SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **December 31, 2002**

OR

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

For the transaction period from ________ to ________

Commission file number 0-26128

NorthWest Indiana Bancorp

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Include by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

Based on the average bid and ask prices for the registrant's Common Stock at June 28, 2002, 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 $43,939,001.

There were 2,741,329 shares of the registrant's Common Stock, without par value, outstanding at February 28, 2003.

DOCUMENTS INCORPORATED BY REFERENCE

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

1. 2002 Annual Report to Shareholders. (Part II)
2. Definitive Proxy Statement for the 2003 Annual Meeting of Shareholders. (Part III)

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PART I

Item 1. Business

General

NorthWest Indiana Bancorp, an Indiana corporation (the “Bancorp”), was incorporated on January 31, 1994, and is the holding company for Peoples Bank SB, an Indiana savings bank (the “Bank”). The Bank is a wholly owned subsidiary of the Bancorp. The Bancorp has no other business activity other than being the holding company for the Bank.

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 and commercial business loans, within its primary market area of Lake County, in northwest Indiana. In addition, the Bank’s trust department provides estate administration, estate planning, guardianships, land trusts, retirement planning, self-directed IRA and Keogh accounts, investment agency accounts, and serves as personal representative of estates and acts as trustee for revocable and irrevocable trusts.

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

The Bancorp maintains its corporate office at 9204 Columbia Avenue, Munster, Indiana, from which it oversees the operation of its eight 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, among other things, factors identified in this filing, including the following:

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

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

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

Exposure to Local Economic Conditions. The Bank's primary market area for deposits and loans encompasses Lake County, in northwest Indiana, where all of its offices are located. Ninety-five percent of the Bank's business activities are within this area. This concentration exposes the Bank to risks resulting from changes in the local economy. A dramatic drop in local real estate values would, for example, adversely affect the quality of the Bank's loan portfolio.

Interest Rate Risk. The Bancorp's earnings depend to a great extent upon the level of net interest income, which is the difference between interest income earned on loans and investments and the interest expense paid on deposits and other borrowings. Interest rate risk (IRR) is the risk that the earnings and capital will be adversely affected by changes in interest rates. While the Bancorp attempts to adjust its asset/liability mix in order to limit the magnitude of interest rate risk, IRR management is not an exact science. Rather, it involves estimates as to how changes in the general level of interest rates will impact the yields earned on assets and the rates paid on liabilities. Moreover, rate changes can vary depending upon the level of rates and competitive factors. From time to time, maturities of assets and liabilities are not balanced, and a rapid increase or decrease in interest rates could have an adverse effect on net interest margins and results of operations of the Bancorp. To moderate unfavorable operating results in periods of rising or high interest rates, the Bancorp restructures its asset-liability mix on an ongoing basis. Increasing the amount of interest-earning assets that are rate sensitive, extending the maturities of customer deposits, increasing the balances of checking/NOW accounts and utilizing cost effective borrowings are all part of management's commitment toward reducing the Bancorp's overall vulnerability to interest rate risk. While these steps may reduce the overall vulnerability to interest rate risk, the Bancorp will still be adversely affected by a rising or high interest rate environment, and is beneficially affected by a falling or low interest rate environment because rate sensitive liabilities exceed rate sensitive assets within a one year time period. Further discussion of interest rate risk can be found under the caption "Asset/Liability Management and Market Risk" in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the Bancorp's 2002 Annual Report to Shareholders.

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

Lending Activities

General. The Bancorp's product offerings include residential mortgage loans, construction loans, commercial real estate loans, consumer loans and commercial business loans. 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 aggressively.

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

Under Indiana Law, an Indiana stock savings bank generally may not make any loan to a borrower or its related entities if the total of all such loans by the savings bank exceeds 15% of its unimpaired capital and unimpaired surplus (plus up to an additional 10% of unimpaired capital and unimpaired surplus, in the case of loans fully collateralized by readily marketable collateral); provided, however, that certain specified types of loans are exempted from these limitations or subject to different limitations. The maximum amount that the Bank could have loaned to one borrower and the borrower's related entities at December 31, 2002, under the 15% of capital and surplus limitation was approximately $6,457,000. At December 31, 2002, the Bank had no loans that exceeded the regulatory limitations.

At December 31, 2002, 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).

	2002	2001	2000	1999	1998
Type of loan:					
Conventional real estate loans:					
Construction and development loans	$ 13,449	$ 12,652	$ 16,028	$ 14,847	$ 19,211
Loans on existing properties (1)	320,436	281,917	265,532	240,862	220,755
Consumer loans	6,283	9,889	10,715	10,449	10,187
Commercial business, other(2)	40,260	38,184	33,932	29,655	23,280
Loans receivable(3)	$380,428	$342,642	$326,207	$295,813	$273,433
Type of collateral:					
Real estate:					
1-to-4 family	$222,220	$190,432	$190,148	$175,963	$172,949
Other dwelling units, land and commercial real estate	111,655	104,138	91,412	79,746	67,018
Consumer loans	6,292	9,889	10,425	10,177	9,887
Commercial business, other(2)	38,728	37,220	32,545	27,374	21,433
Loans receivable(4)	$378,895	$341,679	$324,530	$293,260	$271,287
Average loans outstanding during the period(3)	$365,632	$325,911	$314,891	$286,580	$271,406

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

Loan Originations, Purchases and Sales. Set forth below is a table showing loan origination, purchase and sale activity for each of the last three years. The amounts are stated in thousands (000's).

	2002	2001	2000
Loans originated:			
Conventional real estate loans:			
Construction and development loans	$ 6,234	$ 7,821	$ 13,660
Loans on existing property	67,391	56,151	41,530
Loans refinanced	16,447	20,000	6,033
Total conventional real estate loans originated	90,072	83,972	61,223
Commercial business loans	89,186	83,384	92,338
Consumer loans	6,485	4,855	5,414
Total loans originated	$185,743	$172,211	$158,975
Loan participations purchased	$ 14,711	$ —	$ 5,354
Whole loans and participations sold	$ 10,464	$ 7,286	$ 1,361

Loan Maturity Schedule. The following table sets forth certain information at December 31, 2002 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 thousand's (000's).

	Maturing Within one year	After one but within five years	After five years	Total
Real estate loans	$45,527	$81,312	$207,037	$333,876
Consumer loans	2,291	3,797	204	6,292
Commercial business, other loans	26,778	9,557	3,925	40,260
Total loans receivable	$74,596	$94,666	$211,166	$380,428

The table below sets forth the dollar amount of all loans due after one year from December 31, 2002 which have predetermined interest rates or have floating or adjustable interest rates. The amounts are stated in thousands (000's).

	Predetermined rates	Floating or adjustable rates	Total
Real estate loans	$ 98,657	$ 189,692	$288,349
Consumer loans	—	4,001	4,001
Commercial business, other loans	7,052	6,430	13,482
Total	$ 105,709	$ 200,123	$305,832

Lending Area. The primary lending area of the Bancorp encompasses all of Lake County in northwest Indiana, where a majority of loan activity is concentrated. The Bancorp is also an active lender in Porter, and to a lesser extent, LaPorte, Newton and Jasper counties in Indiana. During the past 15 years, the communities of Munster, Highland, Crown Point, Dyer, St. John, Merrillville and Schererville have experienced rapid growth and, therefore, have provided the greatest lending opportunities. At December 31, 2002 the housing vacancy rate in the Bancorp's primary lending area was below 5%.

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

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

Designated officers have authorities, established by the Board of Directors, to approve loans. Loans from $600,000 to $1,200,000 are approved by the loan officers loan committee. Loans from $1,200,000 to $2,000,000 are approved by the senior officers loan committee. All loans in excess of $2,000,000, 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.) Peoples Bank will not extend credit to any of its executive officers, directors, or principal shareholders or to any related interest of that person, except in compliance with the insider lending restrictions of Regulation O under the Federal Reserve Act and in an amount that, when aggregated with all other extensions of credit to that person, exceeds $500,000 unless: (1) the extension of credit has been approved in advance by a majority of the entire Board of Directors of the Bank, and (2) the interested party has abstained from participating directly or indirectly in the voting.

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

The Current Lending Programs

Residential Mortgage Loans. The primary lending activity of the Bancorp has been the granting of conventional mortgage loans to enable borrowers to purchase existing homes, refinance existing homes, or construct new homes. Conventional loans are made up to a maximum of 100% 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 100% of value. During 2002 over 90% of mortgage loans closed were conventional loans with borrowers having 20% or more equity in the property. This type of loan does not require private mortgage insurance because of the borrower's level of equity investment.

Fixed-rate loans currently 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 exceeding fifteen years 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 30-year loan offering. 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 three, five or seven year period. ARM originations totaled $25.5 million for 2002, $25.1 million for 2001, and $29.6 million for 2000. During 2002, ARMs represented 32% of total mortgage loan originations. The ability of the Bancorp to successfully market ARM's depends upon loan demand, prevailing interest rates, volatility of interest rates, public acceptance of such loans, and terms offered by competitors.

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

Loans are also made for the construction of commercial properties. All such loans are made in accordance with well-defined underwriting standards. Generally, these types of loans require proof of intents to lease and a confirmed end-loan takeout. In most cases, these loans are personally guaranteed by the borrower. In general, loans made do not exceed 75% of the appraised value of the property. Commercial construction loans are typically made for periods 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 75% of the appraised value. Such loans are generally made on an adjustable rate basis. These loans are typically made for terms of 15 to 20 years. Loans with an amortizing term exceeding 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, commercial/industrial properties, and other retail and commercial developments.

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

Loans for the construction of commercial 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.

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

Home Equity Line of Credit. The Bancorp offers a revolving line of credit secured by the equity in the borrower's home. The offering, which is tied to the prime rate of interest, requires borrowers to repay 1.5% of their outstanding balance each month. Equity lines will typically require a second mortgage appraisal and a second mortgage lenders title insurance policy. Loans are generally made up to a maximum of 80% of the appraised value of the property less any outstanding liens.

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

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

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

Loans are reviewed on a regular basis and are generally placed on a non-accrual status when, in the opinion of management, serious doubt exists as to the collectibility of a loan. Loans are generally placed on non-accrual status when either principal or interest is 90 days or more past due. Consumer 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 collectibility of the loan.

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

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

	2002	2001	2000	1999	1998
Loans accounted for on a non-accrual basis:					
Real estate:					
Residential	$ 430	$ 944	$ 854	$ 565	$ 636
Commercial	1,197	—	20	—	131
Commercial business	363	1,460	527	—	69
Consumer	13	86	55	—	18
Total	$2,003	$2,490	$1,456	$ 565	$ 854
Accruing loans which are contractually past due 90 days or more:					
Real estate:					
Residential	$ 277	$ 412	$ 303	$ 235	$ 429
Commercial	105	—	41	3	—
Commercial business	—	—	10	—	188
Consumer	—	3	—	—	—
Total	$ 382	$ 415	$ 354	$ 238	$ 617
Total of non-accrual and 90 days past due	$2,385	$2,905	$1,810	$ 803	$1,471
Ratio of non-performing loans to total assets	0.49%	0.66%	0.46%	0.22%	0.43%
Ratio of non-performing loans to total loans	0.63%	0.85%	0.55%	0.27%	0.54%
Foreclosed real estate	$ 127	$ 111	$ 100	$ —	$ 32
Ratio of foreclosed real estate to total assets	0.03%	0.03%	0.03%	0.01%	0.01%

During 2002, gross interest income of $267,000 would have been recorded on loans accounted for on a non-accrual basis if the loans had been current throughout the period. Interest on such loans included in income during the period amounted to $44,000.

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, Tier 1 risk-based capital requirements, or in capital under accounting principles generally accepted in the United States of America. Amounts reserved for by a specific allowance are not counted toward capital for purposes of any of the regulatory capital requirements. At December 31, 2002, $2.8 million of the Bancorp's loans were classified as substandard. The total represents 27 loans. Substandard loans include non-performing loans and potential problem loans, where information about possible credit problems causes management to question the ability of such borrowers to comply with loan repayment terms. No loans were classified as doubtful or loss.

The balances for non-performing and substandard loans consists mostly of two loans totaling $1.0 million to a commercial customer which have been classified as impaired. At December 31, 2002, the Bancorp had five loans, including the aforementioned impaired loans, to three borrowers totaling $1.3 million, as impaired. Impaired loans are loans where full payment under the loan terms is not expected. There were no other loans considered to be impaired loans as of, or for the twelve months ended December 31, 2002. In addition, the Bancorp has two performing loans totaling $769 thousand to one commercial customer that have been classified as substandard due to current cash flow difficulties.

At December 31, 2002, management of the Bancorp is of the opinion that there are no loans, except those discussed above, where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as nonaccrual, past due or restructured loans. Also, at December 31, 2002, there are no other interest bearing assets that would be required to be disclosed as nonaccrual, past due, restructured or potential problem if such assets were loans. Management does not anticipate that any of the non-performing loans or classified loans would materially impact future operations, liquidity or capital resources.

The allowance for loan losses ("ALL") is a valuation allowance for probable incurred credit losses. Because estimating the risk of loss and the amount of loss on any loan is necessarily subjective, the ALL is maintained by management at a level considered adequate to cover probable incurred losses based on loan portfolio growth, past loss experience, general economic conditions, information about specific borrower situations including their financial position and collateral values, and other factors and estimates which are subject to change over time. Although management believes that it uses the best information available to make such estimations, future adjustments to the ALL may be necessary, and net income could be significantly affected, if circumstances differ substantially from the assumptions used in making the estimations. While management may periodically allocate portions of the allowance for specific problem loans, the whole allowance is available for any loan charge-offs that occur. A loan is charged-off against the allowance when management believes the uncollectibility of the loan balance is confirmed. The allocation of the ALL reflects consideration of the facts and circumstances that affect the repayment of individual loans, as well as, loans which have been pooled as of the evaluation date, with particular attention given to loans which have been classified as substandard, doubtful or loss. Management has allocated general reserves to all non-performing loans based on current information available.

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

	2002	2001	2000	1999	1998
Balance at beginning of period	$3,156	$3,322	$3,309	$3,132	$3,074
Loans charged-off:					
Real estate — residential	—	—	—	(16)	(38)
Commercial business	(300)	(612)	(168)	—	(20)
Consumer	(36)	(13)	(2)	(17)	(10)
Total charge-offs	(336)	(625)	(170)	(33)	(68)
Recoveries:					
Commercial business	91	228	5	10	9
Consumer	4	1	3	—	7
Total recoveries	95	229	8	10	16
Net (charge-offs)/recoveries	(241)	(396)	(162)	(23)	(52)
Provision for loan losses	720	230	175	200	110
Balance at end of period	$3,635	$3,156	$3,322	$3,309	$3,132
ALL to loans outstanding	0.96%	0.92%	1.02%	1.12%	1.14%
ALL to nonperforming loans	152.4%	108.6%	183.5%	412.1%	212.9%
Net charge-offs/recoveries to average loans out- standing during the period	0.07%	0.12%	0.05%	0.01%	0.02%

The provision 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 collectibility as of the reporting date. The appropriateness of the current year provision and the overall adequacy of the ALL were determined through a disciplined and consistently applied annual process that combines a review of the current position with a risk assessment worksheet. While the quality of the loan portfolio remains sound, provisions during the current year were warranted because of the current balance in classified loans, increased average daily loan balances, apparent weaknesses in the local economy, the inherent risk associated with growth in commercial real estate and commercial business loans, and loan charge-offs.

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.

	2002		2001		2000		1999		1998	
	$	%	$	%	$	%	$	%	$	%
Real estate loans:										
Residential	450	58.0	300	54.7	472	58.3	577	59.5	570	63.8
Commercial and other dwelling	1,750	25.8	350	26.7	1,100	28.0	1,106	27.0	953	24.0
Consumer loans	120	5.6	124	7.4	150	3.3	200	3.5	196	3.7
Commercial business and other	1,315	10.6	2,382	11.1	1,600	10.4	932	10.0	630	8.5
Unallocated	—	—	—	—	—	—	494	—	783	—
Total	3,635	100.0	3,156	100.0	3,322	100.0	3,309	100.0	3,132	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 are classified as either held-to-maturity (HTM) or available-for-sale (AFS) at the time of purchase. No securities are classified as trading. At December 31, 2002, AFS securities totaled $56.0 million or 99.0% of total securities. AFS securities are those the Bancorp may decide to sell if needed for liquidity, asset-liability management or other reasons. During 2002, the Bancorp did not have derivative instruments and was not involved in hedging activities as defined by SFAS No. 133. It has been the policy of the Bancorp to invest its excess cash in U.S. government securities and federal agency obligations. In addition, short-term funds are generally invested as interest-bearing balances in financial institutions and federal funds. At December 31, 2002, the Bancorp's investment portfolio totaled $56.6 million. In addition, the Bancorp had $15.6 million in interest bearing balances in financial institutions, $1.5 million in federal funds sold, and $2.7 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).

	2002	2001	2000
U.S. government securities:			
Available-for-sale	$ 511	$ 1,028	$ 2,520
U.S. government agencies:			
Available-for-sale	39,579	45,604	17,983
Held-to-maturity	—	2,500	14,737
Mortgage-backed securities (1):			
Available-for-sale	5,746	8,186	—
Held-to-maturity	569	799	912
Collateralized Mortgage Obligations(1):			
Available-for-sale	9,629	9,144	—
Municipal Securities:			
Available-for-sale	537	—	—
Totals	$56,571	$67,261	$36,152

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

The contractual maturities and weighted average yields for the U.S. government securities, agency securities, municipal securities, mortgaged-backed securities and collateralized mortgage obligations at December 31, 2002, are summarized as follows. The carrying values are stated in thousands (000's).

	Within 1 Year		1-5 Years		5-10 Years		After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. government Securities:								
AFS	$ 511	4.28%	$ —	—%	$ —	—%	$ —	—%
U.S. government Agencies:								
AFS	8,616	4.63	30,963	4.47	—	—	—	—
HTM	—	—	—	—	—	—	—	—
Municipal Securities:								
AFS	—	—	537	4.40	—	—	—	—
Mortgaged-backed Securities:								
AFS	—	—	2,354	3.02	3,392	3.59	—	—
HTM	—	—	—	—	—	—	569	6.52
Collateralized Mortgage Obligations:								
AFS	—	—	—	—	—	—	9,629	4.01
Totals	$9,127	4.61%	$33,854	4.37%	$3,392	3.59%	$10,198	4.15%

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, 2002, the Bancorp had $12.6 million in repurchase agreements. Other borrowings totaled $23.4 million, of which $21.5 million represents FHLB advances.

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

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

	2002		2001		2000	
	Amount	Rate %	Amount	Rate %	Amount	Rate %
Demand deposits	$ 33,549	—	$ 27,353	—	$ 25,577	—
NOW accounts	44,061	1.39	38,493	1.69	30,691	1.15
MMDA accounts	52,818	1.83	46,112	3.10	44,515	3.61
Savings accounts	58,845	1.57	47,283	1.88	46,441	2.09
Certificates of deposit	194,063	3.12	181,702	4.83	167,260	5.45
Total deposits	$383,336	2.23	$340,943	3.45	$314,463	3.83

Maturities of time certificates of deposit and other time deposits of $100,000 or more at December 31, 2002 are summarized as follows. The amounts are stated in thousands (000's).

3 months or less	$29,920
Over 3 months through 6 months	14,221
Over 6 months through 12 months	16,209
Over 12 months	4,050
Total	$64,400

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 eight years are used to fund securities and loans of comparable duration, as well as, to reduce the impact that movements in short-term interest rates have on the Bancorp's overall cost of funds. Fixed rate advances are payable at maturity, with a prepayment penalty. Putable advances are fixed for a period of one to three years and then may adjust annual to the three-month London Interbank Offered Rate (LIBOR) until maturity. Once the putable advance interest rate adjusts, the Bancorp has the option to prepay the advance on specified annual interest rate reset dates without prepayment penalty.

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

	2002	2001	2000
Repurchase agreements	$12,631	$15,623	$11,918
Fixed rate advances from the FHLB	12,000	5,500	2,500
Putable advances from the FHLB	9,500	11,500	9,000
FHLB line-of-credit	—	10,697	5,010
Limited partnership obligation	307	365	443
Other borrowings	1,627	1,304	1,728
Total borrowings	$36,065	$44,989	$30,599

The limited partnership obligation represents an investment interest in a partnership formed for the construction, ownership and management of affordable housing projects. The original amount of the note was $500,000. Funding began during 2000 and will continue over a nine year period. Payments are required within ten days of written demand. The obligation to make payment is absolute and unconditional. The note requires no payment of interest.

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

	At December 31,		
	2002	2001	2000
Balance	$12,631	$15,623	$11,918
Securities underlying the agreements:			
Ending carrying amount	19,333	18,934	14,224
Ending fair value	19,333	18,955	14,220
Weighted average rate paid (1)	2.57%	2.86%	6.29%

	For year ended December 31,		
	2002	2001	2000
Highest month-end balance	$20,320	$16,602	$13,650
Approximate average outstanding balance	15,302	15,003	7,622
Approximate weighted average rate paid on securities sold under agreements to repurchase (2)	2.53%	4.23%	5.97%

(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.

Trust Powers

The activities of the Trust Department include the management of self-directed investments, IRA and Keogh plans, investment agency accounts, land trusts, serving as court-appointed executor of estates and as guardian or conservator of estates, and trustee with discretionary investment authority for revocable and irrevocable trusts. At December 31, 2002, the market value of the trust department's assets totaled $105.0 million.

Analysis of Profitability and Key Operating Ratios

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

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

The following table presents the weighted average yields on loans and investment securities, the weighted average cost of interest-bearing deposits and other borrowings, and the interest rate spread at December 31, 2002.

Weighted average yield:	
Securities	4.32%
Loans receivable	6.33
Loans held for sale	5.95
Federal Home Loan Bank stock	5.75
Total interest-earning assets	5.89
Weighted average cost:	
Deposit accounts	1.80
Borrowed funds	3.60
Total interest-bearing liabilities	1.95
Interest rate spread:	
Weighted average yield on interest-earning assets minus the weighted average cost of interest-bearing funds	3.94

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,		
	2002	2001	2000
Return on average assets	1.18%	1.15%	1.17%
Return on average equity	14.58	13.49	13.30
Average equity-to-average assets ratio	8.06	8.49	8.76
Dividend payout ratio	55.83	60.16	59.61

	At December 31,		
	2002	2001	2000
Total stockholders' equity to total assets	8.02%	8.14%	8.55%

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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, 2002			Year ended December 31, 2001			Year ended December 31, 2000		
	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	$ 13,441	$ 193	1.44%	$ 14,635	$ 565	3.86%	$ 2,263	$ 150	6.63%
Federal funds sold	716	11	1.54	308	13	4.22	8	1	6.25
Securities	63,697	2,986	4.69	48,826	2,687	5.50	39,044	2,374	6.08
Total investments	77,854	3,190	4.10	63,769	3,265	5.12	41,315	2,525	6.11
Loans:*									
Real estate mortgage loans	318,264	21,807	6.85	282,631	21,883	7.74	271,602	21,610	7.96
Commercial business loans	39,621	2,238	5.65	32,903	2,463	7.49	32,472	2,995	9.22
Consumer loans	7,747	546	7.05	10,377	814	7.84	10,817	947	8.75
Total loans	365,632	24,591	6.73	325,911	25,160	7.72	314,891	25,552	8.11
Total interest-earning assets	443,486	27,781	6.26	389,680	28,425	7.29	356,206	28,077	7.88
Allowance for loan losses	(3,321)			(3,019)			(3,306)		
Cash and due from banks	12,993			11,229			10,203		
Premises and equipment	8,527			8,095			6,969		
Other assets	5,724			5,048			5,079		
Total assets	$ 467,409			$ 411,033			$ 375,151		
Liabilities:									
Demand deposit	$ 33,549	—	0.00%	$ 27,353	—	0.00%	$ 25,556	—	0.00%
NOW accounts	44,061	613	1.39	38,492	651	1.69	30,691	354	1.15
Money market demand accounts	52,818	967	1.83	46,112	1,429	3.10	44,515	1,609	3.61
Savings accounts	58,845	922	1.57	47,283	889	1.88	46,441	971	2.09
Certificates of deposit	194,063	6,055	3.12	181,702	8,779	4.83	167,260	9,116	5.45
Total interest-bearing deposits	383,336	8,557	2.23	340,942	11,748	3.45	314,463	12,050	3.83
Borrowed funds	41,826	1,550	3.71	31,243	1,474	4.72	24,084	1,336	5.55
Total interest-bearing liabilities	425,162	10,107	2.38	372,185	13,222	3.55	338,547	13,386	3.95
Other liabilities	4,565			3,931			3,749		
Total liabilities	429,727			376,116			342,296		
Stockholders' equity	37,682			34,917			32,855		
Total liabilities and stockholders' equity	$ 467,409			$ 411,033			$ 375,151		
Net interest income		$ 17,674			$ 15,203			$ 14,691	
Net interest spread			3.88%			3.74%			3.93%
Net interest margin**			3.99%			3.90%			4.12%

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

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

Rate/Volume Analysis

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

	Year Ended December 31,			Year Ended December 31,			Year Ended December 31,		
	2002	vs.	2001	2001	vs.	2000	2000	vs.	1999
	Increase/(Decrease) Due To			Increase/(Decrease) Due To			Increase/(Decrease) Due To		
	Volume	Rate	Total	Volume	Rate	Total	Volume	Rate	Total
Interest income:									
Loans receivable	$2,874	$(3,443)	$ (569)	$ 876	$ (1,268)	$ (392)	$ 2,285	$ 616	$ 2,901
Securities	737	(438)	299	554	(241)	313	(27)	43	16
Other interest-earning assets	(29)	(345)	(374)	515	(88)	427	(531)	84	(447)
Total interest-earning assets	3,582	(4,226)	(644)	1,945	(1,597)	348	1,727	743	2,470
Interest Expense:									
Deposits	1,327	(4,518)	(3,191)	968	(1,270)	(302)	502	1,190	1,692
Federal Home Loan Bank Advances and other borrowings	434	(358)	76	358	(220)	138	329	84	413
Total interest-bearing liabilities	1,761	(4,876)	(3,115)	1,326	(1,490)	(164)	831	1,274	2,105
Net change in net interest income/(expense)	$1,821	$ 650	$ 2,471	$ 619	$ (107)	$ 512	$ 896	$ (531)	$ 365

Bank Subsidiary Activities

The Bank's wholly owned subsidiary Peoples Service Corporation, which is incorporated under the laws of the State of Indiana, was inactive until 2002. The subsidiary currently provides insurance and annuity investments to the Bank's trust customers. At December 31, 2002, the Bank had an investment balance of $15,187 in Peoples Service Corporation.

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

Competition

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

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

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

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

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

Personnel

As of December 31, 2002, the Bank had 111 full-time and 30 part-time employees. The employees are not represented by a collective bargaining agreement. Management believes its employee relations are good. The Bancorp has four officers (listed below under “Executive Officers of the Bancorp”), but has no other employees. The Bancorp’s officers also are full-time employees of the Bank, and are compensated by the Bank.

Regulation and Supervision

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

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

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

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

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

Under FDICIA, insured state chartered banks are prohibited from engaging as principal in activities that are not permitted for national banks, unless: (i) the FDIC determines that the activity would pose no significant risk to the appropriate deposit insurance fund, and (ii) the bank is, and continues to be, in compliance with all applicable capital standards. The Board of Directors does not believe that these restrictions will have a material adverse effect on the Bank.

Branches and Affiliates. The establishment of branches by the Bancorp is subject to approval of the DFI and FDIC and geographic limits established by state laws. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Riegle-Neal Act") facilitates the interstate expansion and consolidation of banking organizations by permitting, among other things,(i) bank holding companies that are adequately capitalized and managed to acquire banks located in states outside their home state regardless of whether such acquisitions are authorized under the law of the host state, (ii) the interstate merger of banks, subject to the right of individual states to "opt out" of this authority, and (iii) banks to establish new branches on an interstate basis provided that such action is specifically authorized by the law of the host state. The effect of this law may be to increase competition in the Bancorp's market area, although the extent and timing of this increase cannot be predicted.

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

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

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

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

The following table shows that, at December 31, 2002, the Bancorp's capital exceeded all regulatory capital requirements. At December 31, 2002, the Bancorp's and the Bank's regulatory capital ratios were substantially the same. At December 31, 2002, the Bancorp and the Bank were categorized as well capitalized. The dollar amounts are stated in millions.

	Actual		Required for adequate capital		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets	$41.8	13.1%	$25.6	8.0%	$32.0	10.0%
Tier 1 capital to risk-weighted assets	$38.1	11.9%	$12.8	4.0%	$19.2	6.0%
Tier 1 capital to adjusted average assets	$38.1	7.6%	$15.0	3.0%	$25.0	5.0%

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

Dividend Limitations. The Bancorp is a legal entity separate and distinct from the Bank. The primary source of the Bancorp's cash flow, including cash flow to pay dividends on the Bancorp's Common Stock, is the payment of dividends to the Bancorp by the Bank. Under Indiana law, the Bank may pay dividends of so much of its undivided profits (generally, earnings less losses, bad debts, taxes and other operating expenses) as is considered expedient by the Bank's Board of Directors. However, the Bank must obtain the approval of the DFI for the payment of a dividend if the total of all dividends declared by the Bank during the current year, including the proposed dividend, would exceed the sum of retained net income for the year to date plus its retained net income for the previous two years. For this purpose, "retained net income" means net income as calculated for call report purposes, less all dividends declared for the applicable period. Also, the FDIC has the authority to prohibit the Bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice in light of the financial condition of the Bank. The aggregate amount of dividends that may be declared by the Bank in 2003, without prior regulatory approval, approximates $4,953,000 plus current 2003 net profits. 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.

Federal Deposit Insurance. The FDIC is an independent federal agency that insures the deposits, up to prescribed statutory limits, of federally insured banks and savings associations and safeguards the safety and soundness of the banking and savings industries. The FDIC administers two separate insurance funds, the Bank Insurance Fund ("BIF"), which generally insures commercial bank and state savings bank deposits, and the SAIF, which generally insures savings association deposits. The Bank is a member of the SAIF and its deposit accounts are insured by the FDIC, up to prescribed limits.

The FDIC is authorized to establish separate annual deposit insurance assessment rates for members of the BIF and the SAIF, and to increase assessment rates if it determines such increases are appropriate to maintain the reserves of either insurance fund. In addition, the FDIC is authorized to levy emergency special assessments on BIF and SAIF members. The FDIC's deposit insurance premiums are assessed through a risk-based system under which all insured depository institutions are placed into one of nine categories and assessed insurance premiums based upon their level of capital and supervisory evaluation. Because the Bank is categorized as well capitalized no FDIC deposit insurance assessment was required during 2002.

In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, an agency of the Federal government established to recapitalize the predecessor to the SAIF. The assessment rate for 2002 was approximately 0.018% of insured deposits. These assessments will continue until the Financing Corporation bonds mature in 2017.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank of Indianapolis, which is one of 12 regional Federal Home Loan Banks. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from funds deposited by member institutions and proceeds from the sale of consolidated obligations of the Federal Home Loan Bank system. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of trustees of the Federal Home Loan Bank. As a member, the Bank is required to purchase and maintain stock in the Federal Home Loan Bank of Indianapolis in an amount equal to the greater of 1% of its aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year or 5% of our outstanding advance from the Federal Home Loan Bank. At December 31, 2002, the Bank was in compliance with this requirement.

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. The Gramm-Leach-Bliley Act ("Gramm-Leach") was signed into law on November 12, 1999 and enabled combinations among banks, securities firms and insurance companies beginning March 12, 2000. Under 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.

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. Gramm-Leach also provides protections against the transfer and use by financial institutions of consumers' nonpublic, personal information.

Gramm-Leach does not significantly alter the regulatory regime under which the Bancorp and the Bank currently operate, as described above. The Bancorp has no current intention to elect to become a financial holding company under Gramm-Leach.

Various other legislation, including proposals to substantially change the financial institution regulatory system and 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

Historically, savings institutions, such as the Bank, had been permitted to compute bad debt deductions using either the bank experience method or the percentage of taxable income method. However, In August, 1996, legislation was enacted that repealed the reserve method of accounting for federal income tax purposes. As a result, the Bank must recapture that portion of the reserve that exceeds the amount that could have been taken under the experience method for post-1987 tax years. The recapture is occurring over a six-year period, the commencement of which began with the Bank's taxable year ending December 31, 1998, since the Bank met certain residential lending requirements. In addition, the pre-1988 reserve, for which no deferred taxes have been recorded, will not have to be recaptured into income unless (i)the Bank no longer qualifies as a bank under the Code, or (ii) excess dividends or distributions are paid out by the Bank. The total amount of bad debt to be recaptured is approximately $2.5 million.

Depending on the composition of its items of income and expense, a savings bank may be subject to the alternative minimum tax. A savings bank must pay an alternative minimum tax equal to the amount (if any) by which 20% of alternative minimum taxable income ("AMTI"), as reduced by an exemption varying with AMTI, exceeds the regular tax due. AMTI equals regular taxable income increased or decreased by certain tax preferences and adjustments, including depreciation deductions in excess of that allowable for alternative minimum tax purposes, tax-exempt interest on most private activity bonds issued after August 7, 1986 (reduced by any related interest expense disallowed for regular tax purposes), the amount of the bad debt reserve deduction claimed in excess of the deduction based on the experience method and 75% of the excess of adjusted current earnings over AMTI (before any alternative tax net operating loss). AMTI may be reduced only up to 90% by net operating loss carryovers, but alternative minimum tax paid can be credited against regular tax due in later years.

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. The federal income tax returns filed by the Bank have not been subject to an IRS examination in the last five years.

State Taxation

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

The Bank's state income tax returns have not been subject to an examination by a taxing authority in the last five years.

Accounting for Income Taxes

At December 31, 2002, the Bancorp's consolidated total deferred tax assets were $2.236 million and the consolidated total deferred tax liabilities were $1.143 million, resulting in a consolidated net deferred tax asset of $1.093 million. Management believes it is probable that the benefit of the deferred tax asset will be realized after considering the historical and anticipated future levels of pretax earnings.

Item 2. Properties

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

The table below sets forth additional information with respect to the Bank's offices as of December 31, 2002. Net book value and total investment figures are for land, buildings, furniture and fixtures.

Office location	Year facility opened	Net book value	Approximate square footage	Total cost
9204 Columbia Avenue				
Munster, In 46321	1985	$ 999,530	11,640	$2,652,642
141 W. Lincoln Highway				
Schererville, In 46375	1990	1,524,967	9,444	2,975,065
7120 Indianapolis Blvd				
Hammond, In 46324	1978	207,343	2,600	728,912
1300 Sheffield				
Dyer, In 46311	1976	249,031	2,100	725,100
7915 Taft				
Merrillville, In 46410	1968	101,160	2,750	566,072
8600 Broadway				
Merrillville, In 46410	1996	1,724,312	4,400	2,636,933
4901 Indianapolis Blvd				
East Chicago, In 46312	1995	931,663	4,300	1,426,371
1501 Lake Park Ave				
Hobart, In 46342	2000	2,218,941	6,992	2,528,524

During 2002, work began on the construction of a $5.3 million, state-of-the-art corporate center in Munster, Indiana. Completion is scheduled in the Fall of 2003. The corporate center will afford the Bancorp the opportunity to continue offering superior customer service, and to provide for future growth and operating efficiencies.

The Bank's primary recordkeeping is accomplished through the use of microcomputer networks linked via data lines to the Metavante Corporation located in Brown Deer, Wisconsin. Metavante provides real time services for mortgage and installment loans, savings, certificates, checking accounts and general ledger transactions. In addition to the Metavante System, the Bank utilizes a microcomputer network for the trust department operations.

The net book value of the Bank's property, premises and equipment totaled $9.5 million at December 31, 2002.

Item 3. Legal Proceedings

The Bancorp is not engaged in any legal proceedings of a material nature at the present time. From time to time, the Bank is a party to legal proceedings incident to its business, including foreclosures.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of 2002.

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 2003 Annual Meeting of Shareholders:

The executive officers of the Bancorp are as follows:

	Age at December 31, 2002	Position
David A. Bochnowski	57	Chairman and Chief Executive Officer
Joel Gorelick	55	Executive Vice President and Chief Lending Officer
Edward J. Furticella	55	Executive Vice President, Chief Financial Officer and Treasurer
Jon E. DeGuilio	47	Executive Vice President and Secretary

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

David A. Bochnowski is Chairman and Chief Executive Officer of the Bancorp and the Bank. He has been the Chief Executive Officer since 1981 and became the Chairman in 1995. He has been a director since 1977 and was the Bank's legal counsel from 1977 to 1981. Mr. Bochnowski is a past Chairman of America's Community Bankers (ACB), a national trade association for community banks. He is a trustee of the Munster Community Hospital, and a Commissioner of the Chicago-Gary Airport Authority. He serves as Chairman of the Indiana Department of Financial Institutions. He is a former chairman of the Indiana League of Savings Institutions, now known as the Indiana Bankers Association, a former director of the Federal Home Loan Bank of Indianapolis and a former member of the Federal Reserve Thrift Institutions Advisory Committee. Before joining the Bank, Mr. Bochnowski was an attorney, self-employed in private practice. He holds a Juris Doctorate degree from Georgetown University and a Masters Degree from Howard University.

Joel Gorelick is Executive Vice President of the Bancorp and Executive Vice President and Chief Lending Officer for the Bank. He is responsible for overseeing new business development and all loan functions of the Bank. Mr. Gorelick has been with the Bank since 1983. He became a director in 2000. Mr. Gorelick is involved in many community service organizations and has served as president of the Northwest Indiana Boys & Girls Club, chairman of the board of the Northwest Indiana Regional Development Corporation and President of the Lake Central High School Athletics Booster Club. Mr. Gorelick received recognition as the Small Business Advocate for 1999 at the Northwest Indiana Entrepreneurial Excellence awards program and was named the 2000 board member of the year by the National Association For Development Companies. Mr. Gorelick was named the year 2000 Financial Services Advocate by the Indiana District Office of the U. S. Small Business Administration. Mr. Gorelick has been appointed as a board member for the United States Selected Service System. He holds a Masters of Business Administration Degree from Indiana University and is a graduate of the Graduate School of Banking at the University of Wisconsin at Madison.

Edward J. Furticella is Executive Vice President, Chief Financial Officer and Treasurer of the Bancorp and the Bank. He is responsible for managing the Bank’s investment portfolio and daily liquidity, as well as, overseeing the activities of accounting, systems processing and branch operations. Mr. Furticella has been with the Bank since 1981. He became a director in 2000. Mr. Furticella holds a Masters of Education, Masters of Business Administration and a Masters of Science in Accountancy from DePaul University. Mr. Furticella is a Certified Public Accountant (CPA) and a Certified Cash Manager (CCM). He is also a part-time finance instructor and member of the School of Management’s Advisory Group at Purdue University Calumet, a member of the Management Advisory Committee at Calumet College of St. Joseph, and a member of the Customer Advisory Group for the Federal Reserve Bank of Chicago.

Jon E. DeGuilio is Executive Vice President and Secretary for the Bancorp and Executive Vice President, General Counsel, Trust Officer and Corporate Secretary for the Bank. Mr. DeGuilio assumed his current responsibilities with the bank and Bancorp during 2001. He joined the Bank in December of 1999 as Senior Vice President and Trust Officer. He holds a Juris Doctorate degree from the Valparaiso University School of Law and a Bachelor of Arts degree from the University of Notre Dame. Prior to his employment with the Bancorp, Mr. DeGuilio was a partner with the law firm of Barnes and Thornburg and served as the United States Attorney for the Northern District of Indiana from November of 1993 until June of 1999. Mr. DeGuilio is actively involved in community service as the Athletic Director for Our Lady of Grace School and a Court Appointed Special Advocate (CASA) for the Lake County Juvenile Court.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

The information contained under the captions "Business" and "Market Information" in the 2002 Annual Report to Shareholders is incorporated herein by reference. Also see Item 12 of this Annual Report on Form 10-K.

Item 6. Selected Financial Data

The information contained in the table captioned "Selected Consolidated Financial Data" in the 2002 Annual Report to Shareholders is incorporated herein by reference.

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

The information contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2002 Annual Report to Shareholders is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information contained in the section captioned "Asset/Liability Management and Market Risk" in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the 2002 Annual Report to Shareholders is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The financial statements contained in the 2002 Annual Report to Shareholders, which are listed under Item 15 herein, are incorporated herein by reference.

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

There are no items reportable under this caption.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information contained under the section captioned "Election of Directors" and under the section captioned "Security Ownership by Certain Beneficial Owners and Management -– Section 16(a) Beneficial Ownership Reporting Compliance" in the Bancorp's definitive Proxy Statement for the 2003 Annual Meeting of Shareholders is incorporated herein by reference. Information regarding the Bancorp's executive officers is included under the unnumbered item captioned "Executive Officers of the Bancorp" at the end of Part I hereof and is incorporated herein by reference, in accordance with General Instruction G(3) to Form 10-K and Instruction 3 to Item 401(b) of Regulation S-K.

Item 11. Executive Compensation

The information contained under the section captioned "Compensation of and Transactions with Officers and Directors" in the Bancorp's definitive Proxy Statement for its 2003 Annual Meeting of Shareholders is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information under the section captioned "Compensation of and Transactions with Officers and Directors -– Equity Compensation Plan Information" and under the section captioned "Security Ownership by Certain Beneficial Owners and Management" in the Bancorp's definitive Proxy Statement for the 2003 Annual Meeting of Shareholders is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information contained under the section captioned "Compensation of and Transactions with Officers and Directors" in the Bancorp's definitive Proxy Statement for its 2003 Annual Meeting of Shareholders, is incorporated herein by reference.

Item 14. Controls and Procedures

(a) Based on an evaluation of the Bancorp's disclosure controls and procedures (as defined in §§ 240.13a-14(c) and 240.15b-14(c)) as of February 12, 2003, the Bancorp's principal executive officer and principal financial officer have concluded that such disclosure controls and procedures were effective as of that date.

(b) There have been no significant changes in the Bancorp's internal controls and other factors that could significantly affect these controls subsequent to February 12, 2003, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a)(1) Financial Statements:

The following financial statements of the Bancorp are incorporated herein by reference to the 2002 Annual Report to Shareholders, filed as Exhibit 13 to this report:

(a) Report of Independent Auditors

(b) Consolidated Balance Sheets, December 31, 2002 and 2001

(c) Consolidated Statements of Income for the years ended December 31, 2002, 2001 and 2000

(d) Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2002, 2001 and 2000

(e) Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000

(f) Notes to Consolidated Financial Statements

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

(3) Exhibits:

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

Exhibit Number	Description
3.iv	Amendment of By-Laws adopted January 21, 1999(incorporated herein by reference to Exhibit 3.iv. to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 1998).
10.1.	1994 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit A to the Bancorp's Definitive Proxy Statement/Prospectus dated March 23, 1994, as filed pursuant to Rule 424(b) under the 1933 Act on March 28, 1994).
10.2.	Employment Agreement, dated March 1, 1988, between Peoples Bank and David A. Bochnowski (incorporated herein by reference to Exhibit 10.2 to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 1994).
10.3.	Amendment, dated January 18, 1993, to the Employment Agreement referred to in Exhibit 10.2 above (incorporated herein by reference to Exhibit 10.3 to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 1994).
10.4.	Employee Stock Ownership Plan of Peoples Bank(incorporated herein by reference to Exhibit 10.4 to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 1994).
10.5.	Unqualified Deferred Compensation Plan of Peoples Bank (incorporated herein by reference to Exhibit 10.5 to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 1996).
10.6.	Supplemental Executive Retirement Plan of Peoples Bank (incorporated herein by reference to Exhibit 10.5 to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 1999).
13.	2002 Annual Report to Shareholders.
21.	Subsidiaries of the Bancorp.
99.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

No reports on Form 8-K were filed during the fourth quarter of 2002.

SIGNATURES

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

NORTHWEST INDIANA BANCORP

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

Date: March 20, 2003

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 20, 2003:

Signature	Title
Principal Executive Officer:	
/s/David A. Bochnowski David A. Bochnowski	Chairman of the Board and Chief Executive Officer
Principal Financial Officer and Principal Accounting Officer:	
/s/Edward J. Furticella Edward J. Furticella	Director and Executive Vice President, Chief Financial Officer and Treasurer
The Board of Directors:	
/s/Frank J. Bochnowski Frank J. Bochnowski	Director
/s/Leroy F. Cataldi Leroy F. Cataldi	Director
/s/Lourdes M. Dennison Lourdes M. Dennison	Director
/s/Joel Gorelick Joel Gorelick	Director

Signature	Title
/s/Gloria C. Gray Gloria C. Gray	Director
/s/Kenneth V. Krupinski Kenneth V. Krupinski	Director
/s/Stanley E. Mize Stanley E. Mize	Director
/s/James L. Wieser James L. Wieser	Director

CERTIFICATIONS

I, David A. Bochnowski, certify that:

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

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

    a. designed such disclosure controls and procedures 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 annual report is being prepared;
    b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
    c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 20, 2003

/s/ David A. Bochnowski

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

I, Edward J. Furticella, certify that:

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

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a. designed such disclosure controls and procedures 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 annual report is being prepared;
   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
   c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 20, 2003

/s/ Edward J. Furticella

Edward J. Furticella
Executive Vice President, Chief
Financial Officer and Treasurer

Table of Contents

EXHIBIT INDEX

Exhibit	Description
13.	2002 Annual Report to Shareholders
21.	Subsidiaries of the Bancorp
99.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 13

NorthWest Indiana
BANCORP

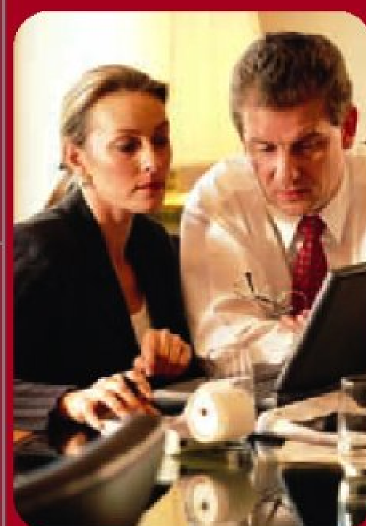
excellence

growth

asset quality

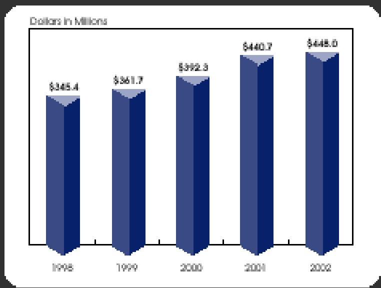
community

integrity

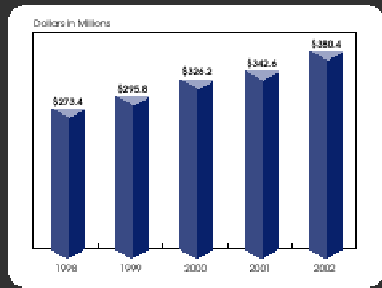


annual report 2002

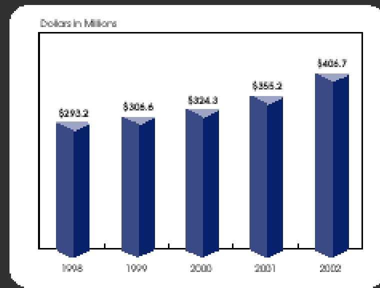
Total Assets



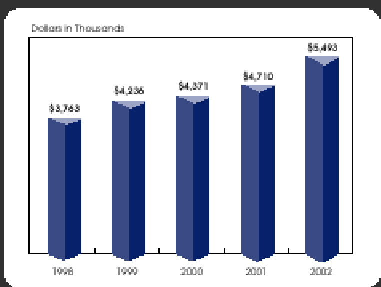
Total Loans



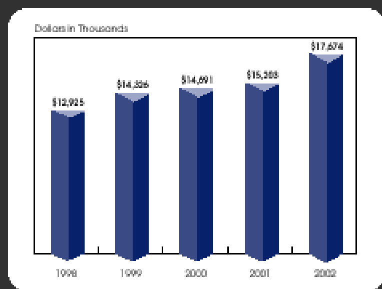
Total Deposits



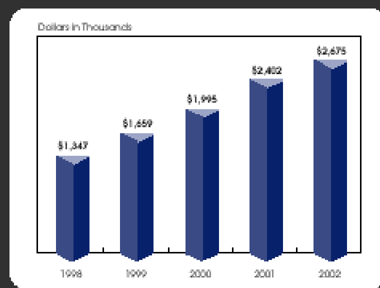
Net Income



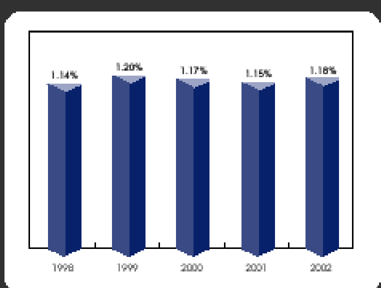
Net Interest Income



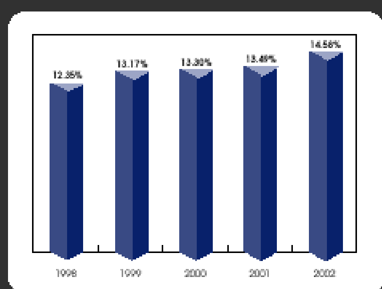
Noninterest Income



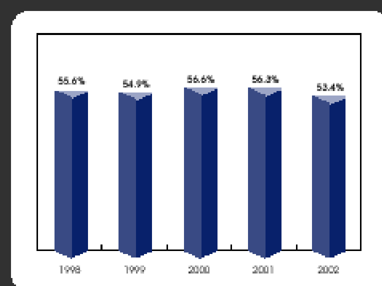
Return on Assets



Return on Equity



Efficiency Ratio



Dear Shareholder:

Investors across the United States were confronted by numerous challenges to portfolio management during 2002. The resiliency of the national economy in the last decade of the twentieth century gave way to uncertainty and diminished consumer confidence. Within our region the slow down in manufacturing and the resulting stress on the steel industry dampened any enthusiasm for a near term recovery.

The outlook for investors also was impacted by international events and concern for potential instability associated with the effort to eliminate terrorism throughout the world. Most damaging of all to investor confidence, however, may have been the fall from grace by numerous large corporations whose greed, deceptive practices, and mismanagement shook portfolios from Wall Street to Main Street.

Despite the challenging economic times, the NorthWest Indiana Bancorp, and its subsidiary Peoples Bank, continued to build shareholder value in 2002 through record earnings. Your company remained focused on solid performance by relying on the proven community banking strategy of growth, strong core earnings, asset quality, increased income from banking activities and operating efficiencies.

e x c e l l e n c e

g r o w t h

a s s e t   q u a l i t y

c o m m u n i t y

i n t e g r i t y

David A. Bochnowski
Chairman and
Chief Executive Officer

Executive Officers of Northwest Indiana Bancorp:

clockwise from bottom left:

David A. Bochnowski, Jon DeGuilio, Ed Furticella, Joel Gorelick

We are committed to providing quality service and delivering products that bring value to our customers.

The directors and employees of your company take pride in the achievements presented to you in this annual report:

- Record earnings of $5.5 million, a 17% increase over the prior year
- Earnings per share of $2.01
- Return on Equity of 14.58%
- Total Investment Return to shareholders of 20.46% as measured by price appreciation and dividend increase

As a community bank we are committed to providing quality service and delivering products that bring value to our customers. We are connected to our community and use the resources entrusted to us to promote economic activity in Northwest Indiana. Our goal is to enhance shareholder value through cost effective growth and prudent capital management.

Shareholders should evaluate several key performance highlights as you measure improvement in shareholder value during 2002:

- Assets grew $47.3 million or 10.7% to $488 million with stockholders equity at $39.1 million or 8.0% of total assets
- Core accounts—-checking, savings, money market and sweep accounts—-grew $42.3 million or 23.3%
- Loans grew $37.8 million—-with residential loans increasing 18.6%, commercial real estate increasing 9.5%, and construction and land development increasing 6.3%
- Non-performing loans to total assets stood at the manageable level of 0.49%
- Core earnings, the difference between interest income from loans and investments and interest paid to funds providers, increased 16.3%
- Income from banking activities, including investment and trust services increased 11.4%

Financial effectiveness provides one measure of a community bank's strength and your company has a proven record of achievement. A balanced performance review, however, should take into account not only financial results, but also a commitment to corporate governance, effective capital management, and a response to anticipated shifts in customer preferences in the ever changing financial services environment.

The integrity of your company's financial statements has the highest priority in our commitment to sound corporate governance. We have adopted a multifaceted approach that relies upon:

- strong independent internal audit function
- risk assessment and risk management
- management disclosure committee
- independent compensation assessment

The company's internal auditor, a certified public accountant, reports directly to the Audit Committee of the board. The Audit Committee directs the work of the internal audit staff including the review of all internal controls. Committee meetings include reports by the internal auditor, the compliance officer, questions of management, and as a check and balance on the reporting process deliberations outside the presence of management.

Risk management has become an increasingly important tool for measuring the efficacy of the controls applied to the complex transactions of daily banking operations. Your company has a Compliance Officer whose responsibilities include monitoring bank practices for consistency with the myriad of federal and state banking regulations designed to provide uniform banking practices. We also have a Loan Review Officer responsible for reviewing loan underwriting and monitoring extensions of credit for consistency with lending policies and regulations. Both of these positions formally report their findings to management as well as your board of directors.

Financial effectiveness provides one measure of a community bank's strength...

Audit Committee members:

top to bottom:
Lou Dennison,
Ken Krupinski,
James Wieser, Chairman,
Stanley Mize

Disclosure Committee members:

top photo, left to right:
David Hornrich, Compliance Officer,
Linda Kollada, Human Resource Director,
Joel Gorelick, Chief Lending Officer,
Rod Grove, Retail Banking,
Bob Lowry, Controller.

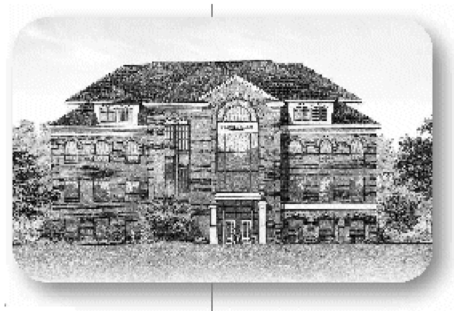
bottom photo, left to right:
Tanya Buerger,
Information Technology Officer,
Ed Furticella, Chief Financial Officer,
David Bochnowski,
Chief Executive Officer,
Jon DeGuilio,
Corporate Counsel and Trust Officer,
Stacy Januszewski, Internal Auditor

This year, the financial reporting process was enhanced by new federal law and securities regulations designed to insure the reliability of reports made to shareholders. As a result, the bank formed a Disclosure Committee comprised of your Chief Executive Officer, Chief Financial Officer, Chief Lending Officer, Corporate Counsel and Trust Officer, as well as the Controller, Retail Banking Officer, Retail Lending Officer, Information Technology Officer, Human Resources Director, Internal Auditor, Compliance Officer, and Loan Review Officer. The committee meets at least quarterly and certifies the integrity of their reports to the Chief Financial Officer and to the Chief Executive Officer.

The Disclosure Committee results as well as the required certifications of the Chief Financial Officer and Chief Executive Officer are reported to the Audit Committee and the company's external auditors for review prior to any filing with the Securities and Exchange Commission, and the release of any information about the company to shareholders and the public.

The board of directors independently exercises its responsibility for matters impacting senior management compensation. During 2002 the Compensation Committee was restructured to exclude members of management while management has historically not been represented on the company's Options Committee. In addition, the board has engaged outside consultants to assess the competitiveness of the company's compensation policy.

During 2003 your company will remain committed to providing the highest standards of product delivery and service to our customers and community. We plan to review opportunities for expansion while adding value to your Bancorp investment. We plan to formally identify and market our "brand", the characteristics of our operations that distinguish us from our competition. And we plan to implement pricing strategies for our products and services that expand our market presence without compromising our value in the marketplace.



Corporate Center,
Munster, Indiana
Scheduled for completion
in the Fall of 2003

The bank continues to be committed to technology investments designed to improve the quality of our products...

Your company remains committed to our community. While others are selling to outside banking interests, we continue to build and utilize our capital for growth. In August of 2002 construction began on our new corporate center creating a two-acre campus at our Munster location. Scheduled for completion in the Fall of 2003, the new configuration provides opportunity for expansion as well as increased operating efficiency to better serve our customers while strengthening our commitment to Northwest Indiana.

In response to customer demand, we delivered Internet banking to our retail and business customers during 2002 and the response exceeded our expectations. The bank continues to be committed to technology investments designed to improve the quality of our products without compromising personal service to our customers. In order to better serve our customers the configuration of the new corporate center includes a training facility for our staff for sales, service and technology. Customers will also be able to use the facility as a learning environment for the application of our technology to their needs.

At the end of 2002, Jake Vrabel left the board of directors after eighteen years of service in order to devote more time to his business interests. Jake's keen intellect contributed to board deliberations and the success of your company. We thank him for his service and wish him well in his endeavors.

On behalf of your directors and staff thank you for your investment in the NorthWest Indiana Bancorp. We look forward to working with you as we continue our commitment to community banking in NorthWest Indiana.

Sincerely,

David A. Bochnowski
Chairman and
Chief Executive Officer

Selected Consolidated Financial Data
(In Thousands of Dollars, except Per Share Data)

Fiscal Year Ended	*December 31, 2002*	*December 31, 2001*	*December 31, 2000*	*December 31, 1999*	*December 31, 1998*	*December 31, 1997*
Statement of Income:						
Total interest income	$ 27,781	$ 28,425	$ 28,077	$ 25,607	$ 25,235	$ 23,669
Total interest expense	10,107	13,222	13,386	11,281	12,310	11,721
Net interest income	17,674	15,203	14,691	14,326	12,925	11,948
Provision for loan losses	720	230	175	200	110	221
Net interest income after provision for loan losses	16,954	14,973	14,516	14,126	12,815	11,727
Noninterest income	2,675	2,402	1,995	1,659	1,347	1,066
Noninterest expense	10,859	9,911	9,449	8,774	7,938	7,154
Net noninterest expense	8,184	7,509	7,454	7,115	6,591	6,088
Income tax expenses	3,277	2,754	2,691	2,775	2,461	2,223
Cumulative effect of changes in accounting	–	–	–	–	–	–
Net income	$ 5,493	$ 4,710	$ 4,371	$ 4,236	$ 3,763	$ 3,416
Basic earnings per common share	$ 2.01	$ 1.73	$ 1.61	$ 1.53	$ 1.36	$ 1.24
Diluted earnings per common share	$ 1.99	$ 1.71	$ 1.60	$ 1.52	$ 1.35	$ 1.23
Cash dividends declared per common share	$ 1.12	$ 1.04	$ 0.96	$ 0.84	$ 0.74	$ 0.64

	December 31, 2002	*December 31, 2001*	*December 31, 2000*	*December 31, 1999*	*December 31, 1998*	*December 31, 1997*
Balance Sheet:						
Total assets	$ 488,002	$ 440,710	$ 392,313	$ 361,719	$ 345,417	$ 319,609
Loans receivable	380,428	342,642	326,207	295,813	273,433	272,213
Investment securities	56,571	67,260	38,128	41,931	36,350	29,362
Deposits	406,673	355,215	324,310	306,647	293,222	272,090
Borrowed funds	36,065	44,989	30,599	18,607	17,320	14,628
Total stockholders' equity	39,148	35,882	33,529	32,471	31,316	29,482

Fiscal Year Ended	*December 31, 2002*	*December 31, 2001*	*December 31, 2000*	*December 31, 1999*	*December 31, 1998*	*December 31, 1997*
Interest Rate Spread During Period:						
Average effective yield on loans and investment securities	6.26%	7.29%	7.88%	7.61%	8.00%	8.16%
Average effective cost of deposits and borrowings	2.38%	3.55%	3.95%	3.54%	4.16%	4.32%
Interest rate spread	3.88%	3.74%	3.93%	4.07%	3.84%	3.84%
Net interest margin	3.99%	3.90%	4.12%	4.26%	4.10%	4.12%
Return on average assets	1.18%	1.15%	1.17%	1.20%	1.14%	1.13%
Return on average equity	14.58%	13.49%	13.30%	13.17%	12.35%	11.87%

	December 31, 2002	*December 31, 2001*	*December 31, 2000*	*December 31, 1999*	*December 31, 1998*	*December 31, 1997*
Tier 1 capital to risk-weighted assets	11.9%	12.5%	12.3%	13.5%	14.1%	13.8%
Total capital to risk-weighted assets	13.1%	13.6%	13.6%	14.8%	15.3%	15.0%
Tier 1 capital leverage ratio	7.6%	8.3%	8.6%	9.0%	9.2%	9.2%
Allowance for loan losses to total loans	0.96%	0.92%	1.02%	1.12%	1.14%	1.13%
Allowance for loan losses to non-performing loans	152.43%	108.64%	183.54%	412.08%	213.06%	257.84%
Non-performing loans to total loans	0.63%	0.85%	0.55%	0.27%	0.54%	0.44%
Total loan accounts	5,049	4,964	4,762	4,676	4,625	4,764
Total deposit accounts	31,385	30,433	28,906	27,712	26,172	25,443
Total branches (all full service)	8	8	8	7	7	7

(1) Includes the $1.6 million one-time special assessment on FDIC-assessable deposits to recapitalize SAIF.

(2) Six month period due to change in fiscal year end.

(3) Data for six months ended December 31, 1993 has been annualized.

December 31, 1996(1)	*December 31, 1995*	*December 31, 1994*	*December 31, 1993(2)*
$22,337	$ 21,123	$ 19,122	$ 9,360
11,287	10,484	8,079	4,015
11,050	10,639	11,043	5,345
85	80	145	319
10,965	10,559	10,898	5,026
682	685	493	253
8,039(1)	6,117	6,031	3,011
7,357	5,432	5,538	2,758
1,419	2,026	2,132	902
–	–	–	450
$ 2,189	$ 3,101	$ 3,228	$ 1,816
$ 0.80	$ 1.13	$ 1.18	$ 0.67
$ 0.79	$ 1.12	$ 1.17	$ 0.66
$ 0.58	$ 0.55	$ 0.55	$ 0.25

December 31, 1996	*December 31, 1995*	*December 31, 1994*	*December 31, 1993*
$ 299,419	$ 280,911	$ 266,343	$ 251,481
244,696	222,293	221,930	204,205
40,024	38,001	33,678	33,639
256,420	247,945	234,639	222,945
12,261	3,139	3,151	2,087
27,815	27,204	25,606	23,874

December 31, 1996	*December 31, 1995*	*December 31, 1994*	*December 31, 1993(2)(3)*
7.98%	8.06%	7.66%	7.75%
4.32%	4.33%	3.48%	3.63%
3.66%	3.73%	4.18%	4.12%
3.95%	4.81%	5.18%	4.42%
0.75%	1.14%	1.24%	1.45%
7.90%	11.74%	13.04%	15.51%

December 31, 1996	*December 31, 1995*	*December 31, 1994*	*December 31, 1993*
14.7%	15.8%	15.9%	15.5%
16.0%	17.1%	17.2%	16.8%
9.3%	9.7%	9.6%	9.5%
1.18%	1.27%	1.24%	1.26%
247.40%	268.25%	176.46%	454.75%
0.48%	0.47%	0.70%	0.27%
4,404	4,606	4,671	4,654
24,666	23,730	22,738	21,204
7	6	6	6

Business

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

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

The Bancorp's common stock is traded in the over-the-counter market and quoted on the OTC Bulletin Board. On February 28, 2003, the Bancorp had 2,741,329 shares of common stock outstanding and 523 stockholders of record. This does not reflect the number of persons or entities who may hold their stock in nominee or "street" name through brokerage firms.

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

General

The Bancorp's earnings are dependent upon the earnings of the Bank. The Bank's earnings are primarily dependent upon net interest margin. The net interest margin is the difference between interest income earned on loans and investments and interest expense paid on deposits and borrowings stated as a percentage of average interest earning assets. The net interest margin is perhaps the clearest indicator of a financial institution's ability to generate core earnings. Fees and service charges, trust department 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 our significant accounting policies is detailed in Note 1 to the Bancorp's consolidated financial statements included in this report. The preparation of our financial statements requires management to make estimates and assumptions that affect our financial condition and operating results. Actual results could differ from those estimates. Estimates associated with the allowance for loan losses, fair values of financial instruments and status of contingencies are particularly susceptible to material change in the near term as further information becomes available and future events occur.

At December 31, 2002, the Bancorp had total assets of $488.0 million and total deposits of $406.7 million. The Bancorp's deposit accounts are insured up to applicable limits by the Savings Association Insurance Fund (SAIF) that is administered by the Federal Deposit Insurance Corporation (FDIC), an agency of the federal government. At December 31, 2002, stockholders' equity totaled $39.1 million, with book value per share at $14.29. Net income for 2002 was $5.5 million, or $2.01 basic earnings per common share and $1.99 diluted earnings per common share. The return on average assets (ROA) was 1.18%, while the return on average stockholders' equity (ROE) was 14.58%.

Asset/Liability Management and Market Risk

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

The Bancorp is primarily a portfolio lender. Mortgage banking activities are limited to the sale of fixed rate mortgage loans with contractual maturities exceeding fifteen years. These loans are sold, on a case-by-case basis, in the secondary market as part of the Bancorp's efforts to manage interest rate risk. The Bancorp retains the servicing on all loans sold in the secondary market.

The primary objective of the Bancorp's investment portfolio is to provide for the liquidity needs of the Bancorp and to contribute to profitability by providing a stable flow of dependable earnings. Funds are generally invested in federal funds, interest-bearing balances in financial institutions, U.S. government securities and federal agency obligations. Investments are generally for terms ranging from one day to seven years. Interest-bearing balances in financial institutions include overnight deposits at the Federal Home Loan Bank of Indianapolis (FHLB). Securities are classified as either held-to-maturity or available-for-sale. Held-to-maturity securities are those that the Bancorp has the positive intent and ability to hold to maturity. Available-for-sale securities are those the Bancorp may decide to sell if needed for liquidity, asset-liability management or other reasons. The Bancorp does not have a trading portfolio. During 2002, the Bancorp did not have derivative instruments and was not involved in hedging activities as defined by SFAS 133.

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

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

Performance from an interest rate risk perspective can be measured in many ways. Methodologies used by the Bancorp focus on net interest income and the net economic value of equity. Net interest income is defined as interest income less interest expense. Variability in net interest income arises because its components — interest income and interest expense — do not change equally as rates vary. This mismatch occurs because individual assets and liabilities reprice differently as rates change. Factors which affect net interest income include changes in the level of interest rates, changes in the relationship between Bancorp yield rates and interest costs, changes in the volume of assets and liabilities outstanding, and changes in the composition or mix of assets and liabilities. Management uses rate shock (i.e., instantaneous and sustained parallel shifts in the yield curve in 1% increments up and down 2%) for stress testing the net interest income under several rate change levels. In order to simulate activity, maturing balances are replaced with new balances at the new rate level and repricing balances are adjusted to the new rate shock level. The results are compared to limits set by the Board of Directors and are monitored to identify unfavorable trends.

Net economic value of equity is the net present value of the Bancorp's portfolio of assets and liabilities. By marking-to-market the components of the balance sheet, management can compute the net economic value of equity. As rates change over time, the market values of Bancorp assets and liabilities will change, with longer-term products fluctuating more than short-term products. In most cases, rate-sensitive assets and liabilities will not have the same maturity characteristics. Therefore, as rates vary, the market value of the rate-sensitive assets will not change equally with the market value of rate-sensitive liabilities. This will cause the net economic value of equity to vary. The focus of the net economic value of equity is to determine the percentage decline in the net economic value of equity caused by a 2% increase or decrease in interest rates, whichever produces the larger decline. A large value indicates a large percentage decline in the net economic value of equity due to changes in interest rates and, thus, high interest rate sensitivity. A low value indicates a small percentage decline in the net economic value of equity due to changes in interest rates and, thus, low interest rate sensitivity. As with net interest income, the results are compared to limits set by the Board of Directors and are monitored to identify unfavorable trends.

Presented in the following tables is forward-looking information about the Bancorp's sensitivity to changes in interest rates as of December 31, 2002 and 2001. The tables incorporate the Bancorp's internal system generated data as related to the maturity and repayment/withdrawal of interest-earning assets and interest-bearing liabilities. Prepayment assumptions are based on published data. Present value calculations use current published market interest rates. For core deposits that have no contractual maturity, the table presents principal cash flows and, as applicable, related weighted-average interest rates based on the Bancorp's historical experience, management's judgment, and statistical analysis, as applicable, concerning their most likely withdrawal behaviors, but not as to when they could be repriced.

Interest Rate Risk at December 31, 2002

	Net Interest Income			*Net Economic Value of Equity*		
Change in rates	*Amount*	*Change*	*Policy Limit*	*Amount*	*Change*	*Policy Limit*
2%	$17,516	-2.2%	-20%	$49,110	-10.7%	-30%
1%	$17,886	-0.1%	-10%	$53,691	-2.3%	-15%
0%	$17,910	0.0%		$54,969	0.0%	
-1%	$17,796	-0.6%	-10%	$54,515	0.8%	-15%
-2%	$17,439	-2.6%	-20%	$54,793	0.3%	-30%

Interest Rate Risk at December 31, 2001

	Net Interest Income			*Net Economic Value of Equity*		
Change in rates	*Amount*	*Change*	*Policy Limit*	*Amount*	*Change*	*Policy Limit*
2%	$16,147	- 7.8%	- 20%	$44,377	-19.5%	- 30%
1%	$16,850	- 3.7%	- 10%	$49,815	- 9.6%	- 15%
0%	$17,505	0.0%		$55,116	0.0%	
-1%	$17,763	1.5%	- 10%	$56,896	3.2%	- 15%
-2%	$18,046	3.1%	- 20%	$57,513	4.4%	- 30%

The tables show that the Bancorp has managed interest rate risk within the policy limits set by the Board of Directors. At December 31, 2002, an increase in interest rates of 2% would have resulted in a 2.2% decrease in net interest income and a 10.7% decrease in the net economic value of equity compared to decreases of 7.8% and 19.5%, at December 31, 2001. During 2002, the Bancorp managed interest rate risk by selling fixed rate loans, restructuring security investments, increasing core account balances, and reducing short-term borrowings.

Financial Condition

During the year ended December 31, 2002, total assets increased by $47.3 million (10.7%), with interest-earning assets increasing by $44.4 million (10.7%). At December 31, 2002, interest-earning assets totaled $457.4 million and represented 93.7% of total assets. Loans totaled $380.4 million and represented 83.3% of interest-earning assets, 78.1% of total assets and 93.5% of total deposits. The loan portfolio, which is the Bancorp's largest asset, is a significant source of both interest and fee income. The Bancorp's lending strategy stresses quality growth, product diversification, and competitive and profitable pricing. The loan portfolio includes $13.4 million (3.5%) in construction and land development loans, $222.2 million (58.4%) in residential real estate loans, $98.2 million (25.8%) in commercial and multifamily real estate loans, $6.3 million (1.7%) in consumer loans and $40.3 million (10.6%) in commercial business and other loans. During 2002, loans increased by $37.8 million (11.0%), with increases taking place in construction and land development, residential real estate loans, commercial and multifamily loans, and commercial business loans. Adjustable rate loans comprised 37.3% of total loans at year-end. Management believes that, despite concerns about the pace of economic activity, the positive trend in loan growth will continue during 2003 because of a lower interest rate environment and an aggressive marketing and call program effort. Management expects to fund loan growth with a mix of core deposits and borrowed funds.

During 2002, the Bancorp sold $7.5 million in fixed rate mortgages compared to $4.8 million in 2001 and $795 thousand in 2000. All loans sold had contractual maturities exceeding fifteen years. Net gains realized from the sales totaled $176 thousand, $64 thousand and $34 thousand for 2002, 2001 and 2000. Net mortgage loan servicing losses totaled $7 thousand for 2002, compared to net servicing income of $4 thousand for 2001, and $15 thousand for 2000. At December 31, 2002, the Bancorp had $601 thousand classified as loans held for sale. During 2003, the Bancorp expects to continue selling fixed rate mortgage loans, with contractual maturities exceeding fifteen years, on a case-by-case basis as part of its efforts to manage interest rate risk.

At December 31, 2002, non-performing loans, which include those loans that are 90 days or more past due and those loans that have been placed on non-accrual status, totaled $2.4 million, a decrease of $520 thousand from the prior year. The ratio of non-performing loans to total assets was 0.49% at December 31, 2002, compared to 0.66% at December 31, 2001. The December 31, 2002 balance includes $2.0 million in loans accounted for on a non- accrual basis and $382 thousand in accruing loans which were contractually past due 90 days or more. At December 31, 2002, $2.8 million of the Bancorp’s loans were internally classified as substandard compared to $2.9 million reported at December 31, 2001. There were no loans classified as doubtful or loss. Substandard loans include non-performing loans and potential problem loans, where information about possible credit issues or other conditions causes management to question the ability of such borrowers to comply with loan covenants or repayment terms. In addition to identifying and monitoring non-performing and other classified loans, the Bancorp maintains a list of watch loans. Watch loans represent loans management is more closely monitoring due to one or more factors that may cause the loan to become classified. Watch loans were $7.0 million and $5.3 million at December 31, 2002 and 2001.

The balances for non-performing and substandard loans includes two loans totaling $1.0 million to a commercial customer which have been classified as impaired. At December 31, 2002, the Bancorp had five loans, including the aforementioned impaired loans, to three borrowers totaling $1.3 million classified as impaired. Impaired loans are loans where full payment under the loan terms is not expected. There were no other loans considered to be impaired loans as of, or for the twelve months ended December 31, 2002. In addition, the Bancorp has two performing loans totaling $769 thousand to one commercial customer that has been classified as substandard due to current cash flow difficulties.

At December 31, 2002, management of the Bancorp is of the opinion that there are no loans, except those discussed above, where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as nonaccrual, past due or restructured loans. Also, at December 31, 2002, there are no other interest bearing assets that would be required to be disclosed as nonaccrual, past due, restructured or potential problem if such assets were loans. Management does not anticipate that any of the non-performing loans or classified loans would materially impact future operations, liquidity or capital resources.

Because some loans may not be repaid in accordance with contractual agreements, an allowance for loan losses (ALL) has been maintained. While management may periodically allocate portions of the allowance for specific problem loans, the entire allowance is available to absorb all credit losses that arise from the loan portfolio and is not segregated for, or allocated to, any particular loan or group of loans. During 2002, provisions to the ALL account totaled $720 thousand compared to $230 thousand for 2001 and $175 thousand for 2000. Charge-offs, net of recoveries, totaled $241 thousand during 2002, compared to $396 thousand for 2001 and $162 thousand for 2000. The provision is based on management’s current judgments about the credit quality of the loan portfolio, loan portfolio growth, changes in the portfolio mix and local economic conditions. While the quality of the loan portfolio remains sound, provisions during 2002 were warranted because of the current balance in classified loans, increased average daily loan balances, apparent weaknesses in the local economy, the inherent risk associated with growth in commercial real estate and commercial business loans, and loan charge-offs. The appropriateness of the current year provision and the overall adequacy of the ALL were determined through a disciplined and consistently applied quarterly process that combines a review of the current position with a risk assessment worksheet.

At December 31, 2002, the ALL to total loans was 0.96% compared to 0.92% at December 31, 2001, while the ALL to non-performing loans (coverage ratio) was 152.4% compared to 108.6% for the same periods. The December 31, 2002 balance in the ALL account of $3.6 million is considered adequate by management after evaluation of the loan portfolio, past experience and current economic and market conditions.

The allocation of the ALL reflects performance and growth trends within the various loan categories, as well as, consideration of the facts and circumstances that affect the repayment of individual loans, as well as, loans which have been 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 general reserves to both performing and non-performing loans based on current information available. During 2002, provisions to the ALL were allocated to commercial real estate loans due to the balance of impaired loans and loan charge-offs.

At December 31, 2002, the Bancorp’s investment portfolio totaled $56.6 million and was invested as follows: 70.0% in U.S. government agency debt securities, 0.9% in U.S. government debt securities, 0.9% in municipal securities, and 28.2% in U.S. government agency mortgage-backed securities and collateralized mortgage obligations. At December 31, 2002, securities available-for-sale totaled $56.0 million or 99.0% of total securities. AFS securities are those the Bancorp may decide to sell if needed for liquidity, asset-liability management or other reasons. In addition, the Bancorp had $15.4 million in interest bearing balances in financial institutions, $1.6 million in federal funds sold, and $2.7 million in FHLB stock. During 2002, securities decreased by $10.7 million (15.9%), as proceeds from maturing securities, and the sale of securities with expected calls, were used to pay off short-term borrowings and provide funding for loan growth.

Deposits are a fundamental and cost-effective source of funds for lending and other investment purposes. The Bancorp offers a variety of products designed to attract and retain customers, with the primary focus on building and expanding relationships. At December 31, 2002, deposits totaled $406.7 million. During 2002, deposit growth totaled $51.5 million (14.5%). Checking accounts increased $11.3 million (15.0%), money market deposit accounts (MMDAs) increased $19.8 million (43.4%), savings accounts increased $13.5 million (26.6%), and certificates of deposit increased by $6.9 million (3.7%). At December 31, 2002, the deposit base was comprised of 21.3% checking, 16.1% MMDAs, 15.7% savings accounts, and 46.9% certificates of deposit. The growth in deposits was a result of competitive product offerings, an aggressive marketing program, and volatility in the financial markets.

Borrowings are primarily used to fund asset growth not supported by deposit generation. At December 31, 2002, borrowed funds totaled $36.1 million compared to $45.0 million at December 31, 2001, a decrease of $8.9 million (19.8%). Repurchase agreements totaled $12.6 million compared to $15.6 million at December 31, 2001, a decrease of $3.0 million (19.1%). FHLB advances totaled $21.5 million, increasing $4.5 million, as the Bancorp extended the maturity structure of interest-bearing liabilities at cost effective interest rates. Other short-term borrowings totaled $1.9 million compared to $12.4 million at December 31, 2001, a decrease of $10.5 million as the Bancorp paid down short-term borrowings.

Liquidity and Capital Resources

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

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

During 2002, cash and cash equivalents increased $18.3 million, compared to a decrease of $483 thousand for 2001, and an increase of $2.8 million for 2000. During 2002, the primary sources of cash and cash equivalents were deposit growth, proceeds from the maturities and sales of securities, loan sales, loan prepayments, and cash from operating activities. The primary uses of cash and cash equivalents were loan originations and loan participations purchased, the purchase of securities, the repayment of short-term borrowings, and the payment of common stock dividends. During 2002, net cash from operating activities totaled $7.6 million, compared to $5.6 million for 2001 and $5.3 million for 2000. The primary source of the increase during 2002 was the increase in net income and the sale of loans originated for sale. Cash outflows from investing activities totaled $29.0 million during 2002, compared to $48.9 million for 2001 and $28.7 million for 2000. The change during 2002 reflects loan growth and a reduction in securities balances. The net change in loans receivable and loan participations purchased totaled $38.8 million during 2002, compared to $17.4 million for 2001 and $30.6 million for 2000. During 2002, available-for-sale securities with expected calls were sold to reduce short-term borrowings. Cash flows from financing activities totaled $39.7 million during 2002, compared to $42.7 million for 2001 and $26.2 million for 2000. The change during 2002 reflects deposit growth and the reduction of short-term borrowing. Deposit growth during 2002 totaled $51.5 million, compared to $30.9 million for 2001 and $17.7 million for 2000. The decrease in FHLB advances and other borrowed funds totaled $8.9 million during 2002, compared to increases of $14.4 million during 2001 and $12.0 million for 2000. During 2002, the Bancorp used low cost advances to extend the maturity structure of interest-bearing liabilities while paying-off its line of credit. The Bancorp paid dividends on common stock of $3.1 million during 2002, compared to $2.8 million for 2001 and $2.5 million for 2000.

During 2003, the Bancorp will complete the construction of a state-of-the-art corporate center in Munster, Indiana. The cost of the new facility is expected to be approximately $5.3 million. The facility will not have a material impact on noninterest expense during 2003. The corporate center will afford the Bancorp the opportunity to continue offering superior customer service, and to provide for future growth and operating efficiencies.

At December 31, 2002, outstanding commitments to fund loans totaled $51.9 million. Approximately 82% of the commitments were at variable rates. Management believes that the Bancorp has sufficient cash flow and borrowing capacity to fund all outstanding commitments and to maintain proper levels of liquidity. The following table presents the Bancorp's consolidated long term, non-deposit related, contractual obligations as well as commitments to extend credit to borrowers, in aggregate and by payment due dates at December 31, 2002. Dollar amounts are in thousands.

	Less than One Year	One through Three Years	Four through Five Years	After Five Years	Total
Long-term contractual obligations:					
FHLB advances	$ —	$ 17,000	$ 2,500	$ 2,000	$21,500
Limited partnership obligation	62	123	122	—	307
Total long-term contractual obligations	62	17,123	2,622	2,000	21,807
Commitments to extend credit:					
Commitments to make loans & unused approved lines of credit	20,407	31,465	—	—	51,872
Performance standby letters of credit	1,056	222	—	—	1,278
Total commitments to extend credit	21,463	31,687	—	—	53,150
Total long-term contractual obligations and commitments to extend credit	$21,525	$ 48,810	$ 2,622	$ 2,000	$74,957

Management strongly believes that safety and soundness is enhanced by maintaining a high level of capital. During 2002, stockholders' equity increased by $3.3 million (9.1%). The increase resulted primarily from earnings of $5.5 million for 2002. In addition, $144 thousand represents proceeds from the exercise of 10,857 stock options. The Bancorp declared $3.1 million in cash dividends. The net unrealized gain on available-for-sale securities, net of tax, was $696 thousand. At December 31, 2002, book value per share was $14.29 compared to $13.15 at December 31, 2001.

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

The following table shows that, at December 31, 2002, the Bancorp's capital exceeded all regulatory capital requirements. At December 31, 2002, the Bancorp's and the Bank's regulatory capital ratios were substantially the same. The dollar amounts are in millions.

	Actual		Required for adequate capital		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets	$41.8	13.1%	$25.6	8.0%	$32.0	10.0%
Tier 1 capital to risk-weighted assets	$38.1	11.9%	$12.8	4.0%	$19.2	6.0%
Tier 1 capital to adjusted average assets	$38.1	7.6%	$15.0	3.0%	$25.0	5.0%

Results of Operations -
Comparison of 2002 to 2001

Net income for 2002 was $5.5 million, compared to $4.7 million for 2001, an increase of $783 thousand (16.6%). The earnings represent a return on average assets of 1.18% for 2002 compared to 1.15% for 2001. The return on average equity was 14.58% for 2002 compared to 13.49% for 2001.

Net interest income for 2002 was $17.7 million, up $2.5 million (16.3%) from $15.2 million for 2001. The increase in net interest income was due to growth in average daily balances for interest earning assets and a falling cost of funds. The low interest rate environment of 2002 resulted in lower yields for investments and loans as maturing securities were reinvested at lower rates of return, while loans either repriced or refinanced at lower rates. During 2002, the cost of funds fell faster than yields on earning assets due to the maturity structure of the Bancorp's certificates of deposit and growth in core accounts. The weighted-average yield on interest-earning assets was 6.26% for 2002 compared to 7.29% for 2001. The weighted-average cost of funds was 2.38% for 2002 compared to 3.55% for 2001. The impact of the 6.26% return on interest-earning assets and the 2.38% cost of funds resulted in a net interest spread of 3.88% for 2002 compared to 3.74% for 2001. During 2002, total interest income decreased by $644 thousand (2.3%) while total interest expense decreased by $3.1 million (23.6%). The net interest margin was 3.99% for 2002 compared to 3.90% for 2001.

During 2002, interest income from loans decreased by $569 thousand (2.3%) compared to 2001. The decrease was due to lower yields on loans outstanding, as the current interest rate environment resulted in new originations at low rates, and continued increases in prepayment and refinance activity. The weighted-average yield on loans outstanding was 6.73% for 2002 compared to 7.72% for 2001. Loan balances averaged $365.6 million for 2002, up $39.7 million (12.2%) from $325.9 million for 2001. During 2002, interest income from securities and other interest earning assets decreased by $75 thousand (2.3%) compared to 2001. The decrease was due to lower portfolio yields. The weighted-average yield on securities and other interest earning assets was 4.10% for 2002 compared to 5.12% for 2001. Securities and other interest earning assets averaged $77.9 million for 2002, up $14.1 million (22.1%) from $63.8 million for 2001.

Interest expense for deposits decreased by $3.2 million (27.2%) during 2002 compared to 2001. The decrease was due to a lower cost of funds. The weighted-average rate paid on deposits for 2002 was 2.23% compared to 3.45% for

2001. The lower cost of funds was caused by core account growth and maturing certificates of deposit during a low interest rate environment. Total deposit balances averaged $383.3 million for 2002, up $42.4 million (12.4%) from $340.9 million for 2001. Interest expense on borrowed funds increased by $76 thousand (5.2%) during 2002 due to increases in average daily balances. The weighted-average cost of borrowed funds was 3.71% for 2002 compared to 4.72% for 2001. Borrowed funds averaged $41.8 million during 2002, up $10.6 million (34.0%) from $31.2 million for 2001, due to favorable interest rates. Borrowed funds have provided a cost-effective supplement to deposits for funding interest-earning asset growth.

Noninterest income was $2.7 million for 2002, up $273 thousand (11.4%) from $2.4 million during 2001. During 2002, fees and service charges increased $60 thousand (3.5%) and income from Trust operations increased $86 thousand (20.3%) compared to 2001. During 2002, the Bancorp reported $176 thousand in gains on sales of loans compared to $64 thousand for 2001, due to an increase in the amount of loans sold. Gains on securities totaled $143 thousand during 2002 compared to $142 thousand for 2001, as falling interest rates enabled the Bancorp to sell securities with expected calls. In addition, the Bancorp reported $57 thousand in gains on sale of foreclosed real estate during 2002 compared to $12 thousand for 2001.

Noninterest expense for 2002 was $10.9 million, up $948 thousand (9.6%) from $9.9 million for 2001. The increase in compensation and benefits was due to annual salary increases and additional staffing for current operations. Other expense changes were due to standard increases in operations. The Bancorp’s efficiency ratio for 2002 was 53.4% compared to 56.3% for 2001. The ratio is determined by dividing total noninterest expense by the sum of net interest income and total noninterest income for the period.

Income tax expenses for 2002 totaled $3.3 million compared to $2.8 million for 2001, an increase of $523 thousand (19.0%). The increase was due to increased earnings. The combined effective federal and state tax rates for the Bancorp were 37.4% for 2002 and 36.9% for 2001.

Results of Operations -
Comparison of 2001 to 2000

Net income for 2001 was $4.7 million, compared to $4.4 million for 2000, an increase of $339 thousand (7.8%). The earnings represent a return on average assets of 1.15% for 2001 compared to 1.17% for 2000. The return on average equity was 13.49% for 2001 compared to 13.30% for 2000.

Net interest income for 2001 was $15.2 million, up $512 thousand (3.5%) from $14.7 million for 2000. The increase in net interest income was due to growth in average daily balances for interest earning assets. During 2001, the Federal Reserve Board cut interest rates 11 times for a total of 425 basis points, bringing the Fed Funds rate to 1.75%, its lowest level in 40 years. The Fed’s aggressive easing was in response to weakening national economy. The actions of the Federal Reserve Board resulted in significant repricing for both interest-earning assets and interest-bearing liabilities. Falling rates resulted in lower yields for investments and loans as securities were called, while loans either repriced or refinanced at lower rates. Yields fell faster than the cost of funds for most of the year as deposit rates lagged market decreases because of competitive pressures, the maturity structure of the Bancorp’s certificates of deposit, and the existing low rates on core accounts. The weighted-average yield on interest-earning assets was 7.29% for 2001 compared to 7.88% for 2000. The weighted-average cost of funds was 3.55% for 2001 compared to 3.95% for 2000. The impact of the 7.29% return on interest-earning assets and the 3.55% cost of funds resulted in a net interest spread of 3.74% for 2001 compared to 3.93% for 2000. During 2001, total interest income increased by $348 thousand (1.2%) while total interest expense decreased by $164 thousand (1.2%). The net interest margin was 3.90% for 2001 compared to 4.12% for 2000.

During 2001, interest income from loans decreased by $392 thousand (1.5%) compared to 2000. The decrease was due to increased prepayment activity and lower yields as rates for new originations and refinances fell throughout the year. The weighted-average yield on loans outstanding was 7.72% for 2001 compared to 8.11% for 2000. Loan balances averaged $325.9 million for 2001, up $11.0 million (3.5%) from $314.9 million for 2000. During 2001, interest income from securities and other interest earning assets increased by $740 thousand (29.3%) compared to 2000. The increase was due to higher average daily balances. The weighted-average yield on securities and other interest earning assets was 5.12% for 2001 compared to 6.11% for 2000. Securities and other interest earning assets averaged $63.8 million for 2001, up $22.5 million (54.5%) from $41.3 million for 2000.

Interest expense for deposits decreased by $302 thousand (2.5%) during 2001 compared to 2000. The decrease was due to a lower cost of funds. The weighted-average rate paid on deposits for 2001 was 3.45% compared to 3.83% for 2000. The lower cost of funds reflects a falling interest rate environment. Total deposit balances averaged $340.9 million for 2001, up $26.4 million (8.4%) from $314.5 million for 2000. Interest expense on borrowed funds increased by $138 thousand (10.3%) during 2001 due to increases in average daily balances. The weighted-average cost of borrowed funds was 4.72% for 2001 compared to 5.55% for 2000. Borrowed funds averaged $31.2 million during 2001, up $7.1 million (29.5%) from $24.1 million for 2000, due to favorable interest rates. Borrowed funds have provided a cost-effective supplement to deposits for funding interest-earning asset growth.

Noninterest income was $2.4 million for 2001, up $407 thousand (20.4%) from $2.0 million during 2000. During 2001, fees and service charges increased $150 thousand (9.5%) and income from Trust operations increased $36 thousand (9.3%) compared to 2000. During 2001, the Bancorp reported $64 thousand in gains on sales of loans compared to $34 thousand for 2000. Gains on securities totaled $142 thousand during 2001, as falling interest rates enabled the Bancorp to sell securities with expected calls. In addition, the Bancorp reported $12 thousand in gains on sale of foreclosed real estate. No security gains or foreclosed real estate gains were reported during 2000.

Noninterest expense for 2001 was $9.9 million, up $462 thousand (4.9%) from $9.4 million for 2000. During 2001, management implemented initiatives focused on limiting the increase of noninterest expenses from Bancorp operations. The increase in compensation and benefits was due to annual salary increases and additional staffing for current operations resulting from the Hobart facility that opened during the fourth quarter of 2000. Other expense changes were due to standard increases in operations and the Hobart facility. The Bancorp's efficiency ratio for 2001 was 56.3% compared to 56.6% for 2000.

Income tax expenses for 2001 totaled $2.8 million compared to $2.7 million for 2000, an increase of $63 thousand (2.3%). The increase was due to increased earnings. The combined effective federal and state tax rates for the Bancorp were 36.9% for 2001 and 38.1% for 2000. The reduction during 2001 was a result of investments in low-income housing tax credits.

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 filing, including the following:

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

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

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

Exposure to Local Economic Conditions. The Bank's primary market area for deposits and loans encompasses Lake County, in northwest Indiana, where all of its offices are located. Ninety-five percent of the Bank's business activities are within this area. This concentration exposes the Bank to risks resulting from changes in the local economy. A dramatic drop in local real estate values would, for example, adversely affect the quality of the Bank's loan portfolio.

Interest Rate Risk. The Bancorp's earnings depend to a great extent upon the level of net interest income, which is the difference between interest income earned on loans and investments and the interest expense paid on deposits and other borrowings. Interest rate risk (IRR) is the risk that the earnings and capital will be adversely affected by changes in interest rates. Further discussion of interest rate risk can be found under the caption "Asset/Liability Management and Market Risk" in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this document.

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

CROWE CHIZEK

Report of Independent Auditors

Board of Directors and Stockholders
NorthWest Indiana Bancorp
Munster, Indiana

We have audited the accompanying consolidated balance sheets of NorthWest Indiana Bancorp (the Bancorp) as of December 31, 2002 and 2001 and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Bancorp's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NorthWest Indiana Bancorp as of December 31, 2002 and 2001 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

Crowe, Chizek and Company LLP

Crowe, Chizek and Company LLP

South Bend, Indiana
January 7, 2003

Consolidated Balance Sheets

(Dollars in thousands)	December 31, 2002	December 31, 2001
ASSETS		
Cash and non-interest bearing balances in financial institutions	$ 18,026	$ 16,792
Interest bearing balances in financial institutions	15,625	–
Federal funds sold	1,549	144
Total cash and cash equivalents	35,200	16,936
Securities available-for-sale	56,002	63,961
Securities held-to-maturity; fair value: December 31, 2002 - $594 December 31, 2001 - $3,341	569	3,299
Loans held for sale, net of unrealized losses of $0 in 2002 and $13 in 2001	601	807
Loans receivable	380,428	342,642
Less: allowance for loan losses	(3,635)	(3,156)
Net loans receivable	376,793	339,486
Federal Home Loan Bank stock	2,672	2,224
Accrued interest receivable	2,363	2,419
Premises and equipment	9,460	8,154
Foreclosed real estate	127	111
Investment in real estate limited partnerships	1,034	1,083
Other assets	3,181	2,230
Total assets	$488,002	$440,710
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 36,308	$ 32,760
Interest bearing	370,365	322,455
Total	406,673	355,215
Borrowed funds	36,065	44,989
Accrued expenses and other liabilities	6,116	4,624
Total liabilities	448,854	404,828
Commitments and contingencies	–	–
Stockholders' Equity:		
Preferred stock, no par or stated value; 10,000,000 shares authorized, none outstanding	–	–
Common stock, no par or stated value; 10,000,000 shares authorized; shares issued: December 31, 2002 - 2,807,293, December 31, 2001 - 2,796,436 shares outstanding: December 31, 2002 - 2,739,129, December 31, 2001 - 2,728,272	351	349
Additional paid-in capital	3,392	3,249
Accumulated other comprehensive income	950	255
Retained earnings	35,895	33,469
Treasury stock, common shares at cost: December 31, 2002 - 68,164, December 31, 2001 - 68,164	(1,440)	(1,440)
Total stockholders' equity	39,148	35,882
Total liabilities and stockholders' equity	$488,002	$440,710

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

(Dollars in thousands, except per share data)	Year Ended December 31,		
	2002	2001	2000
Interest income:			
Loans receivable			
Real estate loans	$21,807	$21,883	$21,610
Commercial loans	2,238	2,463	2,995
Consumer loans	546	814	947
Total loan interest	24,591	25,160	25,552
Securities	2,986	2,687	2,374
Other interest earning assets	204	578	151
Total interest income	27,781	28,425	28,077
Interest expense:			
Deposits	8,557	11,748	12,050
Borrowed funds	1,550	1,474	1,336
Total interest expense	10,107	13,222	13,386
Net interest income	17,674	15,203	14,691
Provision for loan losses	720	230	175
Net interest income after provision for loan losses	16,954	14,973	14,516
Noninterest income:			
Fees and service charges	1,782	1,722	1,572
Trust operations	509	423	387
Gain on sale of loans, net	176	64	34
Gain on securities, net	143	142	–
Gain on sale of foreclosed real estate	57	12	–
Other	8	39	2
Total noninterest income	2,675	2,402	1,995
Noninterest expense:			
Compensation and benefits	5,823	5,338	5,141
Occupancy and equipment	1,719	1,586	1,510
Data processing	630	616	568
Federal insurance premium	62	61	63
Marketing	173	139	189
Other	2,452	2,171	1,978
Total noninterest expense	10,859	9,911	9,449
Income before income tax expenses	8,770	7,464	7,062
Income tax expenses	3,277	2,754	2,691
Net income	$ 5,493	$ 4,710	$ 4,371
Earnings per common share:			
Basic	$ 2.01	$ 1.73	$ 1.61
Diluted	$ 1.99	$ 1.71	$ 1.60
Dividends declared per common share	$ 1.12	$ 1.04	$ 0.96

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

(Dollars in thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Equity
Balance at January 1, 2000	$ 346	$ 2,970	$ (222)	$29,824	$ (447)	$32,471
Comprehensive income:						
Net income	–	–	–	4,371	–	4,371
Net unrealized gain/(loss) on securities available-for-sale, net of tax effects	–	–	223	–	–	223
Comprehensive income	–	–	–	–	–	4,594
Issuance of 5,973 shares of common stock at $5.75 - $21.13 per share, under stock option plan	1	59	–	–	–	60
Cash dividends, $0.96 per share	–	–	–	(2,603)	–	(2,603)
Purchase of 47,064 shares of treasury stock at $19.75 - $21.75 per share	–	–	–	–	(993)	(993)
Balance at December 31, 2000	347	3,029	1	31,592	(1,440)	33,529
Comprehensive income:						
Net income	–	–	–	4,710	–	4,710
Net unrealized gain/(loss) on securities available-for-sale, net of reclassification and tax effects	–	–	254	–	–	254
Comprehensive income	–	–	–	–	–	4,964
Issuance of 22,960 shares of common stock at $4.66 - $21.13 per share, under stock option plan	2	220	–	–	–	222
Cash dividends, $1.04 per share	–	–	–	(2,833)	–	(2,833)
Balance at December 31, 2001	349	3,249	255	33,469	(1,440)	35,882
Comprehensive income:						
Net income	–	–	–	5,493	–	5,493
Net unrealized gain/(loss) on securities available-for-sale, net of reclassification and tax effects	–	–	695	–	–	695
Comprehensive income	–	–	–	–	–	6,188
Issuance of 10,857 shares of common stock at $5.75 - $22.15 per share, under stock option plan	2	143	–	–	–	145
Cash dividends, $1.12 per share	–	–	–	(3,067)	–	(3,067)
Balance at December 31, 2002	$ 351	$ 3,392	$ 950	$35,895	$(1,440)	$39,148

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Dollars in thousands)

	Year Ended December 31,		
	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 5,493	$ 4,710	$ 4,371
Adjustments to reconcile net income to net cash provided by operating activities:			
Origination of loans for sale	(7,228)	(5,060)	(658)
Sale of loans originated for sale	7,523	4,763	795
Depreciation and amortization, net of accretion	1,232	935	854
Amortization of mortgage servicing rights	44	29	12
Amortization of investment in real estate limited partnerships	50	50	46
Equity in loss of investment in limited partnership, net of interest received	52	5	–
Net gains on securities	(143)	(142)	–
Net gains on sale of loans	(176)	(64)	(34)
Net gains on sale of foreclosed real estate	(57)	(12)	–
Provision for loan losses	720	230	175
Net change in:			
Interest receivable	56	104	(115)
Other assets	(1,375)	(604)	87
Accrued expenses and other liabilities	1,434	689	(191)
Total adjustments	2,132	923	971
Net cash from operating activities	7,625	5,633	5,342
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from maturities of securities available-for-sale	6,000	12,000	5,005
Proceeds from sales of securities available-for-sale	7,964	11,111	–
Purchase of securities available-for-sale	(7,125)	(48,695)	(1,005)
Proceeds from maturities of securities held-to-maturity	2,500	20,686	500
Purchase of securities held-to-maturity	–	(8,001)	–
Proceeds from sales of mortgage-backed securities available-for-sale	922	–	–
Principal collected on mortgage-backed securities held-to-maturity	230	113	189
Principal collected on CMO and mortgage-backed securities available-for-sale	5,233	596	–
Purchase of CMO and mortgage-backed securities available-for-sale	(4,111)	(17,894)	–
Purchase of CMO and mortgage-backed securities held-to-maturity	–	(581)	(346)
Purchase of investment in real estate limited partnerships	(53)	(41)	(47)
Purchase of Federal Home Loan Bank Stock	(448)	(248)	(199)
Loan participations purchased	(14,711)	–	(5,354)
Net change in loans receivable	(24,047)	(17,356)	(25,294)
Purchase of premises and equipment, net	(2,160)	(1,073)	(2,196)
Proceeds from sale of foreclosed real estate	775	523	–
Net cash from investing activities	(29,031)	(48,860)	(28,747)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Change in deposits	51,458	30,905	17,663
Proceeds from FHLB advances	9,000	5,500	11,750
Repayment of FHLB advances	(4,500)	–	(14,250)
Change in other borrowed funds	(13,424)	8,890	14,492
Proceeds from issuance of common stock	145	222	60
Dividends paid	(3,009)	(2,773)	(2,531)
Treasury stock purchased	–	–	(993)
Net cash from financing activities	39,670	42,744	26,191
Net change in cash and cash equivalents	18,264	(483)	2,786
Cash and cash equivalents at beginning of period	16,936	17,419	14,633
Cash and cash equivalents at end of period	$ 35,200	$ 16,936	$ 17,419
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest	$ 10,141	$ 13,315	$ 13,332
Income taxes	$ 3,710	$ 2,654	$ 2,912
SUPPLEMENTAL NONCASH INFORMATION:			
Transfers from loans to foreclosed real estate	$ 638	$ 522	$ 100

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2002, 2001 and 2000

NOTE 1 — Summary of Significant Accounting Policies

Principles of Consolidation — The consolidated financial statements include NorthWest Indiana Bancorp (the Bancorp), its wholly-owned subsidiary, Peoples Bank SB (the Bank), and the Bank's wholly-owned subsidiary, Peoples Service Corporation. The Bancorp has no other business activity other than being a holding company for the Bank. The Bancorp's earnings are dependent upon the earnings of the Bank. Peoples Service Corporation provides insurance and annuity investments to the Bank's trust customers. 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 financial instruments and status of contingencies are particularly susceptible to material change in the near term.

Concentrations of Credit Risk — The Bancorp grants residential, commercial real estate, commercial business and installment loans to customers primarily of Lake County, in northwest Indiana. Substantially all loans are secured by specific items of collateral including residences, commercial real estate, business assets and consumer assets.

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

Securities — The Bancorp classifies securities into held to maturity, available for sale, or trading categories. Held to maturity securities are those which the Bancorp has the positive intent and ability to hold to maturity, and are reported at amortized cost. Available for sale securities are those the Bancorp may decide to sell if needed for liquidity, asset-liability management or other reasons. Available for sale securities are reported at fair value, with unrealized gains and losses reported in other comprehensive income. The Bancorp does not have a trading portfolio. Realized gains and losses resulting from the sale of securities are computed by the specific identification method. Interest and dividend income, adjusted by amortization of premium or discount, are included in earnings. Securities are written down to fair value when a decline in fair value is not temporary.

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

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

Allowance for Loan Losses — The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses, and decreased by charge-offs less recoveries. Estimating the risk of loss and the amount of loss on any loan is necessarily subjective. Accordingly, the allowance is maintained by management at a level considered adequate based on past loss experience, general economic conditions, information about specific borrower situations including their financial position and collateral values, and other factors and estimates which are subject to change over time. While management may periodically allocate portions of the allowance for specific problem loans, the whole allowance is available for any loan charge-offs that occur. Loan losses are charged against the allowance when management believes that uncollectibility of a loan a balance is confirmed.

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

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

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

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

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

Investment in Real Estate Limited Partnerships — Investment in real estate limited partnerships represent the Bancorp's investments in affordable housing projects for the primary purpose of available tax benefits. One investment is accounted for using the cost method of accounting. The excess of the carrying amount of the investment over its estimated residual value is amortized during the periods in which associated tax credits are allocated to the investor. The annual amortization of the investment is based on the proportion of tax credits received in the current year to total estimated tax credits to be allocated to the Bancorp. The other investment is accounted for using the equity method of accounting. Under the equity method of accounting, the Bancorp records its share of the partnership's earnings or losses in its income statement and adjusts the carrying amount of the investments on the balance sheet. These investments are reviewed for impairment when events indicate their carrying amounts may not be recoverable from future undiscounted cash flows. If impaired, the investments are reported at fair value. The Bancorp's involvement in these types of investments is for tax planning purposes only and as such, the Bancorp is not involved in the management or operation of such investments.

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

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

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

Stock Compensation — Employee compensation expense under stock options is reported using the intrinsic value method. No stock-based compensation cost is reflected in net income, as all options granted had an exercise price equal to or greater than the market price of the underlying common stock at date of grant. The following table illustrates the effect on net income and earnings per common share if expense was measured using the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation.*

	(Dollars in thousands, except per share data)		
	2002	2001	2000
Net income as reported	$5,493	$4,710	$4,371
Deduct: Stock-based compensation expense determined under fair value based method	(39)	(39)	(37)
Pro forma net income	5,454	4,671	4,334
Basic earnings per common share as reported	2.01	1.73	1.61
Pro forma basic earnings per common share	1.99	1.72	1.60
Diluted earnings per common share, as reported	1.99	1.71	1.60
Pro forma diluted earnings per common share	1.98	1.70	1.58

The pro forma effects are computed using option pricing models, using the following weighted-average assumptions as of grant date.

	2002	2001	2000
Risk-free interest rate	4.69%	5.17%	5.14%
Expected option life	6-7 years	6-7 years	6-7 years
Expected stock price volatility	10.87%	11.37%	11.59%
Dividend yield	4.70%	4.92%	4.66%

The expected life for options granted in 2002, 2001 and 2000 is 6 to 7 years.

Income Taxes — The Bancorp records income tax expense based on the amount of taxes due on its tax return, plus deferred taxes computed based on the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

Off-Balance Sheet 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.

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

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

Comprehensive Income — Comprehensive income consists of net income and other comprehensive income. Other comprehensive income for the Bancorp includes unrealized gains and losses on securities available-for-sale, which is also recognized as a separate component of equity.

Newly Issued But Not Yet Effective Accounting Standards —New accounting standards on asset retirement obligations, restructuring activities and exit costs, operating leases, and early extinguishment of debt were issued in 2002. Management determined that when the new accounting standards are adopted in 2003 they will not have a material impact on the Bancorp's financial condition or results of operations.

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

Industry Segments — While the Bancorp's chief decision-maker 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 years ended December 31, 2001 and 2000, have been reclassified to conform to the December 31, 2002 presentation.

NOTE 2 — Securities

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

	(Dollars in thousands) Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
2002			
U.S. government and federal agencies	$40,090	$ 1,394	$ —
CMOs and mortgage-backed securities	15,375	209	(19)
Municipal securities	537	—	—
Total debt securities	$56,002	$ 1,603	$ (19)
2001			
U.S. government and federal agencies	$46,630	$ 657	$ (146)
CMOs and mortgage-backed securities	17,331	34	(121)
Total debt securities	$63,961	$ 691	$ (267)

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

	(Dollars in thousands) Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
2002				
Mortgage-backed securities	$ 569	$ 25	$ —	$ 594
Total debt securities	$ 569	$ 25	$ —	$ 594
2001				
U.S. government and federal agencies	$2,500	$ 36	$ —	$2,536
Mortgage-backed securities	799	7	(1)	805
Total debt securities	$3,299	$ 43	$ (1)	$3,341

The net carrying amount and fair value, if different, of debt securities by contractual maturity at December 31, 2002, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	(Dollars in thousands)		
	Available-for-sale	*Held-to-maturity*	
	Fair Value	*Net Carrying Amount*	*Fair Value*
Due in one year or less	$ 9,127	$ —	$ —
Due from one to five years	31,500	—	—
CMOs and mortgage-backed securities	15,375	569	594
Total	$ 56,002	$ 569	$594

During 2002 and 2001 proceeds from sales of securities available for sale were $7,964,000 and $11,111,000 with gross gains of $143,000 and $125,000 and gross losses of $-0- and $1,000, respectively. There were no sales of securities available for sale during the year ended December 31, 2000. In 2001, certain securities were called or matured and resulted in $18,000 of securities gains. Securities with carrying values of $22,420,000 and $20,999,000 were pledged as of December 31, 2002 and 2001 as collateral for borrowings from the FHLB, repurchase agreements and public funds and for other purposes as permitted or required by law.

NOTE 3 — Loans Receivable

Year end loans are summarized below:

	(Dollars in thousands) 2002	2001
Loans secured by real estate:		
Construction and land development	$ 13,449	$ 12,652
Residential, including home equity	222,886	190,917
Commercial real estate and other dwelling	98,206	91,486
Total loans secured by real estate	334,541	295,055
Consumer loans	6,283	9,889
Commercial business and other	40,327	38,292
Subtotal	381,151	343,236
Less:		
Net deferred loan origination fees	(586)	(423)
Undisbursed loan funds	(137)	(171)
Loans receivable	$380,428	$342,642

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

	2002	*(Dollars in thousands)* 2001	2000
Balance at beginning of period	$3,156	$3,322	$3,309
Provision charged to income	720	230	175
Loans charged off	(336)	(625)	(170)
Recoveries	95	229	8
Balance at end of period	$3,635	$3,156	$3,322

Nonperforming loans at year end were as follows:

	(Dollars in thousands) 2002	2001
Loans past due over 90 days still on accrual	$ 382	$ 415
Nonaccrual loans (including impaired loans)	2,003	2,490

Impaired loans at year end were as follows:

	2002	*(Dollars in thousands)* 2001	2000
Year end loans with no allocated allowances for loan losses	$ —	$ —	$ 58
Year end loans with allocated allowances for loan losses	1,271	1,460	233
Total	$1,271	$1,460	$291
Amount of the allowance for loan losses allocated	$ 475	$ 708	$233
Average of impaired loans during the year	1,320	1,096	47
Interest income recognized during impairment	—	—	—
Cash-basis interest income recognized	—	—	—

NOTE 4 — Secondary Market Mortgage Activities

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

	(Dollars in thousands) 2002	2001
Mortgage loan portfolio serviced for FHLMC	$16,691	$13,261

Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately $98,000 and $119,000 at December 31, 2002 and 2001.

Activity for capitalized mortgage servicing rights was as follows:

	(Dollars in thousands) 2002	2001
Servicing rights:		
Beginning of year	$112	$103
Additions	83	38
Amortized to expense	(44)	(29)
End of year	$151	$112

At year end 2002 and 2001, there was no valuation allowance required.

NOTE 5 — Premises and Equipment, Net

At year end, premises and equipment are summarized below:

	(Dollars in thousands) 2002	2001
Cost:		
Land	$ 1,663	$ 1,663
Buildings and improvements	7,942	7,183
Furniture and equipment	6,138	4,852
Total cost	15,743	13,698
Less accumulated depreciation and amortization	(6,283)	(5,544)
Premises and equipment, net	$ 9,460	$ 8,154

Depreciation expense was $854,000, $814,000 and $822,000 for 2002, 2001 and 2000.

NOTE 6 — Income Taxes

Components of the income tax expenses consist of the following:

	2002	(Dollars in thousands) 2001	2000
Federal:			
Current	$2,898	$2,462	$2,174
Deferred	(240)	(175)	4
State:			
Current	668	515	512
Deferred	(49)	(48)	1
Income tax expenses	$3,277	$2,754	$2,691

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

	2002	(Dollars in thousands) 2001	2000
Federal statutory rate	34%	34%	34%
Tax expense at statutory rate	$2,982	$2,538	2,401
State tax, net of federal effect	408	308	338
Other	(113)	(92)	(48)
Total income tax expenses	$3,277	$2,754	2,691

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

	(Dollars in thousands) 2002	2001
Deferred tax assets:		
Bad debts	$ 1,262	$ 935
Deferred loan fees	228	163
Deferred compensation	561	552
Other	185	133
Total deferred tax assets	2,236	1,783
Deferred tax liabilities:		
Unrealized appreciation on securities available-for-sale	(633)	(168)
Depreciation	(382)	(269)
Other	(128)	(77)
Total deferred tax liabilities	(1,143)	(514)
Valuation allowance	–	–
Net deferred tax assets	$ 1,093	$1,269

The Bancorp had qualified under provisions of the Internal Revenue Code to deduct from taxable income a provision for bad debts in excess of the provision for such losses charged to income in the financial statements, if any. Accordingly, retained earnings at December 31, 2002 and 2001 includes approximately $5,982,000 for which no provision for federal income taxes has been made. If, in the future, this portion of retained earnings is used for any purpose other than to absorb bad debt losses, federal income taxes would be imposed at the then applicable rates. The unrecorded deferred income tax liability on the above amounts was approximately $2,034,000 at December 31, 2002 and 2001. Tax legislation passed in August 1996 now requires the Bancorp to deduct a provision for bad debts for tax purposes based on actual loss experience and to recapture the excess bad debt reserve accumulated in tax years after 1986. The related amount of deferred tax which must be recaptured is $855,000 and is payable over a six year period beginning in 1998.

NOTE 7 — Deposits

The aggregate amount of certificates of deposit with a balance of $100,000 or more was $64,400,000 at December 31, 2002 and $55,981,000 at December 31, 2001.

At December 31, 2002, scheduled maturities of certificates of deposit were as follows:

	(Dollars in thousands)
2003	$163,806
2004	24,192
2005	1,854
2006	754
Total	$190,606

NOTE 8 — Borrowed Funds

At year end, borrowed funds are summarized below:

	(Dollars in thousands) 2002	2001
Repurchase agreements	$12,631	$15,623
Fixed rate advances from the FHLB	12,000	5,500
Putable advances from the FHLB	9,500	11,500
Line of credit from the FHLB	–	10,697
Limited partnership obligation	307	365
Other	1,627	1,304
Total	$36,065	$44,989

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

	(Dollars in thousands) 2002	2001
Ending balance	$12,631	$15,623
Average balance during the year	15,302	15,003
Maximum month-end balance during the year	20,320	16,602
Securities underlying the agreements at year end:		
Carrying value	19,333	18,934
Fair value	19,333	18,955
Average interest rate during the year	2.53%	4.23%

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

	(Dollars in thousands) 2002	2001
Fixed rate advances, maturing December 2003 through September 2005, at rates from 2.92% to 4.43%	$12,000	$ 5,500
Putable advances, maturing October 2004 through July 2008, at rates from 3.40% to 6.05%, average rate: 2002 - 5.58%; 2001 - 5.60%	$ 9,500	$11,500

Fixed rate advances are payable at maturity, with a prepayment penalty. Putable advances are fixed for a period of one to three years and then may adjust quarterly to the three-month London Interbank Offered Rate until maturity. Once the putable advance interest rate adjusts, the Bancorp has the option to prepay the advance on specified quarterly interest rate reset dates. The advances were collateralized by $166,471,000 and $139,512,000 of securities and mortgage loans under a blanket lien arrangement at December 31, 2002 and 2001.

The limited partnership obligation represents an investment interest in a partnership formed for the construction, ownership and management of affordable housing projects. The original amount of the note was $500,000. Funding began during 2001 and will continue over a nine year period. Payments are required within ten days of written demand. The obligation to make payment is absolute and unconditional. The note requires no payment of interest.

At December 31, 2002, scheduled maturities of borrowed funds were as follows:

	(Dollars in thousands)
2003	$11,463
2004	11,919
2005	8,061
2006	2,567
2007	55
Thereafter	2,000
Total	$36,065

NOTE 9 — Employees' Benefit Plans

The Bancorp maintains a Profit Sharing Plan and Trust for all employees who meet the plan qualifications. Employees are eligible to participate in the Employees' Profit Sharing Plan and Trust if they are 21 years of age or older and have completed one year of employment with more than 1,000 hours of service to the Bancorp. The plan is noncontributory on the part of the employee. Contributions to the Employees' Profit Sharing Plan and Trust are made at the discretion of the Bancorp's Board of Directors. Contributions during the years ended December 31, 2002, 2001 and 2000 were based on 11% of the participants' total compensation excluding incentives. Participants in the plan become 100% vested upon completion of five years of service. The benefit plan expense amounted to $447,000, $402,000 and $370,000 for the years ended December 31, 2002, 2001 and 2000.

The Bancorp maintains an Unqualified Deferred Compensation Plan (the Plan). The purpose of the Plan is to provide deferred compensation to key senior management employees of the Bancorp in order to recognize their substantial contributions to the Bank and provide them with additional financial security as inducement to remain with the Bank. The Compensation Committee selects which persons shall be participants in the Plan. Participants' accounts are credited each year with an amount based on a formula involving the participant's employer funded contributions under all qualified plans and the limitations imposed by Internal Revenue Code subsection 401(a)(17) and Code section 415. The Plan expense amounted to $4,687, $6,897 and $5,781 for the years ended December 31, 2002, 2001 and 2000.

The Bancorp maintains a Supplemental Executive Retirement Plan (the Plan). The Plan is established as an unfunded, non-qualified deferred compensation plan. The Plan provides a means for the payment of supplemental retirement benefits to a select group of key senior management employees, in recognition of their substantial contributions to the operation of the Bancorp, and to provide those individuals with additional financial security. The Board of Directors determines plan participants and contributions. There was no plan expense for the years ended December 31, 2002, 2001 and 2000.

Directors have deferred some of their fees in consideration of future payments. Fee deferrals, including interest totaled $22,000, $31,000, and $50,000 for 2002, 2001 and 2000. The deferred fee liability at December 31, 2002 and 2001 was $1,451,000 and $1,429,000.

NOTE 10 — Defined Benefit Postretirement Plan

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

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

	(Dollars in thousands) 2002	2001
Change in postretirement benefit obligation:		
Beginning postretirement benefit obligation	$ 132	$ 125
Unrecognized net actuarial loss	100	–
Service cost	6	5
Interest cost	9	10
Plan participants' contributions	8	8
Benefits paid	(16)	(16)
Ending postretirement benefit obligation	239	132
Change in plan assets	–	–
Funded status	(239)	(132)
Unrecognized net actuarial (gain)/loss	40	(63)
Accrued benefit cost	$(199)	$(195)

	2002	(Dollars in thousands) 2001	2000
Assumptions used:			
Discount rate	6.75%	7.0%	8.0%
Annual increase in health care cost trend rate:			
Year one	5.0%	5.0%	6.0%
Year two	5.0%	5.0%	5.0%
Year three	5.0%	5.0%	5.0%
Thereafter	5.0%	5.0%	5.0%
Components of net periodic postretirement benefit cost:			
Service cost	$ 6	$ 5	$ 5

Interest cost	9	10	9
Unrecognized net actuarial gain	(3)	(3)	(3)
Net periodic postretirement benefit cost	$ 12	$ 12	$ 11

A 1% increase or decrease in the health care cost trend rate assumptions would not have a material impact on the postretirement benefit obligation or expense.

NOTE 11 — Regulatory Capital

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

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

	Actual		*Minimum Required for Capital Adequacy*	*Purposes*	*Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations*	
	Amount	*Ratio*	*Amount*	*Ratio*	*Amount*	*Ratio*
2002						
Total capital (to risk-weighted assets)	$41.8	13.1%	$ 25.6	8.0%	$32.0	10.0%
Tier 1 capital (to risk-weighted assets)	$38.1	11.9%	$ 12.8	4.0%	$19.2	6.0%
Tier 1 capital (to adjusted average assets)	$38.1	7.6%	$ 15.0	3.0%	$25.0	5.0%
2001						
Total capital (to risk-weighted assets)	$38.8	13.6%	$ 22.8	8.0%	$28.5	10.0%
Tier 1 capital (to risk-weighted assets)	$35.6	12.5%	$ 11.4	4.0%	$17.1	6.0%
Tier 1 capital (to adjusted average assets)	$35.6	8.3%	$ 12.8	3.0%	$21.3	5.0%

The Bancorp and the Bank were categorized as well capitalized at December 31, 2002 and 2001. There are no conditions or events since December 31, 2002 that management believes have changed the Bancorp's or Bank's category.

The Bancorp's ability to pay dividends is entirely dependent upon the Bank's ability to pay dividends to the Bancorp. Under Indiana law, the Bank may pay dividends of so much of its undivided profits (generally, earnings less losses, bad debts, taxes and other operating expenses) as is considered expedient by the Bank's Board of Directors. However, the Bank must obtain the approval of the Indiana Department of Financial Institutions for the payment of a dividend if the total of all dividends declared by the Bank during the current year, including the proposed dividend, would exceed the sum of retained net income for the year to date plus its retained net income for the previous two years. For this purpose, "retained net income" means net income as calculated for call report purposes, less all dividends declared for the applicable period. Moreover, the FDIC and the Federal Reserve Board may prohibit the payment of dividends if it determines that the payment of dividends would constitute an unsafe or unsound practice in the light of the financial condition of the Bank. The aggregate amount of dividends which may be declared by the Bank in 2003, without prior regulatory approval, approximates $4,953,000 plus current 2003 net profits.

NOTE 12 — Stock Option Plan

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

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

	Number of options	*Weighted-average exercise price*	*Weighted-average fair value of grants*
Outstanding, January 1, 2000	98,713	$ 15.32	
Granted	26,570	21.13	$ 2.87
Exercised	(5,973)	10.06	
Forfeited	–	–	
Expired	–	–	
Outstanding, December 31, 2000	119,310	16.85	
Granted	13,475	19.50	1.71
Exercised	(22,960)	9.69	
Forfeited	–	–	
Expired	–	–	
Outstanding, December 31, 2001	109,825	$ 18.68	
Granted	17,850	22.15	1.82
Exercised	(10,857)	13.28	
Forfeited	–	–	
Expired	–	–	
Outstanding, December 31, 2002	116,818	$ 19.71	

Options exercisable at year-end are as follows:

	Number of options	*Weighted-average exercise price*
2000	30,240	$ 9.52
2001	27,030	$ 14.97
2002	29,911	$ 16.31

At December 31, 2002, options outstanding were as follows:

	Outstanding			Exercisable	
Range of Exercise Prices	*Number*	*Weighted Average Remaining Contractual Life (Years)*	*Weighted Average Exercise Price*	*Number*	*Weighted Average Exercise Price*
$10.00 - $14.99	7,330	2.4	$11.72	7,330	$11.72
$15.00 - $19.99	26,406	6.1	17.79	14,431	16.36
$20.00 - $22.15	83,082	6.8	21.03	8,150	20.35
Outstanding at year end	116,818	6.4	$19.71	29,911	$16.31

NOTE 13 — Earnings Per Share

A reconciliation of the numerators and denominators of the basic earnings per common share and diluted earnings per common share computations for the years ended December 31, 2002, 2001 and 2000 is presented below.

	2002	*2001*	*2000*
Basic earnings per common share:			
Net income available to common stockholders	$5,493,000	$4,710,000	$4,371,000
Weighted-average common shares outstanding	2,735,388	2,719,967	2,716,697
Basic earnings per common share	$ 2.01	$ 1.73	$ 1.61
Diluted earnings per common share:			
Net income available to common stockholders	$5,493,000	$4,710,000	$4,371,000
Weighted-average common shares outstanding	2,735,388	2,719,967	2,716,697
Add: dilutive effect of assumed stock option exercises	21,172	21,697	25,233
Weighted-average common and dilutive potential common shares outstanding	2,756,560	2,741,664	2,741,930
Diluted earnings per common share	$ 1.99	$ 1.71	$ 1.60

Stock options for 25,570 shares of common stock were not considered in computing diluted earnings per common share for 2000 because they were antidilutive.

NOTE 14 — Related Party Transactions

The Bancorp had aggregate loans outstanding to directors and executive officers (with individual balances exceeding $60,000) of $4,302,000 at December 31, 2002 and $9,761,000 at December 31, 2001. For the year ended December 31, 2002, the following activity occurred on these loans:

	(Dollars in thousands)
Aggregate balance — January 1, 2002	$ 9,761
New loans	100
Repayments	(5,186)
Effect of changes in related parties	(373)
Aggregate balance — December 31, 2002	$ 4,302

Deposits from directors and executive officers at December 31, 2002 were $4.9 million.

NOTE 15 — Commitments and Contingencies

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

	Fixed Rate	(Dollars in thousands) Variable Rate	Total
December 31, 2002:			
Real estate	$ 9,157	$16,480	$25,637
Consumer loans	–	61	61
Commercial business	–	26,174	26,174
Total	$ 9,157	$42,715	$51,872
December 31, 2001:			
Real estate	$14,557	$19,481	$34,038
Consumer loans	–	56	56
Commercial business	–	28,879	28,879
Total	$14,557	$48,416	$62,973

The $9,157,000 in fixed rate commitments outstanding at December 31, 2002 had interest rates ranging from 5.00% to 7.75%, for a period not to exceed forty-five days.

Standby letters of credit are conditional commitments issued by the Bancorp to guarantee the performance of a customer to a third party. At December 31, 2002 and 2001, the Bancorp had standby letters of credit totaling $1,278,000 and $716,000. The Bancorp evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bancorp upon extension of credit, is based on management's credit evaluation of the borrower. Collateral obtained may include accounts receivable, inventory, property, land or other assets.

NOTE 16 — Fair Values of Financial Instruments

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

	(Dollars in thousands) December 31, 2002	
	Carrying Value	Estimated Fair Value
Financial assets		
Cash and cash equivalents	$ 35,200	$ 35,200
Securities available-for-sale	56,002	56,002
Securities held-to-maturity	569	594
Loans held for sale	601	614
Loans receivable, net	376,793	383,858
Federal Home Loan Bank stock	2,672	2,672
Accrued interest receivable	2,363	2,363
Investment in real estate limited partnerships	1,034	1,034
Financial liabilities		
Demand and savings deposits	(216,067)	(216,067)
Certificates of deposit	(190,606)	(192,191)
Borrowed funds	(36,065)	(37,300)
Accrued interest payable	(90)	(90)

	(Dollars in thousands) December 31, 2001	
	Carrying Value	Estimated Fair Value
Financial assets		
Cash and cash equivalents	$ 16,936	$ 16,936
Securities available-for-sale	63,961	63,961
Securities held-to-maturity	3,299	3,341
Loans held for sale	807	807
Loans receivable, net	339,486	346,807
Federal Home Loan Bank stock	2,224	2,224
Accrued interest receivable	2,419	2,419
Investment in real estate limited partnerships	1,083	1,083
Financial liabilities		
Demand and savings deposits	(171,472)	(171,472)
Certificates of deposit	(183,743)	(185,528)
Borrowed funds	(44,989)	(45,300)
Accrued interest payable	(136)	(136)

For purposes of the above disclosures of estimated fair value, the following assumptions were used as of December 31, 2002 and 2001. The estimated fair value for cash and cash equivalents, Federal Home Loan Bank stock and investments in real estate limited partnerships are considered to approximate cost. The estimated fair value for securities is based on quoted market values for the individual securities or equivalent securities. The estimated fair value for loans is based on estimates of the rate the Bancorp would charge for similar such loans at December 31, 2002 and 2001, applied for the time period until estimated repayment. The estimated fair value for demand and savings deposits is based on their carrying value. The estimated fair value for certificates of deposits is based on estimates of the rate the Bancorp would pay on such deposits at December 31, 2002 and 2001, applied for the time period until maturity. The estimated fair value for borrowed funds is based on current rates for similar financing. The estimated fair value of other financial instruments, including mortgage servicing rights,and off-balance sheet loan commitments approximate cost and are not considered significant to this presentation.

While these estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that were the Bancorp to have disposed of such items at December 31, 2002 and 2001, the estimated fair values would necessarily have been achieved at that date, since market values may differ depending on various circumstances. The estimated fair values at December 31, 2002 and 2001 should not necessarily be considered to apply at subsequent dates.

NOTE 17 — Other Comprehensive Income (Loss)

Other comprehensive income components and related taxes were as follows:

	2002	2001	2000
Net change in net unrealized gains and losses on securities available for sale:			
Unrealized gains arising during the year	$1,302	$ 564	$ 372
Reclassification adjustment for gains included in net income	(143)	(142)	–
Net change in net unrealized gains and losses on securities available for sale	1,159	422	372
Tax effects, net	(464)	(168)	(149)
Total other comprehensive income	$ 695	$ 254	$ 223

NOTE 18 — Selected Quarterly Financial Data (Unaudited)

Selected quarterly financial data are summarized as follows:

Year ended December 31,2002:

	(Dollars in thousands, except per share data)			
	March 31, 2002	*June 30, 2002*	*September 30, 2002*	*December 31, 2002*
Total interest income	$ 6,852	$6,993	$ 6,965	$ 6,971
Total interest expense	2,658	2,573	2,484	2,392
Net interest income	4,194	4,420	4,481	4,579
Provision for loan losses	130	150	220	220
Net interest income after provision for loan losses	4,064	4,270	4,261	4,359
Total noninterest income	636	657	746	636
Total noninterest expense	2,602	2,728	2,747	2,782
Income before income taxes	2,098	2,199	2,260	2,213
Income tax expenses	792	832	858	795
Net income	$ 1,306	$1,367	$ 1,402	$ 1,418
Basic earnings per share	$ 0.48	$ 0.50	$ 0.51	$ 0.52
Diluted earnings per share	$ 0.48	$ 0.49	$ 0.51	$ 0.51

Year ended December 31, 2001:

	(Dollars in thousands, except per share data) March 31, 2001	June 30, 2001	September 30, 2001	December 31, 2001
Total interest income	$ 7,157	$7,290	$ 7,029	$ 6,949
Total interest expense	3,539	3,549	3,222	2,912
Net interest income	3,618	3,741	3,807	4,037
Provision for loan losses	45	45	90	50
Net interest income after provision for loan losses	3,573	3,696	3,717	3,987
Total noninterest income	548	607	598	649
Total noninterest expense	2,408	2,433	2,476	2,594
Income before income taxes	1,713	1,870	1,839	2,042
Income tax expenses	655	715	669	715
Net income	$ 1,058	$1,155	$ 1,170	$ 1,327
Basic earnings per share	$ 0.39	$ 0.43	$ 0.42	$ 0.49
Diluted earnings per share	$ 0.39	$ 0.42	$ 0.42	$ 0.48

NOTE 19 — Parent Company Only Statements

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

	2002	2001
Assets		
Cash on deposit with Peoples Bank	$ 627	$ 818
Investment in Peoples Bank	39,412	36,014
Dividends receivable from Peoples Bank	767	408
Other assets	824	—
Total assets	$ 41,630	$ 37,240
Liabilities and stockholders' equity Dividends payable	$ 767	$ 709
Other liabilities	1,715	649
Total liabilities	2,482	1,358
Common stock	351	349
Additional paid in capital	3,392	3,249
Accumulated other comprehensive income	950	255
Retained earnings	35,895	33,469
Treasury stock	(1,440)	(1,440)
Total stockholders' equity	39,148	35,882
Total liabilities and stockholders' equity	$ 41,630	$ 37,240

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

	2002	2001	2000
Dividends from Peoples Bank	$ 2,861	$ 2,527	$ 3,598
Operating expenses	118	111	110
Income before income taxes and equity in undistributed income of Peoples Bank	2,743	2,416	3,488
Provision (benefit) for income taxes	(47)	(44)	(44)
Income before equity in undistributed income of Peoples Bank	2,790	2,460	3,532
Equity in undistributed income of Peoples Bank	2,703	2,250	839
Net Income	$ 5,493	$ 4,710	$ 4,371

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

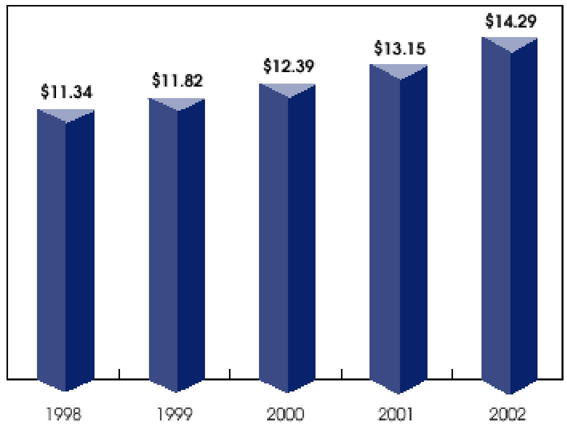
	2002	2001	2000
Cash flows from operating activities:			
Net income	$ 5,493	$ 4,710	$ 4,371
Adjustments to reconcile net income to net cash from operating activities			
Equity in undistributed net income of Peoples Bank	(2,703)	(2,250)	(839)
Change in other assets	(1,183)	268	(76)
Change in other liabilities	1,066	524	(278)
Total adjustments	(2,820)	(1,458)	(1,193)
Net cash from operating activities	2,673	3,252	3,178
Cash flows from investing activities	—	—	—
Cash flows from financing activities:			
Dividends paid	(3,009)	(2,773)	(2,531)
Treasury stock purchased	—	—	(993)
Proceeds from issuance of common stock	145	222	60
Net cash from financing activities	(2,864)	(2,551)	(3,464)
Net change in cash	(191)	701	(286)
Cash at beginning of year	818	117	403
Cash at end of year	$ 627	$ 818	$ 117

Market Information

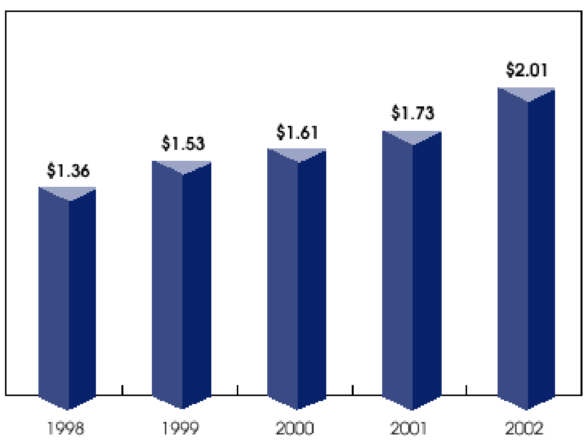
The Bancorp's Common Stock is traded in the over-the-counter market and quoted on the OTC Bulletin Board. The Bancorp's stock is not actively traded. As of February 28, 2003, the Bancorp had 2,741,329 shares of common stock outstanding and 523 stockholders of record. This does not reflect the number of persons or entities who may hold their stock in nominee or "street" name through brokerage firms. Set forth below are the high and low bid prices during each quarter for the years ended December 31, 2002 and December 31, 2001. The bid prices reflect inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions. Also set forth is information concerning the dividends declared by the Bancorp during the periods reported. Note 11 to the Financial Statements describes regulatory limits on the Bancorp's ability to pay dividends.

		Per Share Prices High	Per Share Prices Low	Dividends Declared Per Common Share
Year Ended December 31, 2002	1st Quarter	$22.25	$21.00	$ .280
	2nd Quarter	23.20	22.30	.280
	3rd Quarter	23.50	23.00	.280
	4th Quarter	24.50	23.35	.280
Year Ended December 31, 2001	1st Quarter	$20.88	$19.00	$ .260
	2nd Quarter	21.00	20.00	.260
	3rd Quarter	20.75	20.25	.260
	4th Quarter	21.25	20.50	.260

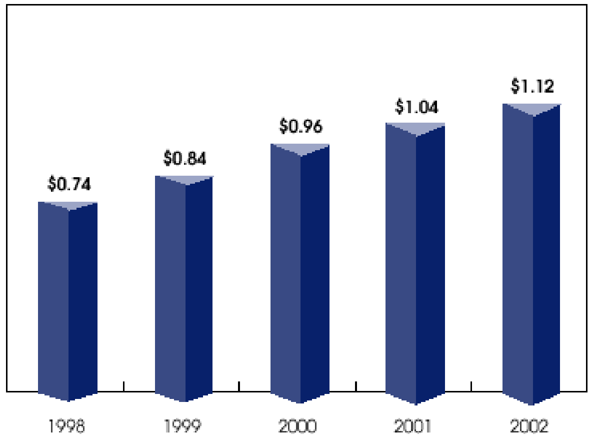
Book Value Per Share



Basic Earnings Per Share



Dividends Per Share


$0.74
$0.84
$0.96
$1.04
$1.12
1998
1999
2000
2001
2002

2002 Board of Directors

Top row, l to r:

David A. Bochnowski
Chairman and Chief Executive Officer, Munster, Indiana

Leroy Cataldi
Pharmacist, Dyer, Indiana

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

Lourdes M. Dennison
Administrative Director, Dennison Surgical Corp., Merrillville, Indiana

Second row, l to r:

Stanley E. Mize
Retired, Formerly President of Stan Mize Towne & Countree Auto Sales, Inc., Schererville, Indiana

James L. Wieser
Attorney, Wieser and Sterba Attorneys at Law, Schererville, Indiana

Frank Bochnowski
Retired Executive Vice President, General Counsel, Trust Officer and Corporate Secretary of the Bancorp, Munster, Indiana

Edward J. Furticella
Executive Vice President, Chief Financial Officer of the Bancorp, Munster, Indiana

Third row, l to r:

Joel Gorelick
Executive Vice President, Chief Lending Officer of the Bancorp, Munster, Indiana

Kenneth V. Krupinski
CPA and principal Swartz Retson, PC Merrillville, Indiana

Left to right:

Benjamin A. Bochnowski
Chairman Emeritus, Advisory Director

James J. Crandall
Director Emeritus

Harold G. Rueth
Director Emeritus,

Corporate Information

Directors of NorthWest Indiana Bancorp and Peoples Bank SB

David A. Bochnowski
Chairman and Chief Executive
Officer of the Bancorp, Munster, Indiana

Leroy F. Cataldi
Pharmacist, Dyer, Indiana

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

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

Stanley E. Mize
Retired; Formerly President of Stan Mize
Towne & Countree Auto Sales, Inc.,
Schererville, Indiana

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

Frank J. Bochnowski
Retired Executive Vice President,
General Counsel,
Trust Officer and Corporate Secretary
of the Bancorp, Munster, Indiana

Edward J. Furticella
Executive Vice President, Chief Financial
Officer of the Bancorp, Munster, Indiana

Joel Gorelick
Executive Vice President, Chief Lending
Officer of the Bancorp, Munster, Indiana

Kenneth V. Krupinski
CPA and Principal with
Swartz Retson, PC, Merrillville, Indiana

Chairman Emeritus, Advisory Director

Benjamin A. Bochnowski

Directors Emeriti

James J. Crandall
Harold G. Rueth
Albert J. Lesniak

Officers of NorthWest Indiana Bancorp and Peoples Bank SB

David A. Bochnowski
Chairman and Chief Executive Officer

Edward J. Furticella
Executive Vice President,
Chief Financial Officer

Joel Gorelick
Executive Vice President,
Chief Lending Officer

Jon E. DeGuilio
Executive Vice President,
General Counsel,
Trust Officer and Corporate Secretary

Officers of Peoples Bank SB

Daniel W. Moser
Senior Vice President, Retail Lending

Rodney L. Grove
Senior Vice President, Retail Banking

Robert T. Lowry
Senior Vice President, Controller

Tanya A. Buerger
Senior Vice President,
Information Technology

Management Personnel of Peoples Bank SB

Retail Banking

Jill M. Knight, Vice President,
Branch Coordinator

Michael J. McIntyre,
Vice President, Munster

Michael J. Shimala,
Assistant Vice President, Dyer

Alicia Q. McMahon, East Chicago

Marilyn K. Repp, Vice President, Hobart

Catherine L. Gonzalez,
Vice President, Merrillville (Broadway)

Colleen A. Wigmore,
Merrillville (Broadway)

Charman F. Williamson,
Merrillville (Taft)

Ronald P. Knestrict,

Assistant Vice President, Schererville
Karen M. Laude,
Assistant Vice President, Woodmar
Kelly A. Kapelinski, Woodmar
Meredith L. Bielak,
Assistant Vice President
Commercial Lending
Todd M. Scheub, Vice President
Terry R. Gadberry, Vice President
Brian E. Rusin, Assistant Vice President
Compliance
David W. Homrich, Vice President
Consumer Lending
James P. Lehr, Vice President
Clovese R. Robinson,
Assistant Vice President
Sharon V. Vacendak,
Assistant Vice President
Credit Administration
Christine M. Friel, Vice President
Jennifer L. McClure,
Assistant Vice President
Electronic Banking Services
Christopher A. Grencik, Vice President
Housing Finance
Leslie J. Bernacki,
Assistant Vice President
John R. Wren,
Assistant Vice President
Human Resource
Linda L. Kollada, Vice President
Internal Auditor
Stacy A. Januszewski, Vice President
Investment & Trust Services
Stephan A. Ziemba, Vice President
Randall H. Walker, Vice President
Loan Administration
Mary D. Mulroe, Vice President
Management Development
Carla J. Houck
Austin P. Logue
Donna M. Vurva
Marketing Director
Shannon E. Franko, Vice President
Operations
Arlene M. Wohadlo, Vice President
Michaelene M. Smith,
Assistant Vice President
Charlotte V. Conn,
Assistant Vice President

Corporate Headquarters
9204 Columbia Avenue
Munster, Indiana 46321

Telephone
219/836-4400

Stock Transfer Agent

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

Independent Auditors

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

Special Legal Counsel

Baker & Daniels
600 East 96th Street
Suite 600
Indianapolis, Indiana 46240

Annual Stockholders Meeting

The Annual Meeting of Stockholders of NorthWest Indiana Bancorp will be held at the Center for Visual & Performing Arts at 1040 Ridge Road, Munster, Indiana, on Wednesday, April 16, 2003 at 8:30 a.m.

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

NorthWest Indiana Bancorp,
9204 Columbia Avenue,
Munster, Indiana 46321.
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NorthWest Indiana BANCORP

CORPORATE HEADQUARTERS,
9204 Columbia Avenue
Munster, Indiana 46321

219/836-4400

Peoples Bank

SUBSIDIARY OF NORTHWEST INDIANA BANCORP

DYER, 1300 Sheffield Avenue, 322-2530
EAST CHICAGO, 4901 Indianapolis Blvd., 378-1000
HAMMOND, 7120 Indianapolis Blvd., 844-4500
HOBART, 1501 Lake Park Avenue, 945-1305
MERRILLVILLE, 7915 Taft Street, 796-9000
8600 Broadway, 685-8600
MUNSTER, 9204 Columbia Avenue, 836-4400
SCHERERVILLE, 141 W. Lincoln Highway, 865-4300

FDIC Insured

www.ibankpeoples.com

EXHIBIT 21

Subsidiaries of the Bancorp

	State of Incorporation
Peoples Bank SB	Indiana
Peoples Service Corporation	Indiana

Exhibit 99.1

CERTIFICATION 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, 2002, as filed with the Securities and Exchange Commission (the "Report"), I, David A. Bochnowski, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 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 20, 2003

/s/ David A. Bochnowski

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

Exhibit 99.2

CERTIFICATION 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, 2002, as filed with the Securities and Exchange Commission (the "Report"), I, Edward J. Furticella, Executive Vice President, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 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 20, 2003

/s/ Edward J. Furticella

Edward J. Furticella Executive
Vice President, Chief Financial
Officer and Treasurer