	-	-	-	-	21,101	21,101	-
Total	\$ 5,869	\$ 1,946	\$ 5,713	\$ 13,528	\$ 750,872	\$ 764,400	\$ 321

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

(Dollars in thousands)

	December 31, 2019	December 31, 2018
Residential real estate	\$ 4,374	\$ 5,135
Home equity	473	270
Commercial real estate	658	695
Construction and land development	-	-
Multifamily	420	-
Farmland	-	-
Commercial business	582	495
Consumer	-	-
Manufactured homes	-	-
Government	-	-
Total	\$ 6,507	\$ 6,595

As a result of acquisition activity, 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 December 31, 2019, total purchased credit impaired loans with unpaid principal balances totaled \$6.3 million with a recorded investment of \$4.1 million. At December 31, 2018, purchased credit impaired loans with unpaid principal balances totaled \$6.0 million with a recorded investment of \$2.9 million.

[Table of Contents](#)

As the result of the acquisition of First Personal, an accretable discount totaling \$424 thousand was created for the interest component of expected cash flows related to the purchase credit impaired portfolio. The following tables summarize the accretable periods:

Accretable interest taken from the purchase credit impaired portfolio, or income recorded for the year ended December 31, is as follows:

<i>(dollars in thousands)</i>	First Personal
2018	\$ 157
2019	147

Accretable interest taken from the purchase credit impaired portfolio, or income expected to be recorded in the future is as follows:

<i>(dollars in thousands)</i>	First Personal
2020	(96)
2021	(24)
Total	\$ (120)

For the acquisitions of First Federal Savings & Loan of Hammond ("First Federal"), Liberty Savings Bank ("Liberty Savings"), First Personal, and AJSB as part of the fair value of loans receivable, a net fair value discount was established for loans. This discount, or accretable yield, is recognized in interest income over the remaining estimated life of the loan pools. The net fair value discount at the acquisition date and accretable periods are summarized below:

<i>(dollars in thousands)</i>	First Federal		Liberty Savings		First Personal		AJ Smith	
	Net fair value discount	Accretable period in months	Net fair value discount	Accretable period in months	Net fair value discount	Accretable period in months	Net fair value discount	Accretable period in months
Residential real estate	\$ 1,062	59	\$ 1,203	44	\$ 948	56	\$ 3,734	52
Home equity	44	29	5	29	51	50	141	32
Commercial real estate	-	-	-	-	208	56	8	9
Construction and land development	-	-	-	-	1	30	-	-
Multifamily	-	-	-	-	11	48	2	48
Consumer	-	-	-	-	146	50	1	5
Commercial business	-	-	-	-	348	24	-	-
Purchased credit impaired loans	-	-	-	-	424	32	-	-
Total	\$ 1,106		\$ 1,208		\$ 2,137		\$ 3,886	

Accretable yield, or income recorded for the twelve months ended December 31, is as follows:

<i>(dollars in thousands)</i>	First Federal	Liberty Savings	First Personal	AJ Smith	Total
2018	\$ 138	\$ 266	\$ 424	\$ -	\$ 828
2019	22	42	586	1,174	1,824

Accretable yield, or income expected to be recorded in the future is as follows:

<i>(dollars in thousands)</i>	First Personal	AJ Smith	Total
2020	\$ 392	\$ 800	\$ 1,192
2021	336	793	1,129
2022	325	793	1,118
2023	74	326	400
Total	\$ 1,127	\$ 2,712	\$ 3,839

Note 5 – Premises and Equipment, Net

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

	(Dollars in thousands)	
	2019	2018
Cost:		
Land	\$ 8,936	\$ 7,368
Buildings and improvements	30,863	27,523
Furniture and equipment	16,904	15,715
Total cost	56,703	50,606
Less accumulated depreciation	(27,296)	(25,782)
Premises and equipment, net	\$ 29,407	\$ 24,824

Depreciation expense was approximately \$1.9 million and \$1.5 million for 2019 and 2018, respectively.

Note 6 – Foreclosed Real Estate

At year end, foreclosed real estate is summarized below:

	(Dollars in thousands)	
	2019	2018
Residential real estate	\$ 957	\$ 1,132
Commercial real estate	126	126
Construction and land development	-	149
Commercial business	-	220
Total	\$ 1,083	\$ 1,627

Note 7 – Goodwill and Other Intangible Assets

The Bancorp established a goodwill balance totaling \$11.1 million from past acquisitions. Goodwill of \$2.9 million, \$5.4 million, \$2.0 million, and \$804 thousand were established with the acquisition of AJSB, First Personal, First Federal, and Liberty Savings, respectively. 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. Goodwill totaled \$11.1 million and \$8.2 million as of December 31, 2019 and December 31, 2018, respectively.

In addition to goodwill, a core deposit intangible of \$93 thousand for the acquisition of First Federal was established and is being amortized over an initial period of 7.9 years on a straight line basis. A core deposit intangible of \$471 thousand for the acquisition of Liberty Savings was established and is being amortized over an initial period of 8.2 years on a straight line basis. A core deposit intangible of \$3.0 million for the acquisition of First Personal was established and is being amortized over an initial period of 6.4 years on a straight line basis. A core deposit intangible of \$2.9 million for the acquisition of AJSB was established and is being amortized over an initial period of 6.5 years on a straight line basis. The table below summarizes the annual amortization:

The annual amortization for the twelve months ended December 31, is as follows:

<i>(dollars in thousands)</i>	First Federal	Liberty Savings	First Personal	AJ Smith	Total
2018	\$ 12	\$ 58	\$ 198	\$ -	\$ 268
2019	12	58	475	411	956

The expected future annual amortization for the twelve months ended December 31, as follows:

<i>(dollars in thousands)</i>	First Federal	Liberty Savings	First Personal	AJ Smith	Total
2020	\$ 12	\$ 58	\$ 475	\$ 449	\$ 994
2021	12	58	475	449	994
2022	1	58	475	449	983
2023	-	38	475	449	962
2024	-	-	471	449	920
2025	-	-	-	261	261
Total	\$ 25	\$ 212	\$ 2,371	\$ 2,506	\$ 5,114

For the First Personal acquisition, as part of the fair value of certificates of deposit, a fair value premium was established of \$133 thousand that is being amortized over 8 months on a straight line basis. Amortization taken into income was approximately \$53 thousand and \$80 thousand during 2019 and 2018, respectively. The premium has been fully amortized as of December 31, 2019. For the AJSB acquisition, as part of the fair value of certificates of deposit, a fair value premium was established of \$174 thousand that is being amortized over 14 months on a straight line basis. Approximately \$140 thousand of amortization was taken as income during the year ended December 31, 2019. It is estimated that an additional \$34 thousand of amortization will occur during 2020.

Note 8 – Income Taxes

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

	<i>(Dollars in thousands)</i>	
	<u>2019</u>	<u>2018</u>
Federal:		
Current	\$ 587	\$ 1,218
Deferred	755	129
State:		
Current	-	(44)
Deferred, net of valuation allowance	417	127
Income tax expense	<u>\$ 1,759</u>	<u>\$ 1,430</u>

Effective tax rates differ from the federal statutory rate of 21% for 2019 and 2018 applied to income before income taxes due to the following:

	<i>(Dollars in thousands)</i>	
	<u>2019</u>	<u>2018</u>
Federal statutory rate	21%	21%
Tax expense at statutory rate	\$ 2,909	\$ 2,260
State tax, net of federal effect	335	66
Tax exempt income	(704)	(778)
Bank owned life insurance	(187)	(102)
Captive insurance	(197)	(169)
Tax credit investments	(392)	-
Non-deductible transaction costs	58	99
Other	(63)	54
Total income tax expense	<u>\$ 1,759</u>	<u>\$ 1,430</u>

At December 31, the components of the net deferred tax asset recorded in the consolidated balance sheets are as follows:

	<i>(Dollars in thousands)</i>	
	2019	2018
Deferred tax assets:		
Bad debts	\$ 2,182	\$ 1,859
Deferred loan fees	-	49
Deferred compensation	337	322
Unrealized depreciation on securities available-for-sale, net	-	743
Net operating loss	3,218	1,373
Tax credits	183	147
Nonaccrual loan interest income	162	62
Share based compensation	202	185
REO writedowns	55	195
Unqualified deferred compensation plan	58	54
Other-than-temporary impairment	40	52
Accrued vacation	35	56
Impairment on land	49	48
Other	93	78
Total deferred tax assets	<u>6,614</u>	<u>5,223</u>
Deferred tax liabilities:		
Depreciation	(1,067)	(550)
Prepays	(368)	(254)
Mortgage servicing rights	(49)	(68)
Deferred stock dividends	(101)	(76)
Deferred loan costs, net of fees	(93)	-
Unrealized appreciation on securities available-for-sale, net	(1,126)	-
Purchase accounting	(187)	(118)
Partnership	(173)	-
Other	(92)	(191)
Total deferred tax liabilities	<u>(3,256)</u>	<u>(1,257)</u>
Valuation allowance	(92)	(87)
Net deferred tax asset	<u>\$ 3,266</u>	<u>\$ 3,879</u>

At December 31, 2019, the Bancorp has an Indiana net operating loss carry forward of approximately \$6.9 million which will begin to expire in 2024 if not used. The Bancorp also has an Indiana tax credit carry forward of approximately \$116 thousand which began to expire in 2017 and will continue to expire if not used. Management has concluded that the Indiana net operating loss will be fully utilized and therefore no valuation allowance is necessary on the Indiana net operating loss. A valuation allowance remains in place on the Indiana tax credit carryforward. A valuation allowance of \$92 thousand and \$87 thousand was provided at December 31, 2019 and 2018, respectively, for the Indiana tax credits.

The Bancorp acquired \$3.3 million of federal net operating loss carryforwards, \$59 thousand of federal AMT credits, and \$6.7 million of Illinois net operating loss carryforwards with the acquisition of First Personal during 2018 of which \$2.2 million of the federal losses expire in years ranging from 2028 to 2035, \$1.1 million of the federal losses do not expire, \$59 thousand of the federal AMT credits do not expire, and the Illinois losses expire in years ranging from 2019 to 2029. Under Section 382 of the Internal Revenue Code, the annual limitation on the use of the federal losses is \$362 thousand while there is no limitation on the use of the Illinois losses. Management has determined that all of the losses are more likely than not to be utilized before expiration.

[Table of Contents](#)

The Bancorp acquired \$7.2 million of federal net operating loss carryforwards and \$11.4 million of Illinois net operating loss carryforwards with the acquisition of AJS during 2019 of which \$3.6 million of the federal losses expire in years ranging from 2030 to 2037, \$3.6 million of the federal losses do not expire, and the Illinois losses expire in years ranging from 2020 to 2031. Under Section 382 of the Internal Revenue Code, the annual limitation on the use of the federal losses is \$825 thousand for AJS, while there is no limitation on the use of the Illinois losses. Management has determined that all of the losses are more likely than not to be utilized before expiration.

At December 31, 2019, \$9.3 million of the federal loss carryforwards and \$12.9 million of the Illinois loss carryforwards remain, the benefit of which is reflected in deferred tax assets.

The Bancorp qualified under provisions of the Internal Revenue Code, to deduct from taxable income a provision for bad debts in excess of the provision for such losses charged to income in the financial statements, if any. Accordingly, retained earnings at December 31 2019 and 2018 includes, approximately \$8.4 million and \$6.0 million, respectively, for which no provision for income taxes has been made. If, in the future this portion of retained earnings is used for any purpose other than to absorb bad debt losses, income taxes would be imposed at the then applicable rates. The unrecorded deferred income tax liability on the above amounts was approximately \$2.2 million and \$1.3 million, respectively, at December 31, 2019 and 2018.

The Bancorp had no unrecognized tax benefits at any time during 2019 or 2018 and does not anticipate any significant increase or decrease in unrecognized tax benefits during 2020. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is the Bancorp's policy to record such accruals through income tax accounts; no such accruals existed at any time during 2019 or 2018.

The Bancorp and its subsidiaries are subject to US federal income tax as well as income tax of the states of Indiana and Illinois. The Bancorp is no longer subject to examination by taxing authorities for the years before 2016.

Note 9 – Deposits

The aggregate amount of certificates of deposit with a balance of \$250 thousand or more was approximately \$56.2 million at December 31, 2019 and \$44.5 million at December 31, 2018.

At December 31, 2019, scheduled maturities of certificates of deposit were as follows:

	(Dollars in thousands)	
2020	\$	275,117
2021		45,892
2022		4,609
2023		1,650
2024		435
Total	\$	<u>327,703</u>

Note 10 – Borrowed Funds

At December 31, 2019, and December 31, 2018, borrowed funds are summarized below:

	(Dollars in thousands)	
	2019	2018
Fixed rate advances from the FHLB	\$ 14,000	\$ 23,000
Variable rate advances from the FHLB	-	20,000
Total	<u>\$ 14,000</u>	<u>\$ 43,000</u>

At December 31, 2019, scheduled maturities of borrowed funds were as follows:

	(Dollars in thousands)	
2020	\$	8,000
2021		6,000
Total	\$	<u>14,000</u>

Repurchase agreements generally mature within one year and are secured by U.S. government and U.S. agency securities, under the Bancorp's control. At December 31, information concerning these retail repurchase agreements is summarized below:

	(Dollars in thousands)			
	2019		2018	
Ending balance	\$	11,499	\$	11,628
Average balance during the year		12,928		12,754
Maximum month-end balance during the year		20,628		16,672
Securities underlying the agreements at year end:				
Carrying value		16,961		16,262
Fair value		16,961		16,262
Average interest rate during the year		1.80%		1.38%
Average interest rate at year end		1.51%		1.44%

At December 31, advances from the Federal Home Loan Bank were as follows:

	(Dollars in thousands)			
	2019		2018	
Fixed rate advances, maturing June 2020 through March 2021 at rates from 2.11% to 2.76%; average rate: 2019 – 2.62%; 2018 – 2.29%	\$	14,000	\$	23,000
Variable rate advances, none outstanding as of year ended 2019; average rate: 2018 – 2.87%	\$	-	\$	20,000

Fixed rate advances are payable at maturity, with a prepayment penalty. The advances were collateralized by mortgage loans with a carrying value totaling approximately \$340.0 million and \$259.8 million at December 31, 2019 and 2018, respectively. In addition to the fixed rate advances, the Bancorp maintains a \$20.0 million line of credit with the Federal Home Loan Bank of Indianapolis. The Bancorp did not have a balance on the line of credit at December 31, 2019 or December 31, 2018. The Bancorp did not have other borrowings at December 31, 2019 or December 31, 2018.

Note 11 – Employees' Benefit Plans

The Bancorp maintains an Employees' Savings and Profit Sharing Plan and Trust for all employees who meet the plan qualifications. Employees are eligible to participate in the Employees' Savings and Profit Sharing Plan and Trust on the next January 1 or July 1 following the completion of one year of employment, attaining age 18, and completion of 1,000 hours of service. The Employees' Savings Plan feature allows employees to make pre-tax contributions to the Employees' Savings Plan of 1% to 50% of Plan Salary, subject to limitations imposed by Internal Revenue Code section 401(k). Employees are able to begin deferring effective the first of the month following 90 days of employment. The Profit Sharing Plan and Trust feature is non-contributory on the part of the employee. Contributions to the Employees' Profit Sharing Plan and Trust are made at the discretion of the Bancorp's Board of Directors. Contributions for the years ended December 31, 2019 and 2018 were based on 7% of the participants' total compensation, excluding incentives. Profit sharing contributions made by the Bank and earnings credited to the employee's account vest on the following schedule: two years of service, 40% of contributions and earnings; three years of service, 60% of contributions and earnings; four years of service, 80% of contributions and earnings; and five years of service, 100% of contributions and earnings. Participants also become 100% vested in the employer contributions and accrued earnings in their account upon their death, approved disability, or attainment of age 65 while employed at the Bank. The benefit plan expense amounted to approximately \$884 thousand for 2019 and \$744 thousand for 2018.

The Bancorp maintains an Unqualified Deferred Compensation Plan (the “UDC Plan”). The purpose of the UDC Plan is to provide deferred compensation to key senior management employees of the Bancorp in order to recognize their substantial contributions to the Bank and provide them with additional financial security as inducement to remain with the Bank. The Compensation Committee selects which persons shall be participants in the UDC Plan. Participants’ accounts are credited each year with an amount based on a formula involving the participant’s employer funded contributions under all qualified plans and the limitations imposed by Internal Revenue Code subsection 401(a)(17) and Code section 415. The unqualified deferred compensation plan liability at December 31, 2019 and 2018 was approximately \$226 thousand and \$221 thousand, respectively. The UDC Plan expense amounted to approximately \$10 thousand for 2019 and \$11 thousand for 2018.

Directors have deferred some of their fees in consideration of future payments. Fee deferrals, including interest, totaled approximately \$60 thousand and \$40 thousand for 2019 and 2018, respectively. The deferred fee liability at December 31, 2019 and 2018 was approximately \$1.31 million and \$1.28 million, respectively.

Note 12 – Regulatory Capital

The Bancorp and Bank are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet various capital requirements can initiate regulatory action. Prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2019 and 2018, the most recent regulatory notifications categorized the Bancorp and Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bancorp’s or the Bank’s category.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions by the institution and certain discretionary bonus payments to management if an institution does not hold a “capital conservation buffer” consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement was phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increased each year until the buffer requirement became fully effective on January 1, 2019.

The following table shows that, at December 31, 2019, and December 31, 2018, the Bancorp’s capital exceeded all applicable regulatory capital requirements. The dollar amounts are in millions.

(Dollars in millions)

At December 31, 2019	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	\$ 110.8	11.8%	\$ 42.4	4.5%	N/A	N/A
Tier 1 capital to risk-weighted assets	\$ 110.8	11.8%	\$ 56.5	6.0%	N/A	N/A
Total capital to risk-weighted assets	\$ 119.8	12.7%	\$ 75.3	8.0%	N/A	N/A
Tier 1 capital to adjusted average assets	\$ 110.8	8.5%	\$ 52.3	4.0%	N/A	N/A

(Dollars in millions)

At December 31, 2018	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	\$ 92.8	11.6%	\$ 26.1	4.5%	N/A	N/A
Tier 1 capital to risk-weighted assets	\$ 92.8	11.6%	\$ 42.2	6.0%	N/A	N/A
Total capital to risk-weighted assets	\$ 100.8	12.6%	\$ 64.2	8.0%	N/A	N/A
Tier 1 capital to adjusted average assets	\$ 92.8	8.6%	\$ 43.2	4.0%	N/A	N/A

[Table of Contents](#)

In addition, the following table shows that, at December 31, 2019, and December 31, 2018, the Bank's capital exceeded all applicable regulatory capital requirements. The dollar amounts are in millions.

(Dollars in millions)

At December 31, 2019	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	\$ 108.9	11.6%	\$ 42.4	4.5%	\$ 61.2	6.5%
Tier 1 capital to risk-weighted assets	\$ 108.9	11.6%	\$ 56.5	6.0%	\$ 75.3	8.0%
Total capital to risk-weighted assets	\$ 117.9	12.5%	\$ 75.3	8.0%	\$ 94.1	10.0%
Tier 1 capital to adjusted average assets	\$ 108.9	8.3%	\$ 52.3	4.0%	\$ 65.3	5.0%

(Dollars in millions)

At December 31, 2018	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	\$ 89.9	11.2%	\$ 36.2	4.5%	\$ 52.2	6.5%
Tier 1 capital to risk-weighted assets	\$ 89.9	11.2%	\$ 48.2	6.0%	\$ 64.3	8.0%
Total capital to risk-weighted assets	\$ 97.9	12.2%	\$ 64.3	8.0%	\$ 80.3	10.0%
Tier 1 capital to adjusted average assets	\$ 89.9	8.4%	\$ 42.9	4.0%	\$ 53.6	5.0%

The Bancorp's ability to pay dividends to its shareholders is entirely dependent upon the Bank's ability to pay dividends to the Bancorp. Under Indiana law, the Bank may pay dividends from its undivided profits (generally, earnings less losses, bad debts, taxes and other operating expenses) 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 2020, without the need for qualifying for an exemption or prior DFI approval, is its 2020 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 November 22, 2019 the Board of Directors of the Bancorp declared a fourth quarter dividend of \$0.31 per share. The Bancorp's fourth quarter dividend was paid to shareholders on January 7, 2020.

Note 13 – Stock Based Compensation

The Bancorp's 2015 Stock Option and Incentive Plan (the "Incentive Plan"), which was adopted by the Bancorp's Board of Directors on February 17, 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 Incentive Plan may be in the form of incentive stock options, non-qualified stock options, restricted stock, unrestricted stock, performance shares, or performance units. The purposes of the Plan are (i) to align the personal interests of plan participants with those of the shareholders of the Bancorp, (ii) to encourage key individuals to accept or continue employment or service with the Bancorp and its subsidiaries, and (iii) to furnish incentives to such key individuals to improve operations and increase profits by providing such key individuals the opportunity to acquire common stock of the Bancorp or to receive monetary payments based on the value of such common stock. Option awards are generally granted with an exercise price equal to the market price of the Bancorp's common stock at the date of grant. No expense was charged against income for incentive stock options during 2019 or 2018.

The fair value of each incentive stock option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model. Expected volatilities are based on historical volatilities of the Company's common stock. No incentive stock options were granted during 2019 or 2018. The Bancorp uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

At December 31, 2019 and 2018, there were no incentive stock options outstanding.

Restricted stock awards are generally granted with an award price equal to the market price of the Bancorp's common stock on the award date. Restricted stock awards have been issued with a three to five year cliff-vesting period. Forfeiture provisions exist for personnel that separate employment before the vesting period expires. Compensation expense related to restricted stock awards is recognized over the vesting period. Total compensation cost that has been charged against income for those plans was approximately \$301 thousand and \$204 thousand for 2019 and 2018, respectively.

A summary of changes in the Bancorp's non-vested restricted stock for 2019 and 2018 follows:

<i>Non-vested Shares</i>	<i>Shares</i>	<i>Weighted Average Grant Date Fair Value</i>
Non-vested at January 1, 2018	30,690	\$ 28.51
Granted	4,433	43.50
Vested	(7,700)	22.64
Forfeited	-	-
Non-vested at December 31, 2018	<u>27,423</u>	<u>\$ 32.58</u>
Non-vested at January 1, 2019	27,423	\$ 32.58
Granted	7,407	43.00
Vested	(4,625)	29.37
Forfeited	-	-
Non-vested at December 31, 2019	<u>30,205</u>	<u>\$ 35.63</u>

As of December 31, 2019, there was approximately \$409 thousand of total unrecognized compensation cost related to non-vested restricted shares granted under the Incentive Plan. The cost is expected to be recognized over a weighted-average period of 1.5 years.

Note 14 – Earnings per Common 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 earnings per common share and diluted earnings per common share computations for 2019 and 2018 is presented below.

	2019	2018
Basic earnings per common share:		
Net income as reported	\$ 12,097	\$ 9,337
Weighted average common shares outstanding	<u>3,425,056</u>	<u>2,949,212</u>
Basic earnings per common share	<u>\$ 3.53</u>	<u>\$ 3.17</u>
Diluted earnings per common share:		
Net income as reported	\$ 12,097	\$ 9,337
Weighted average common shares outstanding	3,425,056	2,949,212
Weighted average common and dilutive potential common shares outstanding	<u>3,425,056</u>	<u>2,949,212</u>
Diluted earnings per common share	<u>\$ 3.53</u>	<u>\$ 3.17</u>

Note 15 – Related Party Transactions

The Bancorp had aggregate loans outstanding to directors and executive officers (with individual balances exceeding \$120 thousand) of approximately \$4.0 million at December 31, 2019 and approximately \$2.6 million at December 31, 2018. For the year ended December 31, 2019, the following activity occurred on these loans

	<i>(Dollars in thousands)</i>
Aggregate balance at the beginning of the year	\$ 2,598
New loans	1,946
Repayments	(523)
Aggregate balance at the end of the year	<u>\$ 4,021</u>

Deposits from directors and executive officers totaled approximately \$4.5 million and \$3.5 million at December 31, 2019 and 2018, respectively.

Note 16 – Commitments and Contingencies

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

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

The Bancorp had outstanding commitments to originate loans as follows:

	<i>(Dollars in thousands)</i>		
	<i>Fixed Rate</i>	<i>Variable Rate</i>	<i>Total</i>
December 31, 2019:			
Residential real estate	\$ 165	\$ 10,377	\$ 10,542
Home equity	40,429	8,841	49,270
Commercial real estate	5,890	11,537	17,427
Construction and land development	15,797	25,165	40,962
Multifamily	4,093	306	4,399
Consumer	21,677	-	21,677
Commercial business	1,161	52,879	54,040
Government	-	-	-
Total	<u>\$ 89,212</u>	<u>\$ 109,105</u>	<u>\$ 198,317</u>
December 31, 2018:			
Residential real estate	\$ 106	\$ 10,812	\$ 10,918
Home equity	35,571	5,960	41,531
Commercial real estate	6,397	9,258	15,655
Construction and land development	18,355	35,222	53,577
Multifamily	4,151	389	4,540
Consumer	18,862	-	18,862
Commercial business	1,655	44,935	46,590
Government	-	-	-
Total	<u>\$ 85,097</u>	<u>\$ 106,576</u>	<u>\$ 191,673</u>

[Table of Contents](#)

The approximately \$89.2 million in fixed rate commitments outstanding at December 31, 2019 had interest rates ranging from 2.99% to 10.00%, for a period not to exceed forty-five days. At December 31, 2018, fixed rate commitments outstanding of approximately \$85.1 million had interest rates ranging from 2.99% to 10.00%, for a period not to exceed forty-five days. Mortgage interest rate locks with borrowers which are included with real estate commitments, were treated as derivative transactions.

Standby letters of credit are conditional commitments issued by the Bancorp to guarantee the performance of a customer to a third party. At December 31, 2019 and 2018, the Bancorp had standby letters of credit totaling approximately \$11.5 million and \$9.7 million, respectively which are not included in the tables above. The Bancorp evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bancorp upon extension of credit, is based on management's credit evaluation of the borrower. Collateral obtained may include accounts receivable, inventory, property, land or other assets.

Note 17 – Derivative Financial Instruments

The Bancorp has certain interest rate derivative positions that are not designated as hedging instruments. Derivative assets and liabilities are recorded at fair value on the Consolidated Balance Sheet and do not take into account the effects of master netting agreements. Master netting agreements allow the Bancorp to settle all derivative contracts held with a single counterparty on a net basis, and to offset net derivative positions with related collateral, where applicable. These derivative positions relate to transactions in which the Bancorp enters into an interest rate swap with a client while at the same time entering into an offsetting interest rate swap with another financial institution. In connection with each transaction, the Bancorp agrees to pay interest to the client on a notional amount at a variable interest rate and receive interest from the client on the same notional amount at a fixed interest rate. At the same time, the Bancorp agrees to pay another financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. The transaction allows the client to effectively convert a variable rate loan to a fixed rate. Because the terms of the swaps with the customers and the other financial institutions offset each other, with the only difference being counterparty credit risk, changes in the fair value of the underlying derivative contracts are not materially different and do not significantly impact the Bancorp's results of operations.

As described in Note 16, the Bancorp grants mortgage loan commitments to borrowers, subject to normal loan underwriting standards. Loan commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The following table shows the amounts of non-hedging derivative financial instruments:

<i>(Dollars in thousands)</i>	Notational or contractual amount	December 31, 2019		December 31, 2018	
		Statement of Financial Condition classification	Fair value	Statement of Financial Condition classification	Fair value
Interest rate swap contracts	\$ 29,466	Other assets	\$ 1,358	Other liabilities	\$ 1,358
Loan commitments	12,822	Other assets	186	N/A	-
Total	\$ 42,288		\$ 1,544		\$ 1,358

<i>(Dollars in thousands)</i>	Notational or contractual amount	December 31, 2018		December 31, 2017	
		Statement of Financial Condition classification	Fair value	Statement of Financial Condition classification	Fair value
Interest rate swap contracts	\$ 8,649	Other assets	\$ 196	Other liabilities	\$ 196
Loan commitments	5,348	Other assets	-	N/A	-
Total	\$ 13,997		\$ 196		\$ 196

The following table shows the amounts included in the Statements of Income for non-hedging derivative financial instruments:

<i>(Dollars in thousands)</i>	Statement of Income Classification	Year-ended	
		2019	2018
Interest rate swap contracts	Other income	\$ 371	\$ 110
Loan commitments	Other income	186	-
Total		\$ 557	\$ 110

[Table of Contents](#)

The following table shows the offsetting of financial assets and derivative assets:

(Dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts not Offset in the Statement of Financial Condition		
				Financial Instruments	Cash Collateral Received	Net Amount
December 31, 2019						
Interest rate swap contracts	\$ 1,358	\$ -	\$ 1,358	\$ -	\$ -	\$ 1,358
Loan commitments	186	-	186	-	-	186
Total	\$ 1,544	\$ -	\$ 1,544	\$ -	\$ -	\$ 1,544

(Dollars in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Liabilities Presented in the Statement of Financial Condition	Gross Amounts not Offset in the Statement of Financial Condition		
				Financial Instruments	Cash Collateral Received	Net Amount
December 31, 2018						
Interest rate swap contracts	\$ 196	\$ -	\$ 196	\$ -	\$ -	\$ 196
Loan commitments	-	-	-	-	-	-
Total	\$ 196	\$ -	\$ 196	\$ -	\$ -	\$ 196

The following table shows the offsetting of financial liabilities and derivative liabilities:

(Dollars in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Liabilities Presented in the Statement of Financial Condition	Gross Amounts not Offset in the Statement of Financial Condition		
				Financial Instruments	Cash Collateral Pledged	Net Amount
December 31, 2019						
Interest rate swap contracts	\$ 1,358	\$ -	\$ 1,358	\$ -	\$ 2,290	\$ (932)
Total	\$ 1,358	\$ -	\$ 1,358	\$ -	\$ 2,290	\$ (932)

(Dollars in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Liabilities Presented in the Statement of Financial Condition	Gross Amounts not Offset in the Statement of Financial Condition		
				Financial Instruments	Cash Collateral Pledged	Net Amount
December 31, 2018						
Interest rate swap contracts	\$ 196	\$ -	\$ 196	\$ -	\$ -	\$ 196
Total	\$ 196	\$ -	\$ 196	\$ -	\$ -	\$ 196

Note 18 – Fair Values of Financial Instruments

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

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

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

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

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

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

The Bancorp’s management utilizes a specialist to perform an other-than-temporary impairment analysis for each of its two pooled trust preferred securities. The analysis is performed annually on 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 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 (which consists of banks and thrifts) was performed. The review of the collateral began with a review of financial information provided by SNL Financial, a comprehensive database, widely used in the industry, which gathers financial data on banks and thrifts from U.S. GAAP financial statements for public companies (annual and quarterly reports on Forms 10-K and 10-Q), as well as regulatory reports for private companies, including consolidated financial statements for bank holding companies (FR Y-9C reports) and parent company-only financial statements for bank holding companies (FR Y-9LP reports) filed with the Federal Reserve and bank call reports filed with the FDIC and OCC. Using the information sources described above, for each bank and thrift examined, the following items were examined: nature of the issuer’s business, years of operating history, corporate structure, loan composition and loan concentrations, deposit mix, asset growth rates, geographic footprint and local economic environment. The issuers’ historical financial performance was reviewed and their financial ratios were compared to appropriate peer groups of regional banks or thrifts with similar asset sizes. The analysis focused on six broad categories: profitability (revenue streams and earnings quality, return on assets and shareholder’s equity, net interest margin and interest rate sensitivity), credit quality (charge-offs and recoveries, non-current loans and total non-performing assets as a percentage of total loans, loan loss reserve coverage and the adequacy of the loan loss provision), operating efficiency (noninterest expense compared to total revenue), capital adequacy (Tier-1, total capital and leverage ratios and equity capital growth), leverage (tangible equity as a percentage of tangible assets, short-term and long-term borrowings and double leverage at the holding company) and liquidity (the nature and availability of funding sources, net non-core funding dependence and quality of deposits). In addition, for publicly traded companies, stock price movements were reviewed and the market price of publicly traded debt instruments was examined. The current other-than-temporary impairment analysis indicated that the Bancorp’s two pooled trust preferred securities had no additional other-than-temporary impairment for the years ending December 31, 2019 and 2018.

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

	<i>(Dollars in thousands)</i>	
	<i>Collateralized debt obligations</i>	
	<i>other-than-temporary impairment</i>	
Ending balance, December 31, 2018	\$	235
Reduction due to sale of security		(62)
Ending balance, December 31, 2019	\$	173

The Bancorp's subordination for each trust preferred security is calculated by taking the total performing collateral and subtracting the sum of the total collateral within the Bancorp's class and the total collateral within all senior classes, and then stating this result as a percentage of the total performing collateral. This measure is an indicator of the level of collateral that can default before potential cash flow disruptions may occur. In addition, management calculates subordination assuming future collateral defaults by utilizing the default/deferral assumptions in the Bancorp's other-than-temporary impairment analysis. Subordination assuming future default/deferral assumptions is calculated by deducting future defaults from the current performing collateral. At December 31, 2019 and 2018, 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 two pooled trust preferred securities: For collateral that has already defaulted, no recovery was assumed; no cash flows were assumed from collateral currently in deferral, with the exception of the recovery assumptions. The default and recovery assumptions were calculated based on the detailed collateral review. The discount rate assumption used in the calculation of the present value of cash flows is based on the discount margin (i.e., credit spread) at the time each security was purchased using the original purchase price. The discount margin is then added to the appropriate 3-month LIBOR forward rate obtained from the forward LIBOR curve.

At December 31, 2019 and 2018, the trust preferred securities with a cost basis of \$2.2 million and \$3.5 million, respectively, have been placed in "payment in kind" status. The Bancorp's securities that are classified as "payment in kind" are a result of not receiving the scheduled quarterly interest payments. For the securities in "payment in kind" status, management anticipates to receive the unpaid contractual interest payments from the issuer, because of the self-correcting cash flow waterfall provisions within the structure of the securities. When a tranche senior to the Bancorp's position fails the coverage test, the Bancorp's interest cash flows are paid to the senior tranche and recorded as a reduction of principal. The coverage test represents an over collateralization target by stating the balance of the performing collateral as a percentage of the balance of the Bancorp's tranche, plus the balance of all senior tranches. The principal reduction in the senior tranche continues until the appropriate coverage test is passed. As a result of the principal reduction in the senior tranche, more cash is available for future payments to the Bancorp's tranche. Consistent with the Investments – Debt and Equity Securities Topic, management considered the failure of the issuer of the security to make scheduled interest payments in determining whether a credit loss existed. Management will not capitalize the "payment in kind" interest payments to the book value of the securities and will keep these securities in non-accrual status until the quarterly interest payments resume.

Assets and Liabilities Measured at Fair Values on a Recurring Basis

There were no transfers to or from Levels 1 and 2 during the years ended December 31, 2019 and 2018. Changes in Level 3 assets relate to the result of changes in estimated fair values, payments received, and sales of securities that have been classified as Level 3 during all of 2019 and 2018. Assets measured at fair value on a recurring basis are summarized below:

(Dollars in thousands)				
Fair Value Measurements at December 31, 2019 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)
Available-for-sale debt securities:				
Money market fund	\$ 9,670	\$ 9,670	\$ -	\$ -
U.S. government sponsored entities	13,058	-	13,058	-
Collateralized mortgage obligations and residential mortgage-backed securities	150,988	-	150,988	-
Municipal securities	102,427	-	102,427	-
Collateralized debt obligations	1,076	-	-	1,076
Total securities available-for-sale	\$ 277,219	\$ 9,670	\$ 266,473	\$ 1,076

(Dollars in thousands)				
Fair Value Measurements at December 31, 2018 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)
Available-for-sale debt securities:				
Money market fund	\$ 2,480	\$ 2,480	\$ -	\$ -
U.S. government sponsored entities	7,894	-	7,894	-
Collateralized mortgage obligations and residential mortgage-backed securities	135,281	-	135,281	-
Municipal securities	94,064	-	94,064	-
Collateralized debt obligations	2,049	-	-	2,049
Total securities available-for-sale	\$ 241,768	\$ 2,480	\$ 237,239	\$ 2,049

A reconciliation of available-for-sale securities, which require significant adjustment based on unobservable data, is presented below:

(Dollars in thousands)	
Estimated Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
Available-for-sale securities	
Beginning balance, January 1, 2018	\$ 3,439
Principal payments	(51)
Total unrealized losses, included in other comprehensive income	(36)
Sale out of Level 3	(1,303)
Ending balance, December 31, 2018	\$ 2,049
Beginning balance, January 1, 2019	\$ 2,049
Principal payments	(38)
Total unrealized gains, included in other comprehensive income	52
Sale out of Level 3	(987)
Ending balance, December 31, 2019	\$ 1,076

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

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

(Dollars in thousands)				
Fair Value Measurements at December 31, 2019 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	\$ 7,052	\$ -	\$ -	\$ 7,052
Foreclosed real estate	1,083	-	-	1,083

(Dollars in thousands)				
Fair Value Measurements at December 31, 2018 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	\$ 5,536	\$ -	\$ -	\$ 5,536
Foreclosed real estate	1,627	-	-	1,627

The fair value of impaired loans with specific allocations of the allowance for loan losses or loans for which charge-offs have been taken is generally based on the present value of future cash flows or, for collateral dependent loans, based on recent real estate appraisals. Appraisals may utilize a single valuation approach or a combination of approaches, including comparable sales and the income approach. The recorded investment of impaired loans was approximately \$7.22 million and the related specific reserves totaled approximately \$166 thousand, resulting in a fair value of impaired loans totaling approximately \$7.1 million, at December 31, 2019. The recorded investment of impaired loans was approximately \$5.78 million and the related specific reserves totaled approximately \$246 thousand, resulting in a fair value of impaired loans totaling approximately \$5.5 million, at December 31, 2018. 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.

[Table of Contents](#)

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.

	December 31, 2019		Estimated Fair Value Measurements at December 31, 2019 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	\$ 47,258	\$ 47,258	\$ 47,258	\$ -	\$ -
Certificates of deposit in other financial institutions	2,170	2,137	-	2,137	-
Securities available-for-sale	277,219	277,219	9,670	266,473	1,076
Loans held-for-sale	6,091	6,204	6,204	-	-
Loans receivable, net	897,870	917,174	-	-	917,174
Federal Home Loan Bank stock	3,912	3,912	-	3,912	-
Interest rate swap agreements	1,358	1,358	-	1,358	-
Accrued interest receivable	4,029	4,029	-	4,029	-
Financial liabilities:					
Non-interest bearing deposits	172,094	172,094	172,094	-	-
Interest bearing deposits	982,276	982,241	654,573	327,668	-
Repurchase agreements	11,499	11,499	9,721	1,778	-
Borrowed funds	14,000	14,108	-	14,108	-
Interest rate swap agreements	1,358	1,358	-	1,358	-
Accrued interest payable	179	179	-	179	-

	December 31, 2018		Estimated Fair Value Measurements at December 31, 2018 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	\$ 17,139	\$ 17,139	\$ 17,139	\$ -	\$ -
Certificates of deposit in other financial institutions	2,024	2,001	-	2,001	-
Securities available-for-sale	241,768	241,768	2,480	237,239	2,049
Loans held-for-sale	2,863	2,910	2,910	-	-
Loans receivable, net	756,438	747,553	-	-	747,553
Federal Home Loan Bank stock	3,460	3,460	-	3,460	-
Interest rate swap agreements	196	196	-	196	-
Accrued interest receivable	3,632	3,632	-	3,632	-
Financial liabilities:					
Non-interest bearing deposits	127,277	127,277	127,277	-	-
Interest bearing deposits	802,509	800,349	543,617	256,732	-
Repurchase agreements	11,628	11,626	9,867	1,759	-
Borrowed funds	43,000	42,888	-	42,888	-
Interest rate swap agreements	196	196	-	196	-
Accrued interest payable	186	186	-	186	-

The following methods were used to estimate the fair value of financial instruments presented in the preceding table for the periods ended December 31, 2019 and 2018:

Cash and cash equivalent carrying amounts approximate fair value. Certificates of deposits in other financial institutions carrying amounts approximate fair value (Level 2). 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 the exit price notion which is the exchange price that would be received to transfer the loans at the most advantageous market price in an orderly transaction between market participants on the measurement date (Level 3). Federal Home Loan Bank stock is estimated at book value due to restrictions that limit the sale or transfer of the security. Interest rate swap agreements, both assets and liabilities, are valued by a third-party pricing agent using an income approach (Level 2). Fair values of accrued interest receivable and payable approximate 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 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.

Note 19 – Parent Company Only Statements

(Dollars in thousands)
NorthWest Indiana Bancorp
Condensed Balance Sheets

	December 31, 2019	December 31, 2018
Assets		
Cash on deposit with Peoples Bank	\$ 191	\$ 881
Investment in Peoples Bank	132,134	98,606
Investment in NWIN Risk Management, Inc	1,736	2,503
Dividends receivable from Peoples Bank	1,070	909
Other assets	235	302
Total assets	\$ 135,366	\$ 103,201
Liabilities and stockholders' equity		
Dividends payable	\$ 1,070	\$ 909
Other liabilities	569	828
Total liabilities	1,639	1,737
Additional paid in capital	29,657	11,927
Accumulated other comprehensive (loss) income	4,261	(2,796)
Retained earnings	99,809	92,333
Total stockholders' equity	133,727	101,464
Total liabilities and stockholders' equity	\$ 135,366	\$ 103,201

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

	2019	2018
Dividends from Peoples Bank	\$ 19,388	\$ 12,330
Operating expenses	486	477
Income before income taxes and equity in undistributed income of Peoples Bank	18,902	11,853
Income tax benefit	(101)	(98)
Income before equity in undistributed income of Peoples Bank	19,003	11,951
Equity in undistributed (distributions in excess of income) income of Peoples Bank	(7,889)	(3,443)
income of NWIN Risk Management, Inc	983	829
Net income	\$ 12,097	\$ 9,337

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

	2019	2018
Cash flows from operating activities:		
Net income	\$ 12,097	\$ 9,337
Adjustments to reconcile net income to net cash provided by operating activities		
Distributions in excess of income (equity in undistributed income):		
Peoples Bank	7,889	3,443
NWIN Risk Management, Inc	(983)	(829)
Stock based compensation expense	301	204
	(63)	(72)
Net surrender value of restricted stock awards		
Change in other assets	(94)	519
Change in other liabilities	(259)	275
Total adjustments	6,791	3,540
Net cash - operating activities	18,888	12,877
Cash flows from investing activities:		
Cash paid for acquisition	(15,743)	(8,689)
Investment in Peoples Bank	(1,500)	-
Distribution from NWIN Risk Management, Inc	1,750	-
Net cash - investing activities	(15,493)	(8,689)
Cash flows from financing activities:		
Dividends paid	(4,085)	(3,432)
Proceeds from issuance of common stock	-	-
Net cash - financing activities	(4,085)	(3,432)
Net change in cash	(690)	756
Cash at beginning of year	881	125
Cash at end of year	\$ 191	\$ 881



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

There are no items reportable under this item.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of the Bancorp's disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended, as of December 31, 2019. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2019, the Bancorp's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Bancorp in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and such information is accumulated and communicated to the Bancorp's management, including its principal executive and principal financial officers as appropriate to allow timely decisions regarding required disclosure.

There were no changes in the Bancorp's internal control over financial reporting during the year ended December 31, 2019, that have materially affected or are reasonably likely to affect, the Bancorp's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

The management of the Bancorp is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Bancorp's internal control over financial reporting is a process designed under the supervision of the Bancorp's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Bancorp's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

As of December 31, 2019, management assessed the effectiveness of the Bancorp's internal control over financial reporting based on the framework established in the "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management has determined that the Bancorp's internal control over financial reporting was effective as of December 31, 2019, based on the criteria specified.

Plante & Moran PLLC, the independent registered public accounting firm that audited the consolidated financial statements of the Bancorp and has issued an attestation report, included herein, on the Bancorp's internal control over financial reporting as of December 31, 2019.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
NorthWest Indiana Bancorp and Subsidiaries

Opinion on Internal Controls over Financial Reporting

We have audited the internal control over financial reporting as of December 31, 2019 of NorthWest Indiana Bancorp and Subsidiaries (the "Company"), based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO framework"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in the COSO framework.

We also have audited the accompanying consolidated balance sheets of the Company as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"). Our report dated March 4, 2019, expresses an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Management's Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We also have audited the accompanying consolidated balance sheets of the Company as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"). Our report dated March 13, 2020, expresses an unqualified opinion.

Definition and Limitations of Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Plante & Moran, PLLC
Plante & Moran, PLLC

We have served as the Company's auditor since 2010.

Chicago, Illinois
March 13, 2020

Item 9B. Other Information

There are no items reportable under this item.

PART III**Item 10. Directors, Executive Officers and Corporate Governance**

The information contained under the sections captioned "Proposal 1 - Election of Directors," "Corporate Governance - Board Committees," "Security Ownership by Certain Beneficial Owners and Management," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Corporate Governance - Code of Ethics" in the Bancorp's definitive Proxy Statement for the 2020 Annual Meeting of Shareholders is incorporated herein by reference. Information regarding the Bancorp's executive officers is included under Item 4.5 captioned "Executive Officers of the Bancorp" at the end of Part I hereof and is incorporated herein by reference, in accordance with General Instruction G(3) to Form 10-K and Instruction 3 to Item 401(b) of Regulation S-K.

Item 11. Executive Compensation

The information contained under the section captioned "Executive Compensation" in the Bancorp's definitive Proxy Statement for its 2020 Annual Meeting of Shareholders is incorporated herein by reference.

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

The information contained within the Bancorp's definitive Proxy Statement for the 2020 Annual Meeting of Shareholders, under the section captioned "Security Ownership by Certain Beneficial Owners and Management," and the table providing information on the Bancorp's director nominees and continuing directors in the section captioned "Proposal 1 - Election of Directors," is incorporated herein by reference.

Equity Compensation Plan Information

The following table provides certain information as of December 31, 2019 with respect to the Bancorp's existing equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a) (c)
Equity compensation plans approved by security holders	-	\$ -	224,845
Total	-	\$ -	224,845

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

The information contained under the sections captioned "Transactions with Related Persons" and "Corporate Governance-Director Independence," and the information contained in the "Summary Compensation Table for 2019" under the section captioned "Executive Compensation," in the Bancorp's definitive Proxy Statement for its 2020 Annual Meeting of Shareholders, is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information contained under the section captioned "Independent Registered Public Accounting Firm's Services and Fees" in the Bancorp's definitive Proxy Statement for its 2020 Annual Meeting of Shareholders, is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) Financial Statements:

The following consolidated financial statements of the Bancorp and the reports of the Bancorp's independent registered public accounting firm are included in Part II, Item 8 of this Form 10-K:

	Page
Report of Independent Registered Public Accounting Firm	51
Consolidated Balance Sheets	52
Consolidated Statements of Income	53
Consolidated Statements of Comprehensive Income	54
Consolidated Statements of Changes in Stockholders' Equity	54
Consolidated Statements of Cash Flows	55
Notes to Consolidated Financial Statements	56

(2) Financial Statement Schedules: Not Applicable.

(3) Exhibits:

Exhibit Number	Description
2.1	Plan of Conversion of Peoples Bank, A Federal Savings Bank, dated December 18, 1993 (incorporated herein by reference to Exhibit A to the Bancorp's Definitive Proxy Statement/Prospectus dated March 23, 1994, as filed pursuant to Rule 424(b) under the 1933 Act on March 28, 1994).
2.3 @	Agreement and Plan of Voluntary Supervisory Merger Conversion dated March 20, 2015 by and between Peoples Bank SB and Liberty Savings Bank, FSB (incorporated herein by reference to Exhibit 10.1 of the Bancorp's Form 8-K dated March 20, 2015).
2.4 @	Agreement and Plan of Merger by and among NorthWest Indiana Bancorp and First Personal Financial Corp. dated February 20, 2019 (incorporated herein by reference to Exhibit 10.1 of the Bancorp's Form 8-K dated February 21, 2019).
2.5 @	Agreement and Plan of Merger by and among NorthWest Indiana Bancorp and AJS Bancorp, Inc. dated July 30, 2019 (incorporated herein by reference to Exhibit 2.1 of the Bancorp's Form 8-K dated July 31, 2019).
3.1	Articles of Incorporation (incorporated herein by reference to Exhibit 3(i) to the Bancorp's Registration Statement on Form S-4 filed March 3, 1994 (File No. 33-76038)).
3.2	Amended and Restated By-Laws of NorthWest Indiana Bancorp (Amended and Restated as of May 18, 2018) (incorporated herein by reference to Exhibit 3.1 of the Bancorp's Form 8-K dated May 21, 2018).
10.1 *	Unqualified Deferred Compensation Plan for the Officers of Peoples Bank effective January 1, 2005 (incorporated herein by reference to Exhibit 10.1 of the Bancorp's Form 10-K filed on March 5, 2019).
10.2 *	Amended Post 2004 Unfunded Deferred Compensation Plan for the Directors of Peoples Bank SB effective January 1, 2005 (incorporated herein by reference to Exhibit 10.2 of the Bancorp's Form 10-K filed on March 5, 2019).

Table of Contents

10.3 *	<u>NorthWest Indiana Bancorp 2015 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.1 of the Bancorp's Form 8-K dated April 24, 2015).</u>
10.4 *	<u>Form of Nonqualified Stock Option Agreement under the NorthWest Indiana Bancorp 2015 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.2 of the Bancorp's Form 8-K dated April 24, 2015).</u>
10.5 *	<u>Form of Incentive Stock Option Agreement under the NorthWest Indiana Bancorp 2015 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.3 of the Bancorp's Form 8-K dated April 24, 2015).</u>
10.6 *	<u>Form of Agreement for Restricted Stock under the NorthWest Indiana Bancorp 2015 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.4 of the Bancorp's Form 8-K dated April 24, 2015).</u>
10.7 *	<u>Amended and Restated Employment Agreement, dated February 16, 2016, by and among NorthWest Indiana Bancorp, Peoples Bank SB and David A. Bochnowski (incorporated herein by reference to Exhibit 10.1 of the Bancorp's Form 8-K dated February 26, 2016).</u>
10.8 *	<u>Employment Agreement between NorthWest Indiana Bancorp, Peoples Bank SB, and Benjamin J. Bochnowski dated August 1, 2017 (incorporated herein by reference to Exhibit 10.1 of the Bancorp's Form 8-K dated August 4, 2017).</u>
10.9 *	<u>First Amendment to Employment Agreement between NorthWest Indiana Bancorp, Peoples Bank SB, and Benjamin J. Bochnowski dated as of July 27, 2018 (incorporated herein by reference to Exhibit 10.2 of the Bancorp's Form 8-K dated July 30, 2018).</u>
10.10 *	<u>Form of Non-Solicitation and Confidentiality Agreement between Peoples Bank SB and each of its Executive Officers (incorporated herein by reference to Exhibit 10.2 of the Bancorp's Form 10-Q filed on May 9, 2018).</u>
10.11 *	<u>NorthWest Indiana Bancorp Executive Change in Control Severance Plan (incorporated herein by reference to Exhibit 10.1 of the Bancorp's Form 10-Q filed on October 29, 2019).</u>
13	<u>2019 Annual Report to Shareholders.</u>
21	<u>Subsidiaries of the Bancorp.</u>
23.1	<u>Plante & Moran, PLLC - Consent of Independent Registered Public Accounting Firm.</u>
31.1	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.</u>
31.2	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.</u>
32	<u>Section 1350 Certifications.</u>
101	The following materials from the Bancorp's Form 10-K for the fiscal year ended December 31, 2019, formatted in an XBRL Interactive Data File: (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Changes in Stockholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements, with detailed tagging of notes and financial statement schedules.

@ – The Bancorp has omitted schedules and similar attachments to the subject agreement pursuant to Item 601(b) of Regulation S-K. The Bancorp will furnish a copy of any omitted schedule or similar attachment to the SEC upon request.

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

SIGNATURES

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

NORTHWEST INDIANA BANCORP

By: /s/ Benjamin J. Bochnowski

Benjamin J. Bochnowski
President and
Chief Executive Officer

Date: March 16, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on March 16, 2020:

<u>Signature</u>	<u>Title</u>
Principal Executive Officer:	
<u>/s/Benjamin J. Bochnowski</u> Benjamin J. Bochnowski	President and Chief Executive Officer
Principal Financial Officer and Principal Accounting Officer:	
<u>/s/Robert T. Lowry</u> Robert T. Lowry	Executive Vice President, Chief Financial Officer and Treasurer
The Board of Directors:	
<u>/s/David A. Bochnowski</u> David A. Bochnowski	Executive Chairman of the Board
<u>/s/Edward J. Furticella</u> Edward J. Furticella	Director
<u>/s/Joel Gorelick</u> Joel Gorelick	Director
<u>/s/Kenneth V. Krupinski</u> Kenneth V. Krupinski	Director
<u>/s/Anthony M. Puntillo</u> Anthony M. Puntillo	Director
<u>/s/James L. Wieser</u> James L. Wieser	Director
<u>/s/Donald P. Fesko</u> Donald P. Fesko	Director
<u>/s/Amy W. Han</u> Amy W. Han	Director
<u>/s/Danette Garza</u> Danette Garza	Director
<u>/s/Robert E. Johnson III</u> Robert E. Johnson III	Director

YOU



BANKING

2019 ANNUAL REPORT

Peoples *Bank*

NorthWest
Indiana

BANCORP





INTEGRITY

EXCELLENCE

STABILITY

COMMUNITY

THE FIRST 110 YEARS

As we look forward to the future while celebrating our 110th anniversary, we remain grounded in our core values that have brought us to where we are today. Those values have sustained us through the years and will guide us as we grow. At Peoples Bank, we recognize our responsibility as an active participant in the community to support financial stability in all aspects of business.

Peoples Bank continues to build upon the mission of helping customers and communities be more successful. We do this by emphasizing all areas of the customer experience - treating people with respect, honesty, and having genuine concern for others' needs.

Our focus has always been to empower customers to manage their finances and support them in every phase of their lives while enabling them to bank however they

choose. This is because we consider every individual and organization we work closely with when making decisions. We also understand the importance of providing convenient banking. This is why we have expanded Banking Centers in both Northwest Indiana and South Chicagoland communities.

The You First Banking brand is a mindset that embodies our commitment to the individualized needs of customers who walk through our door or connect with us digitally. With Peoples Bank, a better customer experience will always be more important than just getting bigger. As Peoples Bank continues to grow in 2020, we are committed to delivering better banking and an exceptional experience to all of our stakeholders – our shareholders, our customers, our employees, and the communities that we serve.

Peoples *Bank*

A message from the President & Chairman



Benjamin J. Bochnowski
President, CEO



David A. Bochnowski
Executive Chairman

Shaping the future of Peoples Bank

2019 was a year of envisioning the future at Peoples Bank, and 2020 is when we will shape the future of our company. We continue to evolve, and our mission keeps us grounded as we move forward: to help our customers and communities be more successful. Our core values of Stability, Integrity, Community, and Excellence guide us every day as we grow and continue to expand the impact on the customers and communities we serve. Stability and integrity guide us through uncertain times, and recent macroeconomic events remind us that we must always be prepared to execute on our strategy in changing environments. We have withstood difficult economic conditions for over a century, and we stand ready to weather whatever storm that comes our way as we strive to create value for all of our stakeholders.

We engage to understand individual customer needs and provide alternatives so that our customers can achieve financial success on their terms. That drives development and investment in the products and solutions that are meaningful to our customers, and holds us accountable for the expectations we set for them.

Our business model is built on our mission, bringing together our customers and communities as we work to create value for both simultaneously. This focuses us strategically to grow the Bank in ways that make the most sense for our customers and create the most value for our shareholders. As our footprint has grown, we remain committed to helping the communities we serve grow economically. Partnerships with community organizations are designed to be sustainable and to have a meaningful impact.

Our vision is to provide a seamless customer experience, making banking with us easy by offering personalized advice, products, and services across self-service and assisted channels. Anticipating and understanding customer needs builds on the trust we have established over generations and improves our ability to build long-lasting relationships with our customers.

Shared Stakeholder Value

Net income for 2019 increased by 29.6% reaching \$12.1 million, another record year for earnings. We successfully grew the loan portfolio by 18.6% and deposit base by 24.2%. At the same time, Peoples Bank was named as a Best Bank to Work for in America, and for the 14th consecutive year, one of the Top 200 Community Banks in America by *American Banker* magazine. To us, that is the definition of excellence that we strive for every day as we carry out our mission. Creating value for our employees and investing in the future is not a tradeoff to creating shareholder value; in fact, it supports continued shareholder value. As of December 31, 2019, our tangible book value per share stood at \$38.85, which was a 16.0% increase compared to December 31, 2018.

2019 was another milestone as we continued our expansion into the Chicagoland market with the successful integration of A.J. Smith Federal Savings Bank. We now have six Banking Centers in the South Chicagoland market and have positioned ourselves for continued growth, organically and inorganically. Along with our new community partners, we have built teams of bankers that are aligned to our mission and values.



That strategy has been successful by many measures. Over a third of our residential mortgages are now in our Illinois market, along with nearly a quarter of our commercial loans. Deposits remained stable in our acquired branches through integration, and have now grown over 20% since closing. From our first integration in the market in 2018 through the end of 2019, customer satisfaction increased to 89% in the Illinois market. Our brand of *You First Banking* is resonating with our customers and living up to the potential that these mergers presented for our shareholders.

As a company, we strive for excellence every day. We elevated financial targets for our expansion into Illinois, and we exceeded them. Peoples Bank has a winning strategic plan with a management team committed to executing that plan and staying accountable to results.

Better Banking Keeps Getting Better

Over the past several years, we have made significant upgrades to our technology platforms. Internally, those enhancements have streamlined operations, enhanced risk management, improved the customer experience, and positioned us to dedicate more time to the customer. We have targeted several areas where we can deliver meaningful improvements and efficiencies in the coming year. Where we can make processes smoother, faster, and more consistent, we will provide a better experience and redirect resources to what matters to our customers.

The Bank's Wealth Management platform has been completely overhauled, giving our customers robust financial planning tools that ensure they are on track to meet their financial goals. Independent, transparent investment performance reporting allows for a better digital experience and streamlined investment advice. We continuously upgrade our residential mortgage platform, with responsive service that supported over \$125 million of mortgage loan originations in 2019.

Our Business Banking team continues to expand and get results. Enhanced treasury management services and lending products have helped both the Bank and our customers grow. Peoples Bank was also named Lender of the Year by the Regional Development Company for our commercial lending efforts, beating out competitors that were many times our size.

Efficiency is built into everything we do in order to improve our responsiveness to customers and agility in executing our strategic plans. We have begun a multi-year plan to reposition our Banking Centers for the needs of individual communities. The Banking Center of the future will provide efficient service and operations while focusing on engaging the needs of our individual customers.

Technology will also improve risk management. Planned upgrades to the Bank's credit platform will provide faster responses to customers and better manage risk, and help automate certain parts of future CECL compliance. Information security and technology infrastructure enhancements are a continual process for the Bank, and we are committed to becoming as safe and resilient as possible.

110 Year Anniversary

As we reflect back on 110 years of corporate history, we are reminded of our continued tradition of community banking. We have always stayed true to our core values; we remain committed to the communities and customers we serve. Delivering an exceptional banking experience has always been our commitment to our customers.

Our core value of stability is embodied by our 110 years of service. We have served generations of families as customers, and have been lucky enough to serve with generations of families at Peoples Bank. For us, it is personal. Peoples Bank was founded by John Bochnowski, an immigrant to this country, who was committed to helping his community develop and grow to be more prosperous than the ones that so many left behind. We will continue to honor that spirit and strive for excellence so that we can deliver on our mission for generations to come.

We are all proud of what we have accomplished as a team, and our collective dedication to excellence has positioned us for further growth and an even better customer experience. We continue to recruit, develop, and retain a diverse workforce that can deliver on the expectations that all parties have for banks in today's environment. It is an exciting time at Peoples Bank as we move into the future.

INTEGRITY

Integrity begins with treating people with respect and honesty. It is reflected in the reputation we have in the community and with our customers. We hold ourselves accountable to the commitment we make both internally and externally.

Peoples Bank continues to strive to be a value-driven organization by understanding our communities' needs and acting out of genuine concern for those that we serve. We measure success by meeting the individual needs of our customers.

Our commitment goes beyond that: Peoples Bank is focused on creating value for all of its stakeholders, and with that, sharing value creation for shareholders, customers, the community, and employees. This is evident in the values the Bank has created over the decades. While maintaining our status as a preferred employer and good community partner, Peoples Bank has also been chosen as the financial partner of choice for customers. Integrity is the foundation of our other values and helps us to grow and achieve great future success.

EXCELLENCE

At Peoples Bank, we strive for excellence at every level. From individual performance, to operating group results, to bank-wide initiatives, excellence is woven into everything we do. It is instilled within our future plans, who we are as people, and the results we achieve.

Peoples Bank is proud to be named one of the **Top 200 Community Banks** by American Banker magazine for the 14th consecutive year. We are again proud to be named

one of the **Best Bank's to Work For** in America by the same publication.

Our commitment to excellence has resulted in a total return in Northwest Indiana Bancorp stock of 174.4% since the beginning of 2013 when the current management team transitioned into leadership. As we celebrate our 110th anniversary, our drive for excellence will guide and assist our growth in 2020 and beyond.

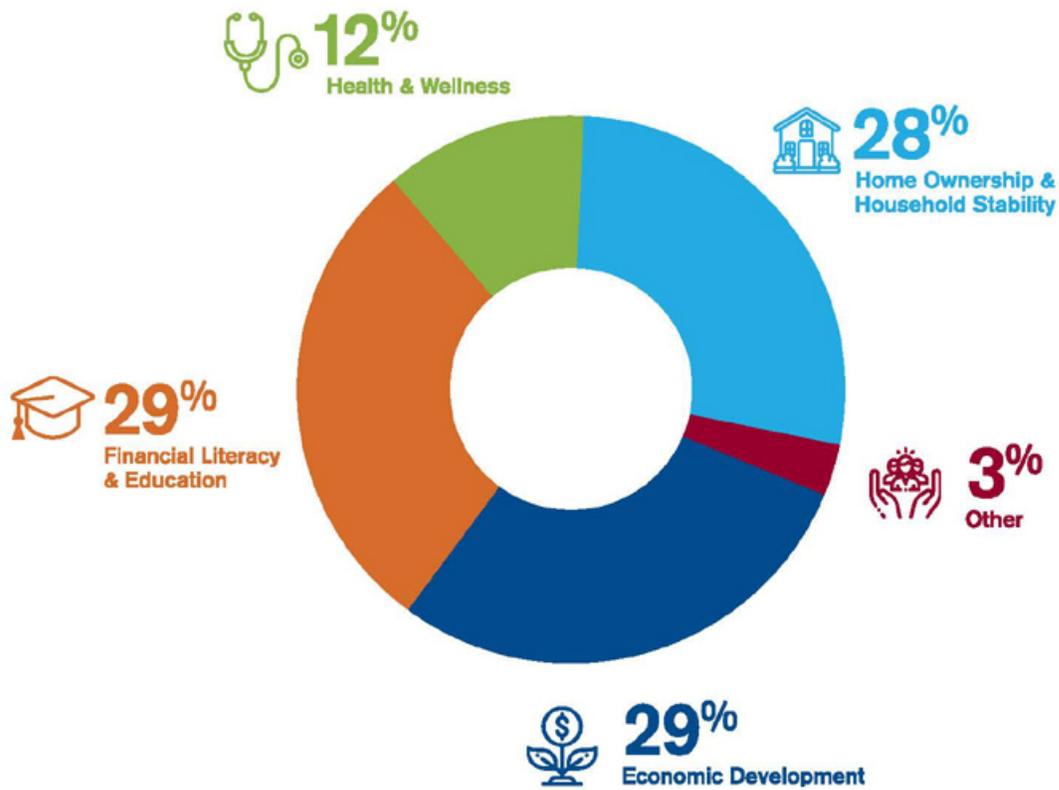
STABILITY

No matter where or how a customer interacts with the Bank, our platforms keep them connected and deliver a consistent customer experience. This is driven by Peoples Bank's commitment to providing stability across every customer touchpoint. That is true across our markets, including our most recent acquisition of AJS Bancorp, Inc.

For us, stability is central to Peoples Bank's strategic plan, independence, and future growth. Our goal is to be there for each and every customer at their points of need, so they can achieve their financial goals. This has led to significant investments in training and banking platforms to support consistent service delivery, no matter how the customer interacts with the Bank.

Stability is also ingrained in our credit decisions. We take pride in having a strong, stable loan portfolio and credit underwriting practices that helped us weather the Great Recession. Peoples Bank has a commitment to customers and investors to ensure stability in its credit portfolio not just now, but also in future credit cycles.

Our approach to systems and cybersecurity is also grounded in stability. Peoples Bank has made significant investments to increase reliability and security, as well as resiliency of the systems in the event of a breach. As we move into a new decade, our top priority will be to protect all of the Bank's information and systems in an increasingly challenging cyber environment.



2019 COMMUNITY SUPPORT

Peoples Bank's sense of community and genuine concern for our customers, employees, and the places they live is displayed in every Bank initiative. Our business model is rooted in our commitment to the local community. Last year, Peoples Bank's goal was to seek out opportunities to expand homeownership in underserved areas for families so they could become active participants in the local economy. As we move forward today, our focus and commitment to community remains the same.

In addition to the Bank's direct community support, Community First, the Bank's employee philanthropic committee, raised over \$30,000 through employee-generated donations. With the Bank's matching of funds, the committee was able to donate \$82,000 to local nonprofit organizations in Northwest Indiana and South Chicagoland.

Percentages do not add up to 100% due to rounding.

Peoples Bank donated \$2,500 to Lake Area United Way. Employees volunteer their time throughout the year at events such as the dodgeball tournament (pictured) and the United Way Day of Caring Event.



Peoples Bank, along with the Community First Committee, donated \$15,000 to the Food Bank of Northwest Indiana. Employees donate their time throughout the year to pack food and attend various events. For every dollar donated, 3 meals are provided.

COMM



Team Peoples (employees and their families) raised over \$6,000 at the Cancer Resource Center Unite and Fight Cancer Walk. The Cancer Resource Center provides support and guidance to those with cancer and their families free of charge.

A group of Peoples Bank employees prepared taxes at no cost to those in need through the VITA (Volunteer Income Tax Assistance) Program. 20 Peoples Bank employees volunteered their time, totaling 278 volunteer hours.



UNITY

Peoples Bank, along with the Community First Committee, donated \$11,000 dollars to Campagna Academy. Campagna provides homes for children who do not have one and helps provide guidance for children to get them on a more successful path in life.



Additionally, employees baked cookies for the students during the holidays and conducted a school supply drive.

NorthWest Indiana Bancorp

FINANCIAL HIGHLIGHTS

(Dollars in thousands, except for per share ratios and data)

	December 31, 2019	December 31, 2018
Earnings:		
Net revenue (a)	53,828	43,458
Noninterest expense	37,388	31,383
Pre-provision profit	16,440	12,075
Provision for loan losses	2,584	1,308
Net income	12,097	9,337
Earnings per common share data:		
Net income per share:		
Basic	3.53	3.17
Diluted	3.53	3.17
Cash dividends declared	1.23	1.19
Book value	\$38.85	\$33.50
Selected balance sheet data (period-end):		
Total assets	1,328,722	1,096,158
Loans	906,869	764,400
Deposits	1,154,370	929,766
Total stockholders' equity	134,103	101,464
Selected ratios:		
Return on Equity	9.54%	9.66%
Return on Assets	0.94%	0.93%
Common equity tier 1 capital to risk-weighted assets	11.8%	11.6%
Tier 1 capital to risk-weighted assets	11.8%	11.6%
Total capital to risk-weighted assets	12.7%	12.6%
Tier 1 capital to adjusted average assets	8.5%	8.6%

(a) Net revenue represents the Bancorp's net interest income, plus non-interest income.

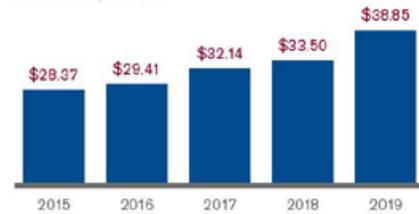
MARKET INFORMATION

The Bancorp's Common Stock is not listed on any national securities exchange, but rather is quoted in the over-the-market on the OTC Pink Marketplace, which is maintained by OTC Markets Group, Inc., and on the OTC Bulletin Board, which is maintained by the Financial Industry Regulatory Authority, Inc., under the symbol "NWIN." The Bancorp's stock is not actively traded. As of February 25, 2020, the Bancorp had 3,463,136 shares of common stock outstanding and 614 stockholders of record. This does not reflect the number of persons or entities who may hold their stock in nominee or "street" name through brokerage firms. Any over-the-counter market quotations reflect inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

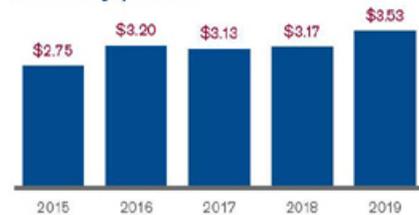
Year ended December 31, 2019	Per Share Prices		Dividends Declared Per Common Share
	High	Low	
1 st Quarter	\$ 44.40	\$ 40.25	\$ 0.30
2 nd Quarter	44.00	41.30	0.31
3 rd Quarter	45.40	43.55	0.31
4 th Quarter	46.00	44.45	0.31

Year ended December 31, 2018	Per Share Prices		Dividends Declared Per Common Share
	High	Low	
1 st Quarter	\$ 45.00	\$ 42.80	\$ 0.29
2 nd Quarter	44.55	42.75	0.30
3 rd Quarter	46.00	42.85	0.30
4 th Quarter	45.55	41.00	0.30

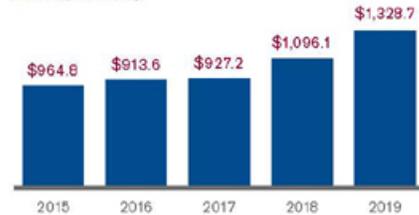
Book Value per Share



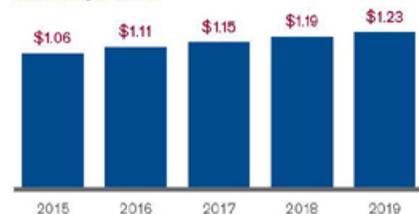
Basic Earnings per Share



Assets (in millions)



Dividends per Share



2019 Board of Directors

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

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

Edward J. Furticella, *Director since 2000*
Former Executive Vice President and CFO of the Bancorp,
Purdue University Northwest Professor Emeritus of Accounting,
Florida Gulf Coast University, Adjunct Instructor of Accounting

Joel Gorelick, *Director since 2000*
Former President and Chief Operating Officer of the Bancorp,
Charter Chairman Emeritus of the Lake County Economic
Alliance, Inc., and Director and Chairman of the Audit
Committee of the Indiana Economic Development Corporation

Kenneth V. Krupinski, *Director since 2003*
Retired Certified Public Accountant;
past President of Swartz Retson & Co., P.C.

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

Donald P. Fesko, O.D., FACHE, *Director since 2005*
President, Chief Executive Officer, Community Foundation
of Northwest Indiana

Amy W. Han, Ph.D., *Director since 2008*
Director for Clinical Affairs and Education of Indiana University
School of Medicine – Northwest

Danette Garza, J.D., CPA, *Director since 2013*
Attorney and Certified Public Accountant,
CEO of Jack Gray Logistics Network, Inc.

Benjamin J. Bochnowski, *Director since 2014*
President, Chief Executive Officer of the Bancorp
and Peoples Bank

Robert E. Johnson III, *Director since 2016*
President and Chief Executive Officer, Cimcor Inc.

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

Lourdes M. Dennison, *Director Emeritus*

Martin A. Dybel, *Director Emeritus*

Stanley E. Mize, *Director Emeritus*

Gloria C. Gray Weissman, *Director Emeritus*

Executive Team

David A. Bochnowski
Executive Chairman

Benjamin J. Bochnowski
President, Chief Executive Officer

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

Leane E. Cerven
Executive Vice President, General
Counsel and Corporate Secretary

Tarya A. Leetz
Executive Vice President, Chief
Information and Technology Officer

Todd M. Scheub
Executive Vice President,
Chief Banking Officer

2019 Board Committees

Compensation and Benefits

Donald P. Fesko, Amy Han
Chair James L. Wieser

Anthony M. Puntillo,
Vice-Chair

Executive Committee

David A. Bochnowski, Edward J. Furticella
Chair Amy Han

Joel Gorelick, Kenneth V. Krupinski
Vice-Chair Anthony M. Puntillo

Benjamin J. James L. Wieser
Bochnowski

Nominating and Corporate Governance

Kenneth V. Krupinski, Danette Garza
Chair Robert E. Johnson III

Amy Han, Anthony M. Puntillo
Vice-Chair James L. Wieser

Donald P. Fesko
Edward J. Furticella

Risk Management

Robert E. Johnson, Edward J. Furticella
Chair Kenneth V. Krupinski

Danette Garza, Anthony M. Puntillo
Vice-Chair

Strategic Planning

Anthony M. Puntillo, Joel Gorelick
Chair Robert E. Johnson III

Donald P. Fesko, Kenneth V. Krupinski
Vice-Chair James L. Wieser

Edward J. Furticella

Danette Garza

Wealth Management

Amy Han, Danette Garza
Chair Kenneth V. Krupinski

James L. Wieser,
Vice-Chair

Peoples Bank

(Subsidiary of NorthWest Indiana Bancorp)

CORPORATE HEADQUARTERS

9204 Columbia Avenue
Munster, IN 46321

ibankpeoples.com | 219-836-4400



Subsidiaries of the Bancorp

Name	Jurisdiction of Organization
Peoples Bank SB	Indiana
NWIN, LLC	Nevada
NWIN, Holdings	Nevada
NWIN, Investments, Inc.	Nevada
NWIN Funding	Maryland
Peoples Service Corporation	Indiana
Columbia Development, LLC	Indiana
AJS Insurance LLC (<i>in dissolution</i>)	Illinois
NWIN Risk Management, Inc.	Nevada

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement Nos. 333-115666 and 333-204548 on Forms S-8 and in Registration Statement No. 333-144699 on Form S-3 of NorthWest Indiana Bancorp of our reports dated March 13, 2020 on the consolidated financial statements and the effectiveness of internal control over financial reporting of NorthWest Indiana Bancorp, which reports are included in Form 10-K for NorthWest Indiana Bancorp for the year ended December 31, 2019.

/s/ Plante & Moran, PLLC

Plante & Moran, PLLC

Chicago, Illinois
March 13, 2020

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 annual report on Form 10-K of NorthWest Indiana Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2020

/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 annual report on Form 10-K of NorthWest Indiana Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2020

/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 Annual Report on Form 10-K of NorthWest Indiana Bancorp (the "Company") for the year ended December 31, 2019, 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.

Dated: March 16, 2020

/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 has been provided to and is being retained by NorthWest Indiana Bancorp and will be forwarded to the Securities and Exchange Commission or its staff upon request.