SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2006

OR

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

For the transition period from__________ to __________

Commission file number 0-26128

NorthWest Indiana Bancorp

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

Include by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (check one):
Large accelerated filer: ☐ Accelerated filer: ☐ Non-Accelerated filer: ☑

Based on the average bid and ask prices for the registrant's Common Stock at June 30, 2006, 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 $67,279,475.

There were 2,801,265 shares of the registrant's Common Stock, without par value, outstanding at February 23, 2007.

DOCUMENTS INCORPORATED BY REFERENCE

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

1. 2006 Annual Report to Shareholders. (Part II)
2. Definitive Proxy Statement for the 2007 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 and the Bank’s wholly owned subsidiaries.

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

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

The Bancorp maintains its corporate office at 9204 Columbia Avenue, Munster, Indiana, from which it oversees the operation of its 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 a number of factors, including those identified in Item 1A of this Form 10-K.

Lending Activities

General. The Bancorp's product offerings include residential mortgage loans, construction loans, commercial real estate loans, consumer loans 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 effectively to our primary market area.

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

Under Indiana Law, an Indiana stock savings bank generally may not make any loan to a borrower or its related entities if the total of all such loans by the savings bank exceeds 15% of its unimpaired capital and unimpaired surplus (plus up to an additional 10% of unimpaired capital and unimpaired surplus, in the case of loans fully collateralized by readily marketable collateral); provided, however, that certain specified types of loans are exempted from these limitations or subject to different limitations. The maximum amount that the Bank could have loaned to one borrower and the borrower's related entities at December 31, 2006, under the 15% of capital and surplus limitation was approximately $7,938,000. At December 31, 2006, the Bank had no loans that exceeded the regulatory limitations.

At December 31, 2006, 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).

	2006	2005	2004	2003	2002
Type of loan:					
Conventional real estate loans:					
Construction and development loans	$ 48,688	$ 47,957	$ 38,619	$ 23,674	$ 13,449
Loans on existing properties (1)	361,011	347,542	331,378	339,461	320,426
Consumer loans	3,012	3,983	4,685	5,099	6,293
Commercial business	46,751	50,069	47,270	35,767	39,009
Government and other (2)	12,254	19,492	11,838	5,807	1,251
Loans receivable (3)	$ 471,716	$ 469,043	$ 433,790	$ 409,808	$ 380,428
Type of collateral:					
Real estate:					
1-to-4 family	$ 232,271	$ 228,475	$ 226,695	$ 233,454	$ 222,620
Other dwelling units, land and commercial real estate	177,427	167,023	143,302	129,680	111,255
Consumer loans	2,904	3,966	4,559	4,909	6,102
Commercial business	45,671	49,044	44,923	34,554	37,477
Government and other (2)	12,254	19,492	11,838	5,807	1,251
Loans receivable (4)	$ 470,527	$ 468,000	$ 431,317	$ 408,404	$ 378,705
Average loans outstanding during the period (3)	$ 472,212	$ 443,523	$ 415,098	$ 394,955	$ 365,632

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

(2) Includes overdrafts to deposit accounts.

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

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

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

	2006	2005	2004
Loans originated:			
Conventional real estate loans:			
Construction and development loans	$ 11,212	$ 14,471	$ 22,845
Loans on existing property	46,713	55,685	48,678
Loans refinanced	9,853	7,461	12,920
Total conventional real estate loans originated	67,778	77,617	84,443
Commercial business loans	123,829	148,433	114,685
Consumer loans	3,197	3,516	4,124
Total loans originated	$ 194,804	$ 229,566	$ 203,252
Loan participations purchased	$ 12,354	$ 23,121	$ 17,756
Whole loans and participations sold	$ 9,142	$ 5,538	$ 16,100

Loan Maturity Schedule. The following table sets forth certain information at December 31, 2006 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	$ 61,543	$ 53,344	$ 294,811	$ 409,698
Consumer loans	664	2,282	74	3,020
Commercial business, other loans	35,634	15,730	7,634	58,998
Total loans receivable	$ 97,841	$ 71,356	$ 302,519	$ 471,716

The table below sets forth the dollar amount of all loans due after one year from December 31, 2006 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	$ 156,697	$ 192,032	$ 348,729
Consumer loans	2,899	—	2,899
Commercial business, other loans	24,502	5,963	30,465
Total	$ 184,098	$ 197,995	$ 382,093

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. The communities of Munster, Crown Point, Dyer, St. John, Merrillville, Schererville and Cedar Lake have experienced rapid growth and, therefore, have provided the greatest lending opportunities.

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

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

Designated officers have authorities, established by the Board of Directors, to approve loans. Loans from $600,000 to $2,000,000 are approved by the loan officers loan committee. Loans from $2,000,000 to $3,000,000 are approved by the senior officers loan committee. All loans in excess of $3,000,000, up to the legal lending limit of the Bank, must be approved by the Bank's Board of Directors or its Executive Committee. (All members of the Bank's Board of Directors and Executive Committee are also members of the Bancorp's Board of Directors and Executive Committee, respectively.) 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 2006 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 generally 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 20 and 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 $23.3 million for 2006, $28.9 million for 2005, and $34.2 million for 2004. During 2006, ARMs represented 59% of total mortgage loan originations. The ability of the Bancorp to successfully market ARM's depends upon loan demand, prevailing interest rates, volatility of interest rates, public acceptance of such loans, and terms offered by competitors.

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

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

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

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

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

Consumer Loans. The Bancorp offers consumer loans to individuals for 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 fixed and variable rate revolving line of credit secured by the equity in the borrower's home. Both products offer an interest only option where the borrower pays interest only on the outstanding balance each month. Equity lines will typically require a second mortgage appraisal and a second mortgage 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.

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

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

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

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).

	2006	2005	2004	2003	2002
Loans accounted for on a non-accrual basis:					
Real estate:					
Residential	$ 1,128	$ 784	$ 574	$ 601	$ 430
Commercial	1,467	62	136	137	1,197
Commercial business	301	266	266	611	363
Consumer	—	1	7	—	13
Total	$ 2,896	$ 1,113	$ 983	$ 1,349	$ 2,003
Accruing loans which are contractually past due 90 days or more:					
Real estate:					
Residential	$ 156	$ 53	$ 61	$ 370	$ 277
Commercial	—	815	5	—	105
Commercial business	—	130	—	—	—
Consumer	26	—	—	—	—
Total	$ 182	$ 998	$ 66	$ 370	$ 382
Total of non-accrual and 90 days past due	$ 3,078	$ 2,111	$ 1,049	$ 1,719	$ 2,385
Ratio of non-performing loans to total assets	0.50%	0.34%	0.19%	0.34%	0.49%
Ratio of non-performing loans to total loans	0.65%	0.45%	0.24%	0.42%	0.63%
Foreclosed real estate	$ 323	$ 260	$ 280	$ —	$ 127
Ratio of foreclosed real estate to total assets	0.05%	0.04%	0.05%	0.00%	0.03%

During 2006, gross interest income of $228,000 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 $100,000.

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 and Tier 1 risk-based capital requirements. Amounts reserved for by a specific allowance are not counted toward capital for purposes of any of the regulatory capital requirements. Loans, internally classified as substandard totaled $6.9 million at December 31, 2006, compared to $3.2 million at December 31, 2005. The increase in substandard loans is primarily related to an increase in loans secured by residential and commercial real estate loans. No loans were 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, management 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 totaled $7.6 million at December 31, 2006, compared to $8.9 million at December 31, 2005.

At December 31, 2006, impaired loans totaled $1.9 million, compared to $1.7 million at December 31, 2005. The impaired loan balances were also classified as non-performing loans at the end of both periods. The December 31, 2006 impaired loan balances consist of five impaired loans to two commercial borrowers that are secured by business assets and real estate, and are personally guaranteed by the owner of the business. 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 year ended, December 31, 2006.

At December 31, 2006, management is of the opinion that there are no loans, except those discussed above, where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as non-accrual, past due or restructured loans. Also, at December 31, 2006, there were no other interest bearing assets that would be required to be disclosed as non-accrual, past due, restructured or potential problems if such assets were loans. Management does not presently anticipate that any of the non-performing loans or classified loans would materially impact future operations, liquidity or capital resources.

Notwithstanding, the above, the Bancorp has a $1.1 million participation in a $6.4 million letter of credit, which acts as payment support to bondholders. While the Bancorp's management currently believes that the principal of the borrower has the financial capacity to meet future bond repayment obligations. Cash flows from the security collateralizing the letter of credit have been negatively impacted due to the closing of a major tenant. Management will continue to monitor the letter of credit and bond repayments.

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 probable incurred losses that arise from the loan portfolio and is not segregated for, or allocated to, any particular loan or group of loans. For the twelve months ended December 31, 2006, $15 thousand in additions to the ALL account were required, compared to $245 thousand for the twelve months ended December 31, 2005. The December 31, 2006 ALL contained a specific allowance for the collateral deficiency associated with three loans totaling $1.4 million, which had been classified as impaired at December 31, 2006 and December 31, 2005, and placed in non-accrual status during the first quarter of 2006. Recoveries, net of charge-offs, totaled $71 thousand for the current twelve months, compared to recoveries, net of charge-offs of $44 thousand for the twelve months ended December 31, 2005. Changes in the provision take into consideration management's current judgments about the credit quality of the loan portfolio, loan portfolio growth, changes in the portfolio mix and local economic conditions. In determining the provision for loan loss for the current period, management has given consideration to increased risks associated within the local economy, changes in loan mix and asset quality.

The ALL to total loans was 0.90% at December 31, 2006, compared to 0.89% at December 31, 2005, while the ALL to non-performing loans (coverage ratio) was 138.6% at December 31, 2006, compared to 198.1% at December 31, 2005. A consistently strong coverage ratio is an indicator that sufficient provisions for loan losses have been established. The December 31, 2006 balance in the ALL account of $4.3 million is considered adequate by management after evaluation of the loan portfolio, past experience and current economic and market conditions. While management may periodically allocate portions of the allowance for specific problem loans, the whole allowance is available for any loan charge-offs that occur. The allocation of the ALL reflects performance and growth trends within the various loan categories, as well as consideration of the facts and circumstances that affect the repayment of individual loans, and loans which have been pooled as of the evaluation date, with particular attention given to non-performing loans and loans which have been classified as substandard, doubtful or loss. Management has allocated general reserves to both performing and non-performing loans based on current information available.

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

	2006	2005	2004	2003	2002
Balance at beginning of period	$ 4,181	$ 3,892	$ 3,787	$ 3,635	$ 3,156
Loans charged-off:					
Real estate — residential	—	(37)	(14)	—	—
Commercial real estate	—	—	—	(136)	—
Commercial business	—	—	(297)	(120)	(300)
Consumer	(7)	—	(30)	(21)	(36)
Total charge-offs	(7)	(37)	(341)	(277)	(336)
Recoveries:					
Residential real estate	20	18	41	—	—
Commercial real estate	33	—	—	3	—
Commercial business	21	60	14	—	91
Consumer	4	3	6	6	4
Total recoveries	78	81	61	9	95
Net (charge-offs) / recoveries	71	44	(280)	(268)	(241)
Provision for loan losses	15	245	385	420	720
Balance at end of period	$ 4,267	$ 4,181	$ 3,892	$ 3,787	$ 3,635
ALL to loans outstanding	0.90%	0.89%	0.90%	0.92%	0.96%
ALL to nonperforming loans	138.60%	198.10%	371.00%	220.30%	152.40%
Net charge-offs / recoveries to average loans out - standing during the period	0.02%	0.01%	0.07%	0.07%	0.07%

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.

	2006		2005		2004		2003		2002	
	$	%	$	%	$	%	$	%	$	%
Real estate loans:										
Residential	761	60.0	644	55.1	550	57.2	500	58.9	450	58.0
Commercial and other dwelling	1,472	26.9	1,089	24.0	950	24.0	637	26.1	1,750	25.8
Consumer loans	87	0.6	99	6.1	150	5.2	150	4.8	120	5.6
Commercial business and other	1,947	12.5	2,349	14.8	2,242	13.6	2,500	10.2	1,315	10.6
Total	4,267	100.0	4,181	100.0	3,892	100.0	3,787	100.0	3,635	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, 2006, AFS securities totaled $83.8 million or 84.6% of total securities. AFS securities are those the Bancorp may decide to sell if needed for liquidity, asset-liability management or other reasons. During 2006, 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 agency securities, mortgage-backed securities, collateralized mortgage obligations and municipal securities. In addition, short-term funds are generally invested as interest-bearing balances in financial institutions and federal funds. At December 31, 2006, the Bancorp's investment portfolio totaled $99.0 million. In addition, the Bancorp had $0 in federal funds sold, and $3.5 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).

	2006	2005	2004
U.S. government agencies:			
Available-for-sale	40,504	45,843	42,947
Mortgage-backed securities (1):			
Available-for-sale	15,955	14,702	13,045
Held-to-maturity	538	550	564
Collateralized Mortgage Obligations(1):			
Available-for-sale	22,347	12,957	12,324
Municipal Securities:			
Available-for-sale	4,959	2,880	845
Held-to-maturity	14,709	13,161	10,254
Totals	$ 99,012	$ 90,093	$ 79,979

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

The contractual maturities and weighted average yields for the U.S. government securities, agency securities, municipal securities, mortgage-backed securities and collateralized mortgage obligations at December 31, 2006, 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	—	0%	—	0%	—	0%	—	0%
U.S. government Agencies:								
AFS	18,329	2.92%	18,682	4.00%	3,493	5.60%	—	0%
HTM	—	0%	—	0%	—	0%	—	0%
Municipal Securities:								
AFS	—	0%	310	3.17%	1,514	5.64%	3,135	5.95%
HTM	—	0%	—	0%	3,374	5.97%	11,335	6.10%
Mortgage-backed Securities:								
AFS	—	0%	2,150	3.99%	6,180	4.25%	7,625	5.37%
HTM	—	0%	—	0%	—	0%	538	5.53%
Collateralized Mortgage Obligations:								
AFS	—	0%	—	0%	—	0%	22,347	5.02%
Totals	$ 18,329	2.85%	$ 21,142	3.53%	$ 14,561	4.39%	$ 44,980	2.85%

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, 2006, the Bancorp had $14.7 million in repurchase agreements. Other borrowings totaled $36.8 million, of which $32.0 million represents FHLB advances.

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

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

	2006		2005		2004	
	Amount	Rate %	Amount	Rate %	Amount	Rate %
Demand deposits	$ 45,862	—	$ 49,506	—	$ 47,288	—
NOW accounts	56,412	1.06	56,119	0.79	52,857	0.78
MMDA accounts	133,558	3.06	105,130	1.63	78,326	1.07
Savings accounts	58,586	0.43	68,403	0.49	71,354	0.51
Certificates of deposit	213,419	3.99	203,723	2.68	191,004	1.95
Total deposits	$ 507,837	2.65	$ 482,881	1.65	$ 440,829	1.21

Maturities of time certificates of deposit and other time deposits of $100,000 or more at December 31, 2006 are summarized as follows. The amounts are stated in thousands (000's).

3 months or less	$ 35,148
Over 3 months through 6 months	25,723
Over 6 months through 12 months	17,839
Over 12 months	2,677
Total	$ 81,387

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 annually to the three-month London Interbank Offered Rate (LIBOR) until maturity. Once the putable advance interest rate adjusts, the Bancorp has the option to prepay the advance on specified annual interest rate reset dates without prepayment penalty.

The following 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).

	2006	2005	2004
Repurchase agreements	$ 14,717	$ 12,075	$ 11,458
Fixed rate advances from the FHLB	30,000	33,000	29,000
Putable advances from the FHLB	2,000	4,500	7,500
Variable advances from the FHLB	—	—	3,000
FHLB line-of-credit	3,089	—	5,242
Limited partnership obligation	60	124	186
Overdrawn due from & Treasury Tax & Loan	1,635	1,454	815
Total borrowings	$ 51,501	$ 51,153	$ 57,201

	At December 31,		
	2006	2005	2004
Balance	$14,717	$12,075	$11,458
Securities underlying the agreements:			
Ending carrying amount	20,329	21,122	20,108
Ending fair value	20,329	21,122	20,108
Weighted average rate paid (1)	4.20%	3.40%	2.13%

	For year ended December 31,		
	2006	2005	2004
Highest month-end balance	$21,715	$14,490	$15,233
Approximate average outstanding balance	14,186	13,938	13,439
Approximate weighted average rate paid on securities sold under agreements to repurchase (2)	3.42%	2.54%	1.80%

(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.

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.

Trust Powers

The activities of the Bancorp's Wealth Management Group provides estate and retirement planning, guardianships, land trusts, profit sharing and 401(k) retirement plans, IRA and Keogh accounts, investment agency accounts, and serves as personal representative of estates and acts as trustee for revocable and irrevocable trusts. At December 31, 2006, the market value of the Wealth Management Group's assets totaled $142.0 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, 2006.

Weighted average yield:	
Securities	4.26%
Loans receivable	6.20
Federal Home Loan Bank stock	4.75
Total interest-earning assets	6.10
Weighted average cost:	
Deposit accounts	3.06
Borrowed funds	3.76
Total interest-bearing liabilities	3.12
Interest rate spread:	
Weighted average yield on interest-earning assets minus the weighted average cost of interest-bearing funds	2.98

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,		
	2006	2005	2004
Return on average assets	1.04%	1.14%	1.17%
Return on average equity	13.42	14.67	14.64
Average equity-to-average assets ratio	7.76	7.75	8.01
Dividend payout ratio	60.41	55.09	54.57

	At December 31,		
	2006	2005	2004
Total stockholders' equity to total assets for the periods indicated:	8.08%	7.40%	7.91%

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, 2006			Year ended December 31, 2005			Year ended December 31, 2004		
	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	$ 8,080	$ 401	4.97%	$ 13,096	$ 418	3.19%	$ 5,571	$ 74	1.33%
Federal funds sold	1,965	95	4.85	718	53	7.38	597	13	2.17
Securities	98,759	4,057	4.11	88,634	3,289	3.71	79,965	2,818	3.52
Total investments	108,804	4,553	4.19	102,448	3,760	3.67	86,133	2,905	3.37
Loans*									
Real estate mortgage loans	405,062	25,819	6.37	376,290	22,363	5.94	362,200	21,007	5.80
Commercial business loans	63,457	4,356	6.86	63,047	3,633	5.76	47,551	2,371	4.99
Consumer loans	3,692	250	6.78	4,186	267	6.38	5,347	331	6.19
Total loans	472,211	30,425	6.44	443,523	26,264	5.92	415,098	23,709	5.71
Total interest-earning assets	581,015	34,978	6.02	545,971	30,024	5.50	501,232	26,614	5.31
Allowance for loan losses	(4,227)			(4,013)			(3,813)		
Cash and due from banks	13,491			16,027			15,963		
Premises and equipment	14,490			14,424			14,211		
Other assets	16,927			14,436			8,894		
Total assets	$ 621,696			$ 586,844			$ 536,486		
Liabilities:									
Demand deposit	$ 45,862	—	0.00%	$ 49,506	—	0.00%	$ 47,288	—	0.00%
NOW accounts	56,412	599	1.06	56,119	443	0.79	52,857	410	0.78
Money market demand accounts	133,558	4,091	3.06	105,130	1,710	1.63	78,326	837	1.07
Savings accounts	58,586	249	0.43	68,403	335	0.49	71,354	365	0.51
Certificates of deposit	213,419	8,520	3.99	203,723	5,458	2.68	191,005	3,727	1.95
Total interest-bearing deposits	507,837	13,459	2.65	482,880	7,946	1.65	440,830	5,339	1.21
Borrowed funds	60,224	2,278	3.78	54,260	1,812	3.34	48,975	1,519	3.10
Total interest-bearing liabilities	568,061	15,737	2.77	537,140	9,758	1.82	489,805	6,858	1.40
Other liabilities	5,381			4,212			3,723		
Total liabilities	573,442			541,352			493,528		
Stockholders' equity	48,254			45,492			42,958		
Total liabilities and stockholders' equity	$ 621,696			$ 586,844			$ 536,486		
Net interest income		$ 19,241			$ 20,266			$ 19,756	
Net interest spread			3.25%			3.68%			3.91%
Net interest margin**			3.31%			3.71%			3.94%

* 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, 2006 vs. 2005			Year ended December 31, 2005 vs. 2004			Year ended December 31, 2004 vs. 2003		
	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	$ 1,762	$ 2,399	$ 4,161	$ 1,662	$ 893	$ 2,555	$ 1,196	$ (1,620)	$ (424)
Securities	396	372	768	316	155	471	701	8	709
Other interest-earning assets	(150)	175	25	179	205	384	(61)	31	(30)
Total interest-earning assets	2,008	2,946	4,954	2,157	1,253	3,410	1,836	(1,581)	255
Interest Expense:									
Deposits	430	5,083	5,513	548	2,059	2,607	409	(1,280)	(871)
Borrowed Funds	211	255	466	171	122	293	359	(151)	208
Total interest-bearing liabilities	641	5,338	5,979	719	2,181	2,900	768	(1,431)	(663)
Net change in net interest income/(expense)	$ 1,367	$ (2,392)	$ (1,025)	$ 1,438	$ (928)	$ 510	$ 1,068	$ (150)	$ 918

Bank Subsidiary Activities

Peoples Service Corporation, a wholly owned subsidiary of the Bank was incorporated under the laws of the State of Indiana. The subsidiary currently provides insurance and annuity investments to the Bank's wealth management customers. At December 31, 2006, the Bank had an investment balance of $78 thousand in Peoples Service Corporation.

NWIN, LLC is a wholly owned subsidiary of the Bank. NWIN, LLC was incorporated under the laws of the State of Nevada as an investment subsidiary. The investment subsidiary currently holds Bank security investments, which are managed by a professional portfolio manager. In addition, the investment subsidiary is the parent of a real estate investment trust, NWIN Funding, Inc., that invests in real estate loans originated by the Bank. At December 31, 2006, the Bank had an investment balance of $209.1 million in NWIN, LLC.

NWIN Funding, Inc., was formed on September 1, 2006, as an Indiana Real Estate Investment Trust. The formation of NWIN Funding, Inc. provides the Bancorp with a vehicle that may be used to raise capital utilizing portfolio mortgages as collateral, without diluting stock ownership. In addition, NWIN Funding, Inc. will receive favorable state tax treatment for income generated by its operations. As a result, $127.4 million in real estate loans were paid as a dividend for an initial capital contribution from the Bank to NWIN Funding, Inc. on September 1, 2006.

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

Competition

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

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

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

Personnel

As of December 31, 2006, the Bank had 135 full-time and 26 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 Item 4.5 “Executive Officers of the Bancorp”), but has no other employees. The Bancorp’s officers also are full-time employees of the Bank, and are compensated by the Bank.

Regulation and Supervision

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

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

Under 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 DIF, which is administered by the FDIC. The Bank is not a member of the Federal Reserve System.

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

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

Branches and 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.

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, 2006, the Bancorp's capital exceeded all regulatory capital requirements. At December 31, 2006, the Bancorp's and the Bank's regulatory capital ratios were substantially the same. At December 31, 2006, 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	$54,665	12.0%	$ 36.4	8.0%	$ 45.5	10.0%
Tier 1 capital to risk weighted assets	$50,398	11.1%	$ 18.2	4.0%	$ 27.3	6.0%
Tier 1 capital to adjusted average assets	$50,398	8.0%	$ 19.0	3.0%	$ 31.7	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 2007, without prior regulatory approval, approximates $4,907,000 plus current 2007 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 the DIF, which generally insures commercial bank, savings association and state savings bank deposits. The DIF was created as a result of the merger of the Bank Insurance Fund (“BIF”) and the Savings Association Insurance Fund (“SAIF”) as of March 31, 2006, pursuant to the Federal Deposit Insurance Reform Act of 2005 (the “Reform Act”). The Bank is a member of the DIF and its deposit accounts are insured by the FDIC up to prescribed limits. See “Recent Legislative Developments.”

The FDIC is authorized to establish annual deposit insurance assessment rates for members of the DIF, and to increase assessment rates if it determines such increases are appropriate to maintain the reserves of the insurance fund. In addition, the FDIC is authorized to levy emergency special assessments on DIF members. Pursuant to the final regulations adopted under the Reform Act on November 2, 2006, the FDIC’s deposit insurance premiums are now assessed through a new risk-based system under which all insured depository institutions are placed into one of four categories and assessed insurance premiums based upon their level of capital and risk profile. See “Recent Legislative Developments.” The Bank paid deposit insurance assessments of $0 during the year ended December 31, 2006. Future increase in deposit insurance premiums or changes in risk classification would increase the Bank’s deposit related costs.

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 2006 was approximately 0.012% 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, 2006, 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. Under the Gramm-Leach-Bliley Act ("Gramm-Leach"), bank holding companies are permitted to offer their customers virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. In order to engage in these new financial activities, a bank holding company must qualify and register with the FRB as a "financial holding company" by demonstrating that each of its bank subsidiaries is well capitalized, well managed, and has at least a satisfactory rating under the CRA. The Bancorp has no current intention to elect to become a financial holding company under Gramm-Leach.

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

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

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

Recent Legislative Developments. The USA PATRIOT Act of 2001 (the "PATRIOT Act") is intended to strengthen the ability of U.S. Law Enforcement to combat terrorism on a variety of fronts. The PATRIOT Act contains sweeping anti-money laundering and financial transparency laws and requires financial institutions to implement additional policies and procedures with respect to, or additional measures designed to address, any or all the following matters, among others: money laundering, suspicious activities and currency transaction reporting, and currency crimes. In addition, financial institutions are required under this statute to adopt reasonable procedures to verify the identity of any person seeking to open an account and maintain records to verify such person's identity. Many of the provisions in the PATRIOT Act were to have expired December 31, 2005, but the U.S. Congress authorized renewals that extended the provisions until March 10, 2006. In early March 2006, the U.S. Congress approved the USA PATRIOT Improvement and Reauthorization Act of 2005 (the "Reauthorization Act") and the USA PATRIOT Act Additional Reauthorizing Amendments Act of 2006 (the "PATRIOT Act Amendments"), and they were signed into law by President Bush on March 9, 2006. The Reauthorization Act makes permanent all but two of the provisions that had been set to expire and provides that the remaining two provisions, which relate to surveillance and the production of business records under the Foreign Intelligence Surveillance Act, will expire in four years. The PATRIOT Act Amendments include provisions allowing recipients of certain subpoenas to obtain judicial review of nondisclosure orders and clarifying the use of certain subpoenas to obtain information from libraries. The Company does not anticipate that these requirements will materially affect its operations.

On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"). The Sarbanes-Oxley Act represents a comprehensive revision of laws affecting corporate governance, accounting obligations and corporate reportings. The Sarbanes-Oxley Act is applicable to all companies with equity or debt securities registered under the Securities Exchange Act of 1934. In particular, the Sarbanes-Oxley Act establishes: (i) new requirements for audit committees, including independence, expertise, and responsibilities; (ii) additional responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer of the reporting company; (iii) new standards for auditors and regulation of audits; (iv) increased disclosure and reporting obligations for the reporting company and their directors and executive officers; and (v) new and increased civil and criminal penalties for violation of the securities laws.

The Securities and Exchange Commission has adopted final rules implementing Section 404 of the Sarbanes-Oxley Act. In each Form 10-K it files, beginning with its 10-K for the fiscal year ended December 31, 2007, the Bancorp will be required to include a report of management on the Bancorp's internal control over financial reporting. The internal control report must include a statement of management's responsibility for establishing and maintaining adequate control over financial reporting of the Bancorp, identify the framework used by management to evaluate the effectiveness of the Bancorp's internal control over financial reporting and provide management's assessment of the effectiveness of the Bancorp's internal control over financial reporting. In addition, beginning with the Bancorp's 10-K for the fiscal year ended December 31, 2008, the internal control report must state that the Bancorp's independent accounting firm has issued an attestation report on management's assessment of the Bancorp's internal control over financial reporting. The Bancorp anticipates that significant efforts will be required to comply with Section 404 in 2007 and in future years. In addition, the Securities and Exchange Commission in 2006 adopted significant changes to its proxy statement disclosure rules relating to executive compensation. Among other things, several tables, more detailed narrative disclosures and a new compensation discussion and analysis section are required in proxy statements. These changes have required and will require a significant commitment of managerial resources and will result in increased costs to the Bancorp, which would adversely affect results of operations, or cause fluctuations in results of operations, in the future.

On February 8, 2006, President Bush signed into law the Federal Deposit Insurance Reform Act of 2005. This statute reforms the deposit insurance system by:

- merging the Bank Insurance Fund and the Savings Association Insurance Fund into a new Deposit Insurance Fund no later than July 1, 2006 (the merger of the BIF and SAIF into DIF became effective as of March 31, 2006);

- keeping the insurance coverage limit for individual accounts and municipal accounts at $100,000 but providing an inflation adjustment process which permits an adjustment effective January 1, 2011 and every five years thereafter based on the Personal Consumption Expenditures Index (with 2005 as the base year of comparison), unless the FDIC concludes such adjustment would be inappropriate for reasons relating to risks to the DIF;

- increasing insurance coverage limits for retirement accounts to $250,000, subject to the same inflation adjustment process described above;
- prohibiting undercapitalized members from accepting employee benefit plan deposits;
- providing for the payment of credits based on a member's share of the assessment base as of December 31, 1996 and equal to an aggregate of $4.7 billion for all members, which credits can offset FDIC assessments subject to certain limits;
- providing for the declaration of dividends to members (based on a member's share of the assessment base on December 31, 1996, and premiums paid after that date) equal to 50% of the amount in the DIF in excess of a reserve ratio of 1.35% and 100% of such amount in excess of a reserve ratio of 1.50%, subject to the FDIC's right to suspend or limit dividends based on risks to the DIF; and
- eliminating the mandatory assessment (up to 23 basis points) if the DIF falls below 1.25% of insured deposits and retaining assessments based on risk, needs of the DIF, and the effect on the members' capital and earnings. The FDIC is authorized to set a reserve ratio of between 1.15% and 1.5% and will have five years to restore the DIF if the ratio falls below 1.15%. On November 2, 2006, the FDIC adopted final regulations that set the designated reserve ratio for the DIF at 1.25% beginning January 1, 2007.

Insured depository institutions that were in existence on December 31, 1996, and paid assessments prior to that date (or their successors) are entitled to a one-time credit against future assessments based on their past contributions to the BIF or SAIF. In 2006, the Bank received a one-time credit of $357 thousand against future assessments.

Also on November 2, 2006, the FDIC adopted final regulations that establish a new risk-based premium system. Under the new system, the FDIC will evaluate each institution's risk based on three primary sources of information: supervisory ratings for all insured institutions, financial ratios for most institutions and long-term debt issuer ratings for large institutions that have such ratings. An institution's assessments will be based on the insured institution's ranking in one of four risk categories. Effective January 1, 2007, well-capitalized institutions with the CAMELS ratings of 1 or 2 are grouped in Risk Category I and will be assessed for deposit insurance at an annual rate of between five and seven cents for every $100 of domestic deposits. Institutions in Risk Categories II, III and IV will be assessed at annual rates of 10, 28 and 43 cents, respectively. An increase in assessments could have a material adverse affect on the Bancorp's earnings.

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 occurred 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.

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.

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

Accounting for Income Taxes

At December 31, 2006, the Bancorp's consolidated total deferred tax assets were $2.7 million and the consolidated total deferred tax liabilities were $1.2 million, resulting in a consolidated net deferred tax asset of $1.5 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 1A. Risk Factors

In analyzing whether to make or continue an investment in the Bancorp, investors should consider, among other factors, the following:

Federal and State Government Regulations. The banking industry is heavily regulated. As discussed above, the Bank and Bancorp are subject to regulation and supervision by the DFI, FDIC, FRB, and SEC (Securities and Exchange Commission). These regulations are intended to protect depositors, not shareholders. The burden imposed by federal and state regulations put banks at a competitive disadvantage compared to less regulated competitors such as finance companies, mortgage banking companies and leasing companies. In particular, the monetary policies of the Federal Reserve Board have had a significant effect on the operating results of banks in the past and are expected to continue to do so in the future. Among the instruments of monetary policy used by the Federal Reserve Board to implement its objectives are changes in the discount rate charged on bank borrowings and changes in the reserve requirements for bank deposits. It is not possible to predict what changes, if any, will be made to the monetary policies of the Federal Reserve Board or to existing federal and state legislation or the effect that such changes may have on the future business and earning prospects of the Bancorp.

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 and to combine regulatory agencies. 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, 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. An economic slowdown in these areas could have the following consequences, any of which could hurt our business:

- Loan delinquencies may increase;
- Problem assets and foreclosures may increase;
- Demand for the products and services of the Bank may decline; and
- Collateral for loans made by the Bank, especially real estate, may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral associated with existing loans of the Bank.

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 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. Particularly intense competition exists for sources of funds, including savings and retail time deposits, and for loans, deposits and other services that the Bank offers. As a result of the repeal of the Glass Steagall Act, which separated the commercial and investment banking industries, all banking organizations face increasing competition.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

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

The table on the following page sets forth additional information with respect to the Bank's offices as of December 31, 2006. 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	$1,272,770	11,640	$3,115,751
141 W. Lincoln Highway Schererville, IN 46375	1990	958,562	9,444	2,668,322
7120 Indianapolis Blvd. Hammond, IN 46324	1978	248,833	2,600	886,103
1300 Sheffield Dyer, IN 46311	1976	181,351	2,100	812,498
7915 Taft Merrillville, IN 46410	1968	77,385	2,750	587,340
8600 Broadway Merrillville, IN 46410	1996	1,458,868	4,400	2,576,323
4901 Indianapolis Blvd. East Chicago, IN 46312	1995	854,535	4,300	1,490,454
1501 Lake Park Avenue Hobart, IN 46342	2000	1,843,069	6,992	2,591,978
9204 Columbia Avenue Building B Munster, IN 46321	2003	6,552,489	36,685	8,818,864

At December 31, 2006, the Bank had investments totaling $1,159,267 in three locations, which have been acquired for future development. The Bank outsources its core processing activities to Metavante Corporation located in Brown Deer, Wisconsin. Metavante provides real time services for loans, deposits, retail delivery systems, card solutions, and electronic banking. Additionally, the Bank utilizes Northern Trust in Chicago, Illinois for its wealth management operations.

The net book value of the Bank's property, premises and equipment totaled $14.6 million at December 31, 2006.

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 2006.

Item 4.5 Executive Officers of the Bancorp

Pursuant to General Instruction G(3) of Form 10-K, the following information is included as an unnumbered item in this Part I in lieu of being included in the Bancorp's Proxy Statement for the 2006 Annual Meeting of Shareholders:

The executive officers of the Bancorp are as follows:

	Age at December 31, 2006	Position
David A. Bochnowski	61	Chairman and Chief Executive Officer
Joel Gorelick	59	President and Chief Administrative Officer
Jon E. DeGuilio	51	Executive Vice President and Secretary
Robert T. Lowry	45	Senior Vice President, Chief Financial Officer and Treasurer

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. Mr. Bochnowski is responsible for the Bank's strategic direction including a focus on enhancing brand awareness and market share, as well as risk management. 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, chairman of the Gary Citywide Community Development Corporation, and chairman of the Legacy Foundation of Lake County. He is a former Chairman of the Indiana Department of Financial Institutions; former chairman of the Indiana League of Savings Institutions, now known as the Indiana Bankers Association; former director of the Federal Home Loan Bank of Indianapolis; and, a former member of the Federal Reserve Thrift Institutions Advisory Committee. Before joining the Bank, Mr. Bochnowski was an attorney, self-employed in private practice. He holds a Juris Doctorate degree from Georgetown University and a Masters Degree from Howard University.

Joel Gorelick is President and Chief Administrative Officer of the Bancorp and the Bank. Mr. Gorelick has responsibility for daily activities including asset formation, funds acquisition, operations and information technology, financial reporting and controls, and trust activities. Mr. Gorelick has been with the Bank since 1983. He became a director in 2000. Mr. Gorelick is involved in many community service organizations and has served in positions such as president of the Northwest Indiana Boys & Girls Club, 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. The Indiana District Office of the U. S. Small Business Administration named Mr. Gorelick the year 2000 Financial Services Advocate. Mr. Gorelick has been appointed as a board member for the United States Selective Service System and currently serves as President of the Lake County Economic Development Corporation. He holds a Masters of Science in Business Administration from Indiana University and is a graduate of the Graduate School of Banking at the University of Wisconsin at Madison.

Jon E. DeGuilio is Executive Vice President and Secretary for the Bancorp and Executive Vice President, Stakeholders Services Group and General Counsel, 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 a Court Appointed Special Advocate (CASA) for the Lake County Juvenile Court, as well as serving on the board of directors of the "Friends Of The Lake County CASA" and also serves on the board of directors of the Lake County Drug Free Alliance.

Robert T. Lowry is Senior Vice President, Chief Financial Officer and Treasurer of the Bancorp and the Bank. He is responsible for finance, accounting, and financial reporting activities. Mr. Lowry has been with the Bank since 1985 and has previously served as the Bank's assistant controller, internal auditor and controller. Mr. Lowry is a Certified Public Accountant (CPA). Mr. Lowry holds a Masters of Business Administration Degree from Indiana University and is a graduate of America's Community Bankers National School of Banking. Mr. Lowry is a member of the American Institute of Certified Public Accountants, the Indiana CPA Society, the Financial Managers Society and America's Community Bankers Accounting Issues Committee.

PART II

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

The information contained under the caption “Market Information” in the 2006 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 2006 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 2006 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 2006 Annual Report to Shareholders is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The financial statements contained in the 2006 Annual Report to Shareholders, which are listed under Item 15 herein, are incorporated herein by reference.

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

There are no items reportable under this item.

Item 9A. Controls and Procedures

(a) Disclosure Controls and Procedures.

The Bancorp maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by the Bancorp in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by the Bancorp in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Bancorp’s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. The Bancorp's management, with the participation of its principal executive officer and principal financial officer, evaluates the effectiveness of the Bancorp's disclosure controls and procedures as of the end of each quarter. Based on that evaluation as of December 31, 2006, 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) Changes in Internal Control Over Financial Reporting

There was no change in the Bancorp's internal control over financial reporting that occurred during the quarter ended December 31, 2006, that has materially affected, or is reasonably likely to materially affect, the Bancorp's internal control over financial reporting.

Item 9B. Other Information

There are no items reportable under this item.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information contained under the sections captioned “Election of Directors—Nominees” and “—Meetings and Committees of the Board of Directors,” “Security Ownership by Certain Beneficial Owners and Management -— Section 16(a) Beneficial Ownership Reporting Compliance” and “Code of Ethics” in the Bancorp’s definitive Proxy Statement for the 2006 Annual Meeting of Shareholders is incorporated herein by reference. Information regarding the Bancorp’s executive officers is included under Item 4.5 captioned “Executive Officers of the Bancorp” at the end of Part I hereof and is incorporated herein by reference, in accordance with General Instruction G(3) to Form 10-K and Instruction 3 to Item 401(b) of Regulation S-K.

Item 11. Executive Compensation

The information contained under the section captioned “Compensation of and Transactions with Officers and Directors” in the Bancorp’s definitive Proxy Statement for its 2007 Annual Meeting of Shareholders is incorporated herein by reference.

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

The information contained within the Bancorp’s definitive Proxy Statement for the 2007 Annual Meeting of Shareholders, under the sections captioned “Security Ownership by Certain Beneficial Owners and Management”, on page 3, “Outstanding Equity Awards at December 31, 2006”, under the section captioned “Executive Compensation”, on page 16 and on pages 4-5 of the section captioned “Election of Directors” is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information contained on page 13 of the “Summary Compensation Table for 2006”, contained under the section titled “Executive Compensation” in the Bancorp’s definitive Proxy Statement for its 2007 Annual Meeting of Shareholders, is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information contained under the section captioned “Independent Registered Public Accounting Firm’s Services and Fees” in the Bancorp’s definitive Proxy Statement for its 2007 Annual Meeting of Shareholders, is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements:

The following financial statements of the Bancorp are incorporated herein by reference to the 2006 Annual Report to Shareholders, filed as Exhibit 13 to this report:

(a) Report of Independent Registered Public Accounting Firm

(b) Consolidated Balance Sheets, December 31, 2006 and 2005

(c) Consolidated Statements of Income for the years ended December 31, 2006, 2005 and 2004

(d) Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2006, 2005 and 2004

(e) Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004

(f) Notes to Consolidated Financial Statements

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

(3) Exhibits:

Exhibit Number	Description
2.	Plan of Conversion of Peoples Bank, A Federal Savings Bank, dated December 18, 1993 (incorporated herein by reference to Exhibit A to the Bancorp's Definitive Proxy Statement/Prospectus dated March 23, 1994, as filed pursuant to Rule 424(b) under the 1933 Act on March 28, 1994).
3.i.	Articles of Incorporation (incorporated herein by reference to Exhibit 3(i) to the Bancorp's Registration Statement on Form S-4 filed March 3, 1994 (File No. 33-76038)).
3.ii.	By-Laws (incorporated herein by reference to Exhibit 3(i) to the Bancorp's Registration Statement on Form S-4 filed March 3, 1994 (File No. 33-76038)).
3.iii.	Amendment of By-Laws adopted July 27, 1994(incorporated herein by reference to Exhibit 3.iii to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 1994).
3.iv.	Amendment of By-Laws adopted January 21, 1999(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).
3.v.	Amendment of By-Laws adopted September 21, 2000.

Exhibit Number	Description
3.vi.	Amendment of By-Laws adopted February 23, 2006 (incorporated herein by reference to Exhibit 3.1 of Bancorp’s Form 8-K dated February 27, 2006).
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 April 19, 2006, among NorthWest Indiana Bancorp, Peoples Bank SB and David A. Bochnowski (incorporated herein by reference to Exhibit 10.1 of the Bancorp’s Form 8-K dated April 19, 2006).
10.3. *	Employment Agreement dated July 20, 2006, between Peoples Bank SB and Joel Gorelick (incorporated herein by reference to Exhibit 10.1 of the Bancorp’s Form 8-K dated July 20, 2006).
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 for the Directors of Peoples Bank effective January 1, 2005.
10.6. *	Amended and Restated 2004 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 99.1 of the Bancorp’s Form 8-K dated April 20, 2005).
10.7. *	Amended and Restated 2004 Stock Option and Incentive Plan (incorporated herein by reference to Appendix A to the Bancorp’s Definitive Proxy Statement for its 2005 Annual Meeting of Shareholders, filed on March 25, 2005).
10.8. *	Post 2004 Unfunded Deferred Compensation Plan for the Directors of Peoples Bank SB effective January 1, 2005.
10.9. *	Form of Incentive Stock Option Agreement is incorporated by reference to Exhibit 99.2 of the Bancorp’s Form 8-K dated April 20, 2005.
10.10. *	Form of Non-Qualified Stock Option Agreement is incorporated by reference to Exhibit 99.3 of the Bancorp’s Form 8-K dated April 20, 2005.
10.11. *	Form of Agreement for Restricted Stock is incorporated by referenced to Exhibit 99.4 of the Bancorp’s form 8-K dated April 20,2005.
10.12. *	Summary Sheet of Director and Officer Compensation.
13.	2006 Annual Report to Shareholders
21.	Subsidiaries of the Bancorp
23.	Consent of Independent Registered Public Accounting Firm
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer

Exhibit Number	Description
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32	Section 1350 Certifications

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

SIGNATURES

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

NORTHWEST INDIANA BANCORP

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

Date: March 23, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on March 23, 2007:

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

Signature	Title
/s/ Kenneth V. Krupinski Kenneth V. Krupinski	Director
/s/ Stanley E. Mize Stanley E. Mize	Director
/s/ Anthony M. Puntillo Anthony M. Puntillo	Director
/s/ James L. Wieser James L. Wieser	Director
/s/ Donald P. Fesko Donald P. Fesko	Director

Table of Contents

EXHIBIT INDEX

Exhibit	Description
10.5	Unqualified Deferred Compensation Plan for the Directors of Peoples Bank effective January 1, 2005.
10.8	Post 2004 Unfunded Deferred Compensation Plan for the Directors of Peoples Bank SB
10.12	Summary Sheet of Director and Officer Compensation
13.	2006 Annual Report to Shareholders
21.	Subsidiaries of the Bancorp
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32	Section 1350 Certifications

Exhibit 10.5

UNFUNDED DEFERRED COMPENSATION

PLAN FOR THE DIRECTORS OF

PEOPLES BANK SB

The provisions of the plan are as follows:

1. Each director may elect on or before December 31st of any year to defer all or a specified portion of his annual fees for succeeding calendar years.

2. Any person elected to fill a vacancy on the board, and who was not a director on the preceding December 31st, may elect, before his term begins, to defer all or a specified part of his annual fees for the balance of the calendar year following such election and for succeeding calendar years. No deferrals may be made after December 31, 2004**.**

3. Interest rate paid on deferred fees is the Bank's regular six-month CD, plus 2%.

4. Amounts deferred under the plan, together with accumulated interest, will be distributed in annual installments over a ten-year period beginning with the first day of the calendar year immediately following the year in which the director ceases to be a director.

5. An election to defer fees shall continue from year to year unless terminated by the director by written request. In the event a director elects to terminate deferring fees, the amount already deferred cannot be paid to him until he ceases to be a director.

6. In the event the director ceases to be a voting member of the Board of Directors of the Bank, or if he becomes a proprietor, officer, partner, employee or otherwise becomes affiliated with any business that is in competition with corporation, the entire balance of his deferred fees, including interest, may, if directed by the Board of Directors, in its sole discretion, be paid immediately to him in a lump sum.

7. Upon the death of a director or former director prior to the expiration of the period during which the deferred amounts are payable, the balance of the deferred fees and interest in his account shall be payable to his estate or designated beneficiary in full on the first day of the calendar year, following the year in which he dies.

ELECTION TO PARTICIPATE IN UNFUNDED DEFERRED COMPENSATION PLAN

Certificates acknowledged and attested and inserted herewith to become apart of these minutes.

Adopted by the Board of Directors this 16th day of November 2005, and made effective January 1, 2005.

Attested by:

/s/ David A. Bochnowski	/s/ Jon E. DeGuilio
Chairman & CEO	Corporate Secretary

POST 2004
UNFUNDED DEFERRED COMPENSATION
PLAN FOR THE DIRECTORS OF
PEOPLES BANK SB

The provisions of this Plan apply to all post-2004 deferrals. It is the intent of all of the parties hereto that the Plan meets the requirements of Section 409A of the Internal Revenue Code. The terms of the Plan are as follows:

1. Each director may elect on or before December 31st of any year to defer all or a specified portion of his annual fees for succeeding calendar years.

2. Any person elected to fill a vacancy on the board, and who was not a director on the preceding December 31st, may elect, within 30 days after becoming eligible under the Plan, to defer all or a specified part of his annual fees for the balance of the calendar year following such election and for succeeding calendar years, unless such person was already a participant in another account balance plan sponsored by the bank.

3. The rate of interest to be paid on deferred fees will be equal to the bank's regular six-month certificate of deposit, plus 2%. Interest on this account will be compounded quarterly. The interest rate will be reset on the first business day of each month.

4. Amounts deferred under the Plan, together with accumulated interest, will be distributed in annual installments over a ten-year period beginning with the first day of the calendar year immediately following the year in which the director ceases to be a director. Not withstanding this provision, in no event shall a "key employee"; as that term is defined by the Internal Revenue Service, receive any payment earlier than six-months after termination of employment. The first annual installment for any such key employee will be paid on or soon after the later of six-months after termination of employment or the first day of the calendar year immediately following the year of termination of employment. All subsequent annual installment payments to any such key employee will be made in the month of January, beginning with the January that immediately follows the first annual installment payment.

5. An election to defer fees shall continue from year to year unless terminated by the director by written request. In the event a director elects to terminate deferring fees, the amount already deferred cannot be paid to him until he ceases to be a director. A director may not make or modify deferral elections during the middle of a year other than as provided in Paragraph 2.

6. Upon the death of a director or former director prior to the expiration of the period during which the deferred amounts are payable, the balance of the deferred fees and interest in his account shall be payable to his estate or designated beneficiary in full on the first day of the calendar year, following the year in which he dies.

7. Distribution of benefits pursuant to the termination of the Plan is prohibited unless the termination qualifies as a distributable event under Section 409A of the Internal Revenue Code or the regulations thereunder.

8. Not withstanding any other provisions to the contrary, in accordance with guidance issued by the United States Treasury and the Internal Revenue Service, participants may make a valid deferral election as late as March 15, 2005 with respect to 2005 fees that became payable after such date. A participant may make such an election by completing the appropriate deferral election form and submitting it to the bank no later than March 15, 2005.

ELECTION TO PARTICIPATE IN UNFUNDED DEFERRED COMPENSATION PLAN

Certificates acknowledged and attested and inserted herewith to become apart of these minutes. Adopted by the Board of Directors this 16th day of November 2005, and made effective January 1, 2005.

Attested by:

/s/ David A. Bochnowski	/s/ Jon E. DeGuilio
Chairman & CEO	Corporate Secretary

Exhibit 10.12

Summary Sheet of Director and Officer Compensation

Outside Directors

On January 24, 2007, NorthWest Indiana Bancorp's (the "Bancorp") Directors approved an increase in annual director's fees paid to outside directors. For 2007, $22,750 in annual fees will be paid to outside directors. Directors are reimbursed for expenses incurred in connection with attendance at Board and Committee meetings.

Inside Directors and Executive Officers

On January 24, 2007, the Bancorp's Compensation and Benefits Committee of the Board of Directors approved executive officer base compensation for 2007 and authorized payment of incentive compensation for 2006 performance. The individuals listed below will begin to receive their new base salary and incentive compensation payment on February 1, 2007:

Inside Directors and Executive Officer	2007 Base Salary	2006 Incentive Compensation
David A. Bochnowski, Director, Chairman and Chief Executive Officer	$ 347,563	$ 46,976
Joel Gorelick, Director, President and Chief Administrative Officer	$ 209,575	$ 22,205
Edward J. Furticella, Director and Consultant	$ 85.59(1)	$ 8,260
Jon E. DeGuilio, Executive Vice President, General Counsel and Secretary	$ 141,341	$ 7,325
Robert T. Lowry, Senior Vice President and Chief Financial Officer	$ 125,823	$ 7,575

(1) Mr. Furticella is a part-time employee with the Bancorp and earns an hourly rate of pay.

Incentive Compensation Plan

The Bancorp's Compensation and Benefits Committee has established an incentive compensation system designed to offer positive salary rewards for peak performance to all employees. The incentive compensation is geared towards rewarding performance that results in increased profitability of the Bancorp. In addition, incentive compensation is awarded for consistent performance tied to corporate goals rather than short-swing profits. The incentive compensation is discretionary and approved by the Board on an annual basis, as strategic goals are achieved. The incentive targets are set by the Board at the beginning of the fiscal year, but the Board retains the prerogative to review the incentive outlook at the end of the fiscal year.

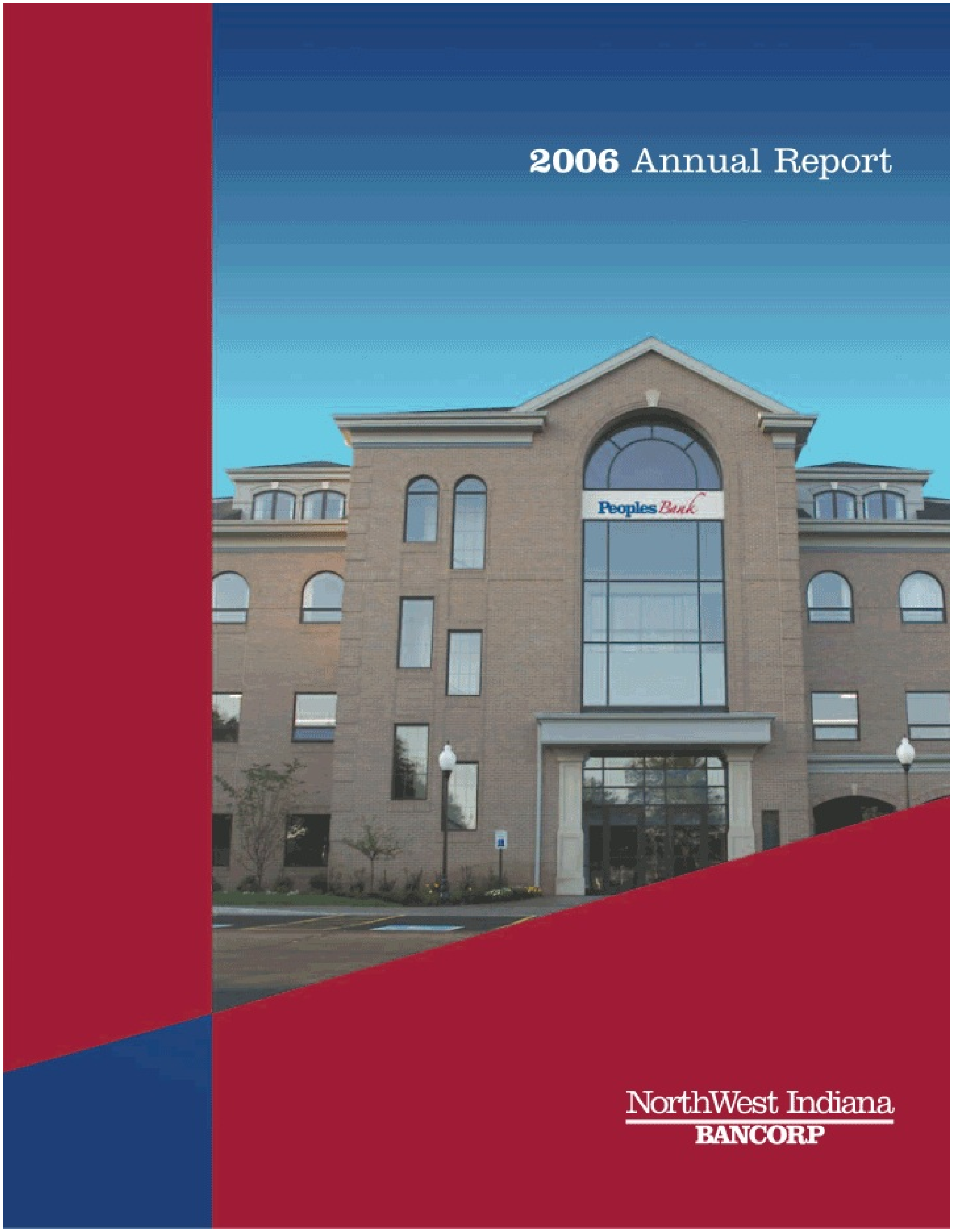
The incentive compensation is paid from a pool of funds created each year based on the Bancorp's return on equity, return on assets, and increase in earnings per basic share. Each of the three measures is tied to a factor, which is then multiplied by the Bancorp's annual net income after incentive compensation expense to determine the incentive compensation pool. The factors are set forth in the attached table. The Board also has the discretion to increase the size of the incentive compensation pool to reward outstanding performance consistent with long and short-range goals. No Board discretionary funds were included in the 2006 incentive compensation pool. The incentive compensation pool is generally allocated to the Bancorp's employees in the following manner: 30% to the Chief Executive officer, 52% to the Chief Administrative Officer and Vice Presidents and 18% to other employees. The Chief Executive Officer, with Board approval, may reallocate a portion of his incentive compensation pool to the other compensation pools.

The allocated incentive compensation pools can be utilized to supplement the cash remuneration of the Bancorp's management according to the following guidelines: Vice Presidents up to 10% of salary; Senior Vice Presidents up to 20% of salary; President and Executive Vice President up to 35% of salary; and Chief Executive Officer up to 50% of salary. The incentive compensation for Vice Presidents, Senior Vice Presidents, Executive Vice President and President is awarded based on a performance review by the Chief Executive Officer, which is reviewed and approved by the Bancorp's Compensation Committee and Board. The performance review incorporates the following criteria: results achieved, goal attainment, and core competencies for leadership, management, communication, initiative and time management, commitment to stock ownership, community leadership and professional development. The Compensation and Benefits Committee and Board conduct the Chief Executive Officer's performance review following the same criteria and determine his incentive compensation.

TABLE
COMPONENT PARTS
PEOPLES BANK INCENTIVE

Return on Assets %	% of Profit Added to Pool	Return on Equity %	% of Profit Added to Pool	Earnings Per Share % Increase	% of Profit Added to Pool
0.70	0.025	11.00	0.500	1.00	0.0000
0.75	0.500	11.25	0.625	2.00	0.0250
0.80	0.625	11.50	0.750	3.00	0.0500
0.85	0.750	11.75	0.875	4.00	0.0750
0.90	0.875	12.00	1.000	5.00	0.0100
0.95	1.000	12.25	1.125	6.00	0.0150
1.00	1.125	12.50	1.250	7.00	0.0200
1.05	1.250	12.75	1.375	8.00	0.0250
1.10	1.375	13.00	1.500	9.00	0.0300
1.15	1.500	13.25	1.625	10.00	0.0350
1.20	1.625	13.50	1.750	11.00	0.0400
1.25	1.750	13.75	1.875	12.00	0.0410
1.30	1.875	14.00	2.000	13.00	0.0420
1.35	2.000	14.25	2.125	14.00	0.0430
1.40	2.125	14.50	2.250	15.00	0.0440
1.45	2.250	14.75	2.375	16.00	0.0450
1.50	2.375	15.00	2.500	17.00	0.0460
		15.25	2.625	18.00	0.0470
		15.50	2.750		
		15.75	2.875		
		16.00	3.000		

Exhibit 13


2006 Annual Report
Peoples Bank
NorthWest Indiana
BANCORP

In 2006, Peoples Bank sponsored a new "South Shore" poster in conjunction with the Northwest Indiana Forum, Inc. and the South Shore Arts organization. "With Access for All," by Fred Semmler, depicts U.S. Congressman Peter Visclosky's Marquette Plan.

The poster was unveiled on September 1, 2006 at Peoples Bank's Corporate Center in Munster. Posters are available for purchase at the Visual & Performing Arts Center in Munster.

2006 Annual Report

Dear Shareholders,

The Bancorp reported another solid performance for the year 2006 with net income of $6.5 million. Statistically our performance was very strong: our return on assets (ROA), which measures net income as a percentage of average assets, was 1.04% and our return on equity (ROE), which measures the return on invested capital, was 13.42%. Our capital, or shareholders equity, finished the year at $50 million or 8.1% of total assets.

The year 2006 proved to be a challenging year for the entire banking industry, as well as your Bank. The increase in short-term rates, the persistent inverted yield curve and continued consolidation through mergers has made it difficult for many to sustain prior year earnings results. Although 2006 was a good year, our results were not as robust as reports from prior periods. 2006 marked the first time in ten years that the Bancorp reported a decline in income from the previous year.

Over the past two years, the Federal Reserve has taken action to raise interest rates in an effort to fight inflationary trends in the national economy. The result has been good news for our deposit customers because interest rates paid on deposits have risen substantially. At the same time, yields on the Bancorp’s earning assets, loans and investments, have not risen as dramatically.

The Federal Reserve’s policy to raise short-term interest rates in the current operating environment has resulted in an inverted yield curve, a term that describes short-term interest rates having yields higher than long-term rates. Under such conditions, the increase in yields on loans and investments generally lag the increases in rates paid to depositors as well as the rates the Bancorp pays on Federal Home Loan Bank borrowings.

During 2006, loan and investment yields lagged the higher rates paid to depositors resulting in a negative impact on the Bancorp’s core earnings. Net interest income, the difference between interest received from loans and investments and interest paid to fund providers, totaled $19.2 million for 2006 compared to $20.3 million for 2005, a decrease of 5.1%. The compression of our net interest margin, which began during 2005, accelerated throughout the current year with funding pressure continuing to be exerted through the fourth quarter of 2006.

Market forces worked to contain asset growth during the year. Management determined that the persistence of the high short-term rate environment was not conducive to smart growth. Offering excessive deposit rates could have attained market share, but not market value. Such a strategy could not be executed in an environment that did not offer matching high rate and high quality loans and investments.

Throughout the year, our balance sheet was actively managed to sustain long-term market value rather than short-term market share. At December 31, 2006, our assets totaled $619 million, a decrease of 1.3% for the year. Deposits totaled $513 million, a decrease of $12.8 million from the end of 2005. The decrease in deposits can be attributed to market forces as well as a planned withdrawal by a local government unit.

Consolidation of the local community banks in 2005 reverberated into 2006 with implications on the Bancorp's lending portfolio. Loan participations that the Bancorp had acquired from two former community banks were repurchased by the successors of those financial institutions resulting in decreases in the Bancorp's loan portfolio that exceeded $20 million. As a result, the Bancorp's lending portfolio totaled $471.7 million, an increase of $2.7 million.

Despite the strains on the core earnings of the Bancorp in 2006, there were notable successes in our performance that offer a sturdy base for long-term earnings growth.

- Core deposits, which include checking, savings, and money market accounts totaled $299.6 million or 58.4% of all deposits at year-end
- Investment Securities totaled $99.0 million, an increase of $8.9 million
- Asset quality remains strong with non-performing loans to total assets at the manageable level of 0.50% at the end of the year
- Operating expenses were held to a 3.8% increase during the year
- Income from banking operations, including Wealth Management, totaled $4.2 million, an increase of 19.2%
- $9.2 million of long-term fixed rate loans originated during the year were sold to minimize interest rate risk at a gain of $157 thousand
- Home Equity Loans, a key part of our strategy to add interest sensitive loans to our portfolio, grew $2.2 million or 14.6%

As the Bancorp builds long-term shareholder value, we will continue to seek new opportunities to expand our commitment to deliver the best banking, lending, and wealth management experience to our customers and community. In the near term, the Bancorp will work harder to produce earning assets that can adjust more rapidly to an increase in interest rates. We are committed to achieving our growth goals while improving our balance sheet with interest sensitive loans and investments funded by core accounts.

Customer preferences have changed the competitiveness of banking while providing new opportunities to serve our customers. The coming retirement of the baby boomer generation, along with the conversion of bank customers from depositors to investors, is re-shaping the financial landscape.

In the latter part of 2006, Terry Quinn, a well-respected financial advisor, joined the Peoples team as a Senior Vice-President of Wealth Management and has become an integral part of our effort to deliver a wide range of investment vehicles to our customers. Our goal to offer a full array of financial products will enable the Bancorp to become a partner in our customers' prosperity.

Bank consolidation has brought a number of new banking companies to our trade territory with new forms of competition. As a community Bank, we have the advantage of not only knowing our customers, but also being able to meet directly with them and tailor a response to their banking needs. This year we will expand our offices to include a new Banking Center in Crown Point and we continue to seek other locations that will profitably build value for the Bancorp.

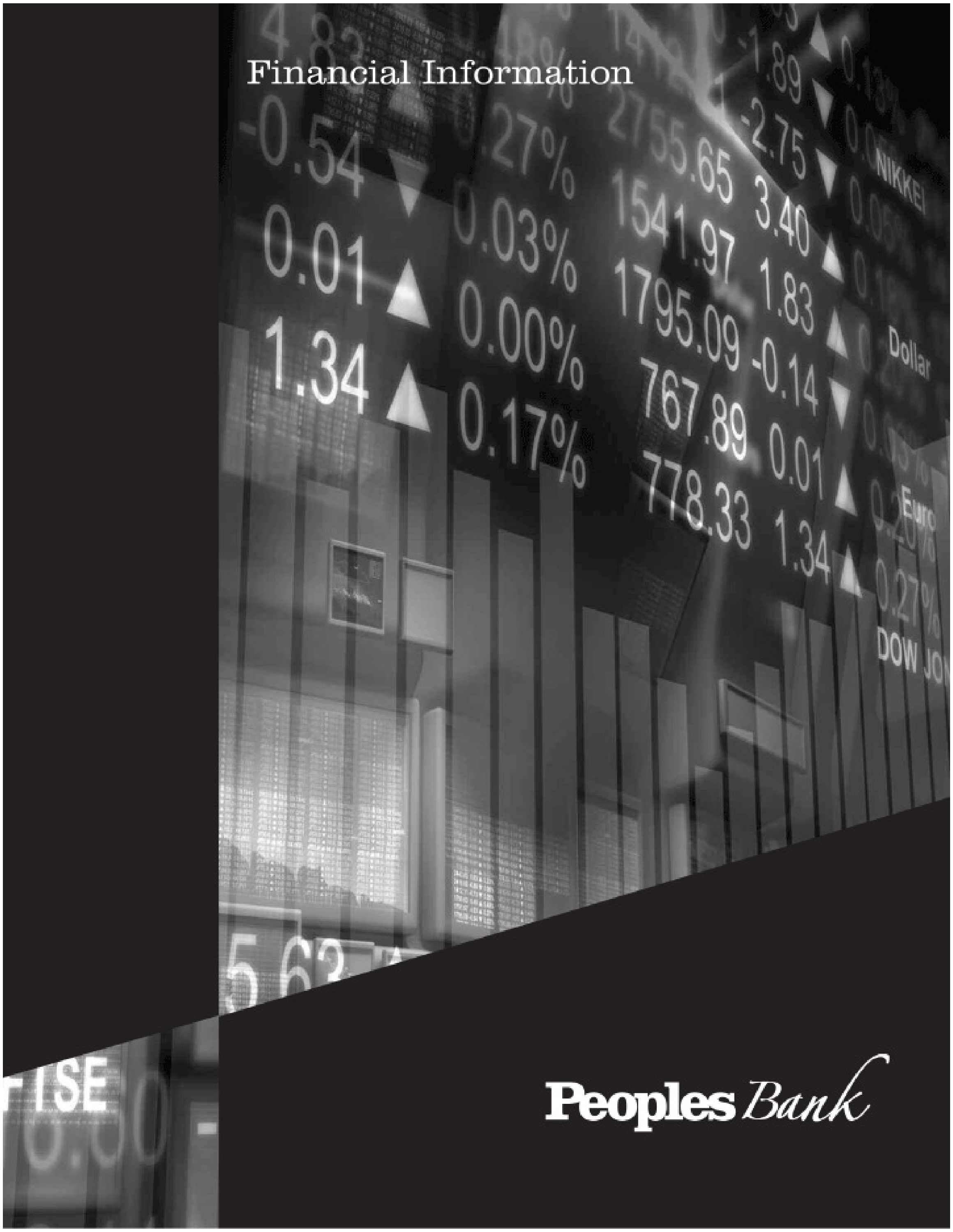
Your Bank continues to take an active role in the community. We provided support to over 225 community organizations in 2006. Notable among them was our success again this year with our Holiday Project. The Peoples team — directors and employees — contributed $8,550 to the project, an amount that was matched by your company. These funds were distributed between Habitat for Humanity to support affordable housing and the Boys and Girls Club of Northwest Indiana to provide clothing essentials for worthy youth in our community. Since its inception in 1994, our Holiday Project has contributed over $121,000 to these two community organizations.

In both the near and long-term, our value as a community bank will be determined by the market's response to our brand. "Friendly People for Today's Banking" describes a financially educated, motivated, and well-trained team that is committed to building trust, excellence, and exceptional customer service. Our goal for 2007 is to put in place a training and marketing plan that will give new definition and new energy to "Friendly People for Today's Banking."

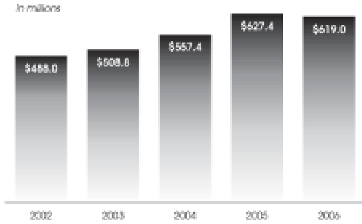
On behalf of the Bancorp's directors and employees, thank you for your support.

Sincerely,

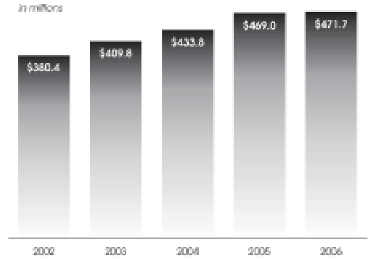
David A. Bochnowski
Chairman and Chief Executive Officer


Financial Information
Peoples Bank

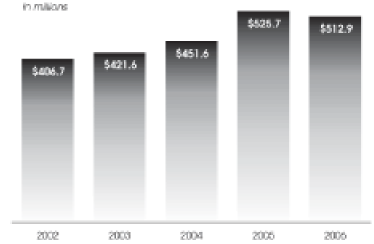
Total Assets
in millions



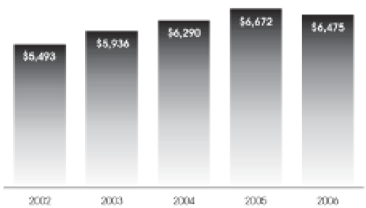
Total Loans
in millions



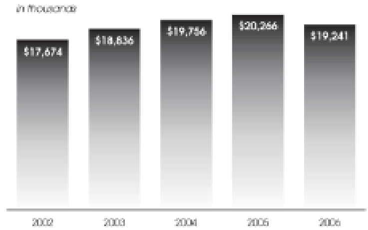
Total Deposits
in millions



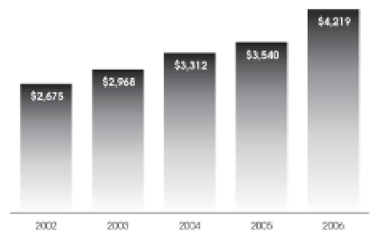
Net Income
in thousands



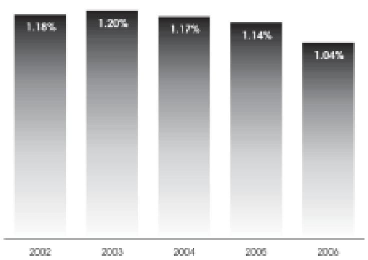
Net Interest Income
in thousands



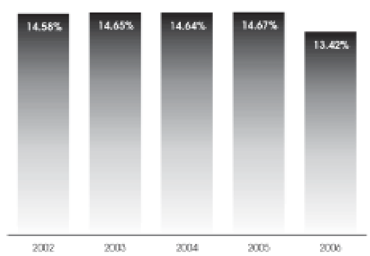
Noninterest Income
in thousands



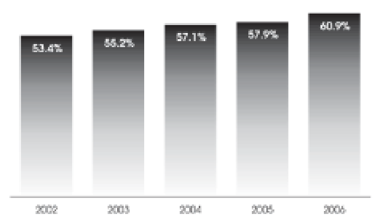
Return on Assets



Return on Equity



Efficiency Ratio



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

Fiscal Year Ended	*December 31, 2006*	*December 31, 2005*	*December 31, 2004*	*December 31, 2003*	*December 31, 2002*	*December 31, 2001*
Statement of Income:						
Total interest income	$ 34,979	$ 30,024	$ 26,614	$ 26,357	$ 27,781	$ 28,425
Total interest expense	15,737	9,758	6,858	7,521	10,107	13,222
Net interest income	19,241	20,266	19,756	18,836	17,674	15,203
Provision for loan losses	15	245	385	420	720	230
Net interest income after provision for loan losses	19,226	20,021	19,371	18,416	16,954	14,973
Noninterest income	4,219	3,540	3,312	2,968	2,675	2,402
Noninterest expense	14,296	13,771	13,174	12,037	10,859	9,911
Net noninterest expense	10,077	10,231	9,862	9,069	8,184	7,509
Income tax expenses	2,674	3,118	3,219	3,411	3,277	2,754
Net income	$ 6,475	$ 6,672	$ 6,290	$ 5,936	$ 5,493	$ 4,710
Basic earnings per common share	$ 2.32	$ 2.40	$ 2.28	$ 2.16	$ 2.01	$ 1.73
Diluted earnings per common share	$ 2.30	$ 2.37	$ 2.24	$ 2.13	$ 1.99	$ 1.71
Cash dividends declared per common share	$ 1.40	$ 1.32	$ 1.24	$ 1.20	$ 1.12	$ 1.04

	December 31, 2006	*December 31, 2005*	*December 31, 2004*	*December 31, 2003*	*December 31, 2002*	*December 31, 2001*
Balance Sheet:						
Total assets	$ 618,982	$ 627,439	$ 557,393	$ 508,775	$ 488,002	$ 440,710
Loans receivable	471,716	469,043	433,790	409,808	380,428	342,642
Investment securities	99,012	90,093	79,979	63,733	56,571	67,260
Deposits	512,931	525,731	451,573	421,640	406,673	355,215
Borrowed funds	51,501	51,152	57,201	40,895	36,065	44,989
Total stockholders' equity	50,010	46,433	44,097	41,554	39,148	35,882

Fiscal Year Ended	*December 31, 2006*	*December 31, 2005*	*December 31, 2004*	*December 31, 2003*	*December 31, 2002*	*December 31, 2001*
Interest Rate Spread During Period:						
Average effective yield on loans and investment securities	6.02%	5.50%	5.31%	5.65%	6.26%	7.29%
Average effective cost of deposits and borrowings	2.77%	1.82%	1.40%	1.67%	2.38%	3.55%
Interest rate spread	3.25%	3.68%	3.91%	3.98%	3.88%	3.74%
Net interest margin	3.31%	3.71%	3.94%	4.04%	3.99%	3.90%
Return on average assets	1.04%	1.14%	1.17%	1.20%	1.18%	1.15%
Return on average equity	13.42%	14.67%	14.64%	14.65%	14.58%	13.49%

	December 31, 2006	*December 31, 2005*	*December 31, 2004*	*December 31, 2003*	*December 31, 2002*	*December 31, 2001*
Total capital to risk-weighted assets	12.0%	11.6%	12.2%	12.5%	13.1%	13.6%
Tier 1 capital to risk-weighted assets	11.1%	10.7%	11.2%	11.5%	11.9%	12.5%
Tier 1 capital to adjusted average assets	8.0%	7.9%	8.0%	8.0%	7.6%	8.3%
Allowance for loan losses to total loans	0.90%	0.89%	0.90%	0.92%	0.96%	0.92%
Allowance for loan losses to non-performing loans	153.95%	198.00%	371.00%	220.31%	152.43%	108.64%
Non-performing loans to total loans	0.58%	0.45%	0.24%	0.42%	0.63%	0.85%
Total loan accounts	5,392	5,422	5,370	5,213	5,049	4,964
Total deposit accounts	32,435	33,963	32,866	32,502	31,385	30,433
Total Banking Centers (all full service)	8	8	8	8	8	8

December 31, 2000	*December 31, 1999*	*December 31, 1998*	*December 31, 1997*
$ 28,077	$ 25,607	$ 25,235	$ 23,669
13,386	11,281	12,310	11,721
14,691	14,326	12,925	11,948
175	200	110	221
14,516	14,126	12,815	11,727
1,995	1,659	1,347	1,066
9,449	8,774	7,938	7,154
7,454	7,115	6,591	6,088
2,691	2,775	2,461	2,223
$ 4,371	$ 4,236	$ 3,763	$ 3,416
$ 1.61	$ 1.53	$ 1.36	$ 1.24
$ 1.60	$ 1.52	$ 1.35	$ 1.23
$ 0.96	$ 0.84	$ 0.74	$ 0.64

December 31, 2000	*December 31, 1999*	*December 31, 1998*	*December 31, 1997*
$ 392,313	$ 361,719	$ 345,417	$ 319,609
326,207	295,813	273,433	272,213
38,128	41,931	36,350	29,362
324,310	306,647	293,222	272,090
30,599	18,607	17,320	14,628
33,529	32,471	31,316	29,482

December 31, 2000	*December 31, 1999*	*December 31, 1998*	*December 31, 1997*
7.88%	7.61%	8.00%	8.16%
3.95%	3.54%	4.16%	4.32%
3.93%	4.07%	3.84%	3.84%
4.12%	4.26%	4.10%	4.12%
1.17%	1.20%	1.14%	1.13%
13.30%	13.17%	12.35%	11.87%

December 31, 2000	*December 31, 1999*	*December 31, 1998*	*December 31, 1997*
13.6%	14.8%	15.3%	15.0%
12.3%	13.5%	14.1%	13.8%
8.6%	9.0%	9.2%	9.2%
1.02%	1.12%	1.14%	1.13%
183.54%	412.08%	213.06%	257.84%
0.55%	0.27%	0.54%	0.44%
4,762	4,676	4,625	4,764
28,906	27,712	26,172	25,443
8	7	7	7

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 Corporate Center in Munster and its eight full-service offices located in East Chicago, Hammond, Merrillville, Dyer, Munster, 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, various types of consumer loans and commercial business loans. In addition, the Bancorp's Wealth Management Group provides estate and retirement planning, guardianships, land trusts, profit sharing and 401(k) retirement plans, IRA and Keogh accounts, investment agency accounts. The Wealth Management Group may also serve as the personal representative of estates and act as trustee for revocable and irrevocable trusts.

The Bancorp's common stock is traded in the over-the-counter market and is quoted on the OTC Bulletin Board. On February 23, 2007, the Bancorp had 2,801,265 shares of common stock outstanding and 409 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.

General

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

A summary of 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, 2006, the Bancorp had total assets of $619.0 million and total deposits of $512.9 million. The Bancorp's deposit accounts are insured up to applicable limits by the Deposit Insurance Fund (DIF) that is administered by the Federal Deposit Insurance Corporation (FDIC), an agency of the federal government. At December 31, 2006, stockholders' equity totaled $50.0 million, with book value per share at $17.86. Net income for 2006 was $6.5 million, or $2.32 basic earnings per common share and $2.30 diluted earnings per common share. The return on average assets (ROA) was 1.04%, while the return on average stockholders' equity (ROE) was 13.42%.

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 and land development loans, adjustable rate residential loans, equity lines of credit, adjustable rate commercial real estate loans, commercial business loans tied to the prime rate of interest and loans to local governmental agencies. 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 thirty years or less. The actual cash flows from these loans generally result in a duration which is less than the contractual maturity, providing protection against possible changes in interest rates.

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

The primary objectives of the investment portfolio are to provide liquidity, modify and manage interest rate risk, meet pledging requirements, and optimize portfolio earnings by implementing strategies that are consistent with the Bancorp's strategic goals. The investment portfolio includes securities, an overnight open time account at the Federal Home Loan Bank of Indianapolis, and federal funds sold. Management of the investment portfolio focuses on a laddered approach to portfolio management. Daily funds are invested in either federal funds or in the Bancorp's overnight open time account. Investments in non-callable and callable securities are made with maturities ranging from one day to seven years. Investments in callable securities will generally focus on bonds with one time calls and at least one year of call protection. In addition, purchases of municipal securities, mortgage-backed securities, and collateralized mortgage obligations are made to reduce the Bank's tax liability, enhance portfolio yield, and increase monthly cash flows. 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 2006, the Bancorp did not have any 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 marketed and certificate accounts have been competitively priced. Core deposits provide a very stable flow of funds and have been promoted by offering competitive interest rates, quality service and competitive service charges. Certificates with maturities ranging from ten days to forty-two months are offered. In addition, the Bank utilizes borrowings, i.e. repurchase agreements and advances from the Federal Home Loan Bank of Indianapolis, as a source of funds. Advances with maturities ranging from one to five years are used to fund securities and loans of comparable duration, as well as, to reduce the impact that movements in short-term interest rates have on the Bancorp's overall cost of funds. 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 Asset, Liability, Capital & Technology Management Committee of the Board is responsible for monitoring activity, approving initiatives, reviewing reports, and recommending strategies related to interest rate risk. The Bancorp's Asset/Liability Management Committee (ALCO) is responsible for developing and implementing an interest rate risk (IRR) management strategy, establishing and maintaining a system of limits and controls, and establishing and utilizing an IRR measurement system. The ALCO generally meets monthly with board presentations occurring quarterly.

Performance from an interest rate risk perspective can be measured in different 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 earning asset yields and the cost of interest bearing liabilities, 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 shorter-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, 2006 and 2005. 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, statistical analysis, and their most likely withdrawal behaviors.

Interest Rate Risk at December 31, 2006

	Net Interest Income			*Net Economic Value of Equity*		
Change in rates	*Amount*	*Change*	*Policy Limit*	*Amount*	*Change*	*Policy Limit*
2%	$15,707	-8.93%	-20.00%	$53,318	-14.13%	-35%
1%	$16,502	-4.32%	- 7.50%	$57,950	- 6.67%	-15%
0%	$17,247	0.00%		$62,089	0.00%	
-1%	$17,656	-2.37%	- 7.50%	$64,115	3.26%	-15%
-2%	$17,740	-2.86%	-20.00%	$63,713	2.62%	-35%

Interest Rate Risk at December 31, 2005

	Net Interest Income			*Net Economic Value of Equity*		
Change in rates	*Amount*	*Change*	*Policy Limit*	*Amount*	*Change*	*Policy Limit*
2%	$20,849	-2.90%	-20.00%	$54,700	-14.50%	-35%
1%	$21,206	-1.20%	- 7.50%	$59,368	- 7.20%	-15%
0%	$21,464	0.00%		$64,004	0.00%	
-1%	$21,014	-2.10%	- 7.50%	$66,431	3.80%	-15%
-2%	$19,988	-6.90%	-20.00%	$65,242	1.90%	-35%

The tables show that the Bancorp has managed interest rate risk within the policy limits set by the Board of Directors. At December 31, 2006, an increase in interest rates of 2% would have resulted in a 8.9% decrease in net interest income and a 14.1% decrease in the net economic value of equity, compared to a 2.9% decrease in net interest income and a 14.5% decrease in the net economic value of equity at December 31, 2005. During 2006, the Bancorp has managed interest rate risk by generally selling residential fixed rate loans with contractual maturities exceeding 15 years, maintaining the short duration of the securities portfolio, and implementing deposit pricing strategies.

Financial Condition

During the year ended December 31, 2006, total assets decreased by $8.5 million (1.3%), to $619.0 million, with interest-earning assets decreasing by $7.9 million (1.4%). At December 31, 2006, interest earning assets totaled $574.3 million and represented 92.8% of total assets. Loans totaled $471.7 million and represented 82.1% of interest-earning assets, 76.2% of total assets and 92.0% 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 $234.0 million (49.6%) in residential real estate loans, $111.3 million (23.6%) in commercial real estate loans, $48.7 million (10.3%) in construction and land development loans, $46.8 million (9.9%) in commercial business loans, $15.7 million (3.3%) in multifamily loans, $12.3 million (2.6%) in government and other loans, and $2.9 million (0.7%) in consumer loans. During 2006, loans increased by $2.7 million (0.6%), with increases taking place in loans secured by real estate. Adjustable rate loans comprised 57.2% of total loans at year-end. Management believes a general slowdown in the national and local economies may result in a softening in loan demand in all categories.

During 2006, the Bancorp sold $9.2 million in fixed rate mortgages originated for sale compared to $5.6 million in 2005 and $3.9 million in 2004. Net gains realized from the sales totaled $157 thousand, $102 thousand and $234 thousand for 2006, 2005 and 2004. The current year increase in gain on sale of loans is a result of the current interest rate environment and an increase of loans originated for sale. Net mortgage loan servicing fees totaled $12 thousand for 2006, $1 thousand for 2005 and $9 thousand for 2004. At December 31, 2006, the Bancorp had no loans that were held for sale. During 2007, 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.

Non-performing loans include those loans that are 90 days or more past due and those loans that have been placed on non-accrual status. Non-performing loans totaled $3.1 million at December 31, 2006 compared to $2.1 million at December 31, 2005, an increase of $967 thousand or 46%. The increase in non-performing loans at December 31, 2006 is related to two borrowers. The first borrower has one commercial business loan and two loans secured by real estate totaling $1.2 million that were placed in non-accrual status during the first quarter of 2006. These loans have been considered impaired at both December 31, 2006 and December 31, 2005. As a result, the impaired loan balances were included in the allowance for loan loss analysis at December 31, 2006 and December 31, 2005, and no additional provisions were required for these loans during 2006. The second borrower has one commercial real estate and one commercial business loan totaling $725 thousand that was placed in non-accrual status during the third quarter of 2006. The ratio of non-performing loans to total loans was 0.65% at December 31, 2006, compared to 0.45% at December 31, 2005. The ratio of non-performing loans to total assets was 0.50% at December 31, 2006, compared to 0.34% at December 31, 2005. The December 31, 2006 non-performing loan balances include $2.9 million in loans accounted for on a non-accrual basis and $182 thousand in accruing loans which were contractually past due 90 days or more. Loans internally classified as substandard totaled $6.9 million at December 31, 2006, compared to $3.2 million at December 31, 2005. The increase in substandard loans is primarily related to an increase in loans secured by residential and commercial real estate loans. No loans were 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, management 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 totaled $7.6 million at December 31, 2006, compared to $8.7 million at December 31, 2005.

At December 31, 2006, impaired loans totaled $1.9 million, compared to $1.7 million at December 31, 2005. The impaired loan balances were also classified as non-performing loans at the end of both periods. The December 31, 2006 impaired loan balances consist of five impaired loans to two commercial borrowers that are secured by business assets and real estate, and are personally guaranteed by the owner of the business. 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 quarter ended, December 31, 2006.

At December 31, 2006, management is of the opinion that there are no loans, except those discussed above, where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as non-accrual, past due or restructured loans. Also, at December 31, 2006, there were no other interest bearing assets that would be required to be disclosed as non-accrual, past due, restructured or potential problems if such assets were loans. Management does not presently anticipate that any of the non-performing loans or classified loans would materially impact future operations, liquidity or capital resources.

Notwithstanding the above, the Bancorp has a $1.1 million participation in a $6.4 million letter of credit, which acts as payment support to bondholders. Bancorp's management currently believes that the principal of the borrower has the financial capacity to meet future bond repayment obligations. Cash flows from the security collateralizing the letter of credit have been negatively impacted due to the closing of a major tenant. Management will continue to monitor the letter of credit and bond repayments.

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 probable incurred losses that arise from the loan portfolio and is not segregated for, or allocated to, any particular loan or group of loans. For the twelve months ended December 31, 2006, $15 thousand in additions to the ALL account were required, compared to $245 thousand for the twelve months ended December 31, 2005. The December 31, 2005 ALL contained a specific allowance for the collateral deficiency associated with three loans totaling $1.4 million, which had been classified as impaired at December 31, 2006 and December 31, 2005, and placed in non-accrual status during the first quarter of 2006. Recoveries, net of charge-offs, totaled $71 thousand for the current twelve months, compared to recoveries, net of charge-offs of $44 thousand for the twelve months ended December 31, 2005. Changes in the provision take into consideration management's current judgments about the credit quality of the loan portfolio, loan portfolio growth, changes in the portfolio mix and local economic conditions. In determining the provision for loan loss for the current period, management has given consideration to increased risks associated within the local economy, changes in loan mix and asset quality.

The determination of the amount of the ALL and provisions for loan losses is based on management's current judgments about the credit quality of the loan portfolio with consideration given to all known relevant internal and external factors that affect loan collectibility as of the reporting date. The appropriateness of the current year provision and the overall adequacy of the ALL are determined through a disciplined and consistently applied quarterly process that combines a review of the current position with a risk assessment worksheet. The risk assessment worksheet covers the residential, commercial real estate, commercial business, and consumer loan portfolios. Management uses a risk rating system to assist in determining the appropriate level for the ALL. Management assigns risk factors to non-performing loans; loans that management has internally classified as impaired; loans that management has internally classified as substandard, doubtful, loss, or watch; and performing loans.

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

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

The ALL to total loans was 0.90% at December 31, 2006, compared to 0.89% at December 31, 2005, while the ALL to non-performing loans (coverage ratio) was 138.6% at December 31, 2006, compared to 198.1% at December 31, 2005. A consistently strong coverage ratio is an indicator that sufficient provisions for loan losses have been established. The December 31, 2006 balance in the ALL account of $4.3 million is considered adequate by management after evaluation of the loan portfolio, past experience and current economic and market conditions. While management may periodically allocate portions of the allowance for specific problem loans, the whole allowance is available for any loan charge offs that occur. The allocation of the ALL reflects performance and growth trends within the various loan categories, as well as consideration of the facts and circumstances that affect the repayment of individual loans, and loans which have been pooled as of the evaluation date, with particular attention given to non-performing loans and loans which have been classified as substandard, doubtful or loss. Management has allocated general reserves to both performing and non-performing loans based on current information available.

At December 31, 2006, the Bancorp's investment portfolio totaled $99.0 million and was invested as follows: 40.9% in U.S. government agency debt securities, 39.2% in U.S. government agency mortgage-backed securities and collateralized mortgage obligations, and 19.9% in municipal securities. At December 31, 2006, securities available-for-sale totaled $83.8 million or 84.6% of total securities. Available-for-sale securities are those the Bancorp may decide to sell if needed for liquidity, asset-liability management or other reasons. During 2006, securities increased by $8.9 million (9.9%). In addition, at December 31, 2006, the Bancorp had $3.5 million in FHLB stock.

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, 2006, deposits totaled $512.9 million. During 2006, deposits decreased by $12.8 million (2.4%). Savings accounts decreased by $7.4 million (12.1%), money market deposit accounts (MMDA's) decreased by $5.8 million (4.1%), certificates of deposit decreased by $1.4 million (0.6%), while checking accounts increased by $1.8 million (1.6%). The decrease in savings account and certificate of deposit balances was a result of the changing customer preference for alternative market investments. The decrease in MMDA's was a result of a planned withdrawal by a local governmental unit. At December 31, 2006, the deposit base was comprised of 21.1% checking, 26.8% MMDA's, 10.6% savings accounts, and 41.5% certificates of deposit.

Borrowings are primarily used to fund asset growth not supported by deposit generation. At December 31, 2006, borrowed funds totaled $51.5 million compared to $51.2 million at December 31, 2005, an increase of $349 thousand (0.7%). Retail repurchase agreements totaled $14.7 million at December 31, 2006, compared to $12.1 million at December 31, 2005, an increase of $2.6 million (21.9%). FHLB advances totaled $32.0 million, decreasing $5.5 million, as the Bancorp used excess liquidity to repay maturing advances. In addition, the Bancorp's FHLB line of credit carried a balance of $3.1 million at December 31, 2006, compared to $0 at December 31, 2005. Other short-term borrowings totaled $1.7 million at December 31, 2006, compared to $1.6 million at December 31, 2005.

Liquidity and Capital Resources

The Bancorp's primary goal for funds and 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 funds management is profit management. Because profit and liquidity are often conflicting objectives, management will maximize the Bank's net interest margin by making adequate, but not excessive, liquidity provisions. Furthermore, funds are managed so that future profits will not be significantly impacted because management uses expensive ways of raising cash.

Changes in the liquidity position result from operating, investing and financing activities. Cash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income. The primary investing activities include loan originations, loan repayments, investments in interest bearing balances in financial institutions, dividend receipts and the purchase 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 2006, cash and cash equivalents decreased $24.1 million, compared to an increase of $23.4 million for 2005, and an increase of $328 thousand for 2004. During 2006, the primary sources of cash and cash equivalents were from the maturities and sales of securities, loan sales and prepayments, FHLB advances and cash from operating activities. The primary uses of cash and cash equivalents were loan originations and loan participations purchased, the purchase of securities, deposit withdrawals and the payment of common stock dividends. During 2006, cash from operating activities decreased to $6.6 million, compared to $7.1 million for 2005 and $7.9 million for 2004. The 2006 decrease in cash provided by operating activities was a result of the net change in other assets. Cash outflows from investing activities totaled $14.6 million during 2006, compared to $48.4 million during 2005 and $50.8 million for 2004. The decrease during 2006 was due primarily to a reduction in loan originations. The net change in loans receivable and loan participations purchased totaled $2.9 million during 2006, compared to $35.2 million during 2005 and $36.7 million for 2004. Cash outflows from financing activities totaled $16.1 million in 2006, compared to $64.7 million in 2005 and $43.2 million in 2004. The change during 2006 was primarily due to a net decrease in deposit balances. Deposits decreased by $12.8 million during 2006, compared to an increase of $74.2 million for 2005 and $29.9 million for 2004. The 2006 decrease in deposits was a result of a planned withdrawal of a short-term local government deposit. FHLB advances decreased by $5.5 million during 2006, compared to a decrease of $2.0 million during 2005, and an increase of $13.0 million during 2004. The Bancorp paid dividends on common stock of $3.8 million during 2006, compared to $3.6 million during 2005 and $3.4 million for 2004.

Management strongly believes that safety and soundness is enhanced by maintaining a high level of capital. During 2006, stockholders' equity increased by $3.6 million (7.7%). The increase resulted primarily from earnings of $6.5 million for 2006. Additional items increasing stockholders' equity were $246 thousand from the issuance of 15,348 shares of common stock from stock-based compensation plans, $107 thousand from the recognition of the overfunded status of the Bank's postretirement medical plan, $67 thousand from stock-based compensation expense and $593 thousand from the net change in unrealized loss on available-for-sale securities. Decreasing stockholders' equity was the Bancorp's declaration of $3.9 million in cash dividends. At December 31, 2006, book value per share was $17.86 compared to $16.67 at December 31, 2005.

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

The following table shows that, at December 31, 2006, the Bancorp's capital exceeded all regulatory capital requirements. At December 31, 2006, 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	$54,665	12.0%	$ 36.4	8.0%	$45.5	10.0%
Tier 1 capital to risk-weighted assets	$50,398	11.1%	$ 18.2	4.0%	$27.3	6.0%
Tier 1 capital to adjusted average assets	$50,398	8.0%	$ 19.0	3.0%	$31.7	5.0%

Contractual Obligations, Commitments, Contingent Liabilities, and Off-balance Sheet Arrangements

The following table presents the Bancorp's consolidated long term contractual obligations, as well as commitments to extend credit to our borrowers, in aggregate and by payment due dates at December 31, 2006. 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:					
Time deposits	$ 202,256	$ 11,076	$ —	$ —	$ 213,332
FHLB advances	20,000	12,000	—	—	32,000
Limited partnership obligation	60	—	—	—	60
Total long-term contractual obligations	222,316	23,076	—	—	245,392
Commitments to extend credit:					
Performance standby letters of credit	2,268	885	699	174	4,026

At December 31, 2006, outstanding commitments to fund loans totaled $95.3 million. Approximately 80% 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. Except for the items disclosed in the table above, the Bancorp has no other off-balance sheet arrangements, which will have a current or future effect on results of operations, liquidity, capital expenditures or resources.

At December 31, 2006, management is not aware of any current recommendations by the regulatory authorities, which if they were to be implemented, would have a material effect on the Bancorp's liquidity, capital resources or operations.

Results of Operations - Comparison of 2006 to 2005

Net income for 2006 was $6.5 million, compared to $6.7 million for 2005, a decrease of $197 thousand (3.0%). The Bancorp's earnings were impacted by challenges that constrained revenue growth, one from persistent high short-term interest rates, the persistent inverted yield curve and continued consolidation through mergers that negatively impacted lending activity. Contributing to the Bancorp's earnings were asset quality, increased noninterest income from banking activities and stable operating expenses. The earnings represent a return on average assets of 1.04% for 2006 compared to 1.14% for 2005. The return on average equity was 13.42% for 2006 compared to 14.67% for 2005.

Net interest income for 2006 was $19.2 million, a decrease of $1.0 million (5.1%) from $20.3 million for 2005. The decrease in net interest income was affected by the Federal Reserve's action to raise interest rates and the subsequent inverted yield curve, a term that describes short-term interest rates having yields higher than long-term rates. Under such conditions, the increase in yields earned on loans and investments generally lag the increases in rates paid to depositors as well as the rates on bank borrowings. The weighted-average yield on interest-earning assets was 6.02% for 2006 compared to 5.50% for 2005. The weighted-average cost of funds was 2.77% for 2006 compared to 1.82% for 2005. The impact of the 6.02% return on interest earning assets and the 2.77% cost of funds resulted in a net interest spread of 3.25% for 2006 compared to 3.68% for 2005. During 2006, total interest income increased by $5.0 million (16.5%) while total interest expense increased by $6.0 million (61.3%). The net interest margin was 3.31% for 2006 compared to 3.71% for 2005. During 2006, the Bancorp continued to focus on reducing its effective tax rate by investing in tax-exempt securities and loans. As a result, the Bancorp's tax equivalent net interest margin for 2006 was 3.41% compared to 3.80% for 2005.

During 2006, interest income from loans increased by $4.2 million (15.8%) compared to 2005. The increase was due to an increase in average loan balances and increased yields. The weighted-average yield on loans outstanding was 6.44% for 2006 compared to 5.92% for 2005. Loan balances averaged $472.2 million for 2006, up $28.7 million (6.5%) from $443.5 million for 2005. During 2006, interest income from securities and other interest earning assets increased by $794 thousand (21.1%) compared to 2005. The increase was due to higher average balances and an increase in portfolio yields. The weighted-average yield on securities and other interest earning assets was 4.19% for 2006 compared to 3.67% for 2005. Securities and other interest earning assets averaged $108.8 million for 2006, up $6.4 million (6.3%) from $102.4 million for 2005.

Interest expense for deposits increased by $5.5 million (69.4%) during 2006 compared to 2005. The change was due to an increase in the weighted-average rate paid on deposits and increased average balances. The weighted-average rate paid on deposits for 2006 was 2.65% compared to 1.82% for 2005. The higher cost of funds was a result of MMDA and certificates of deposit growth in a higher rate environment, and a decrease in savings account average balances. Total deposit balances averaged $507.8 million for 2006, up $24.9 million (5.2%) from $482.9 million for 2005. Interest expense on borrowed funds increased by $466 thousand (25.7%) during 2006 due to an increase in average daily balances and an increase in cost of borrowing. The weighted-average cost of borrowed funds was 3.78% for 2006 compared to 3.34% for 2005. Borrowed funds averaged $60.2 million during 2006, up $5.9 million (10.9%) from $54.3 million for 2005. The lower marginal cost of acquiring borrowed funds provides a cost-effective supplement to deposits for funding interest-earning asset growth.

Noninterest income was $4.2 million for 2006, up $679 thousand (19.2%) from $3.5 million during 2005. During 2006, fees and service charges from account related services increased $541 thousand (22.5%). The increase was primarily due to fees from deposit accounts. Fees from wealth management operations totaled $657 thousand for 2006, compared to $601 thousand for 2005, an increase of $56 thousand (9.3%). Income from increases in the cash value of bank owned life insurance totaled $365 thousand for 2006, compared to $310 for 2005, an increase of $55 thousand (17.7%). During 2006, the Bancorp reported $157 thousand in gains on sales of loans compared to $102 thousand for 2005, an increase of $55 thousand (54.0%). Gain on sale of foreclosed real estate totaled $43 thousand during 2006, compared to $8 thousand for 2005, an increase of $35 thousand (437.5%). In addition, the Bancorp reported $3 thousand in gains on the sale of securities during 2006, compared to gains of $70 thousand for 2005.

Noninterest expense for 2006 was $14.3 million, up $525 thousand (3.8%) from $13.8 million for 2005. During the current year, compensation and benefits totaled $7.3 million, an increase of $150 thousand (2.1%) compared to $7.2 million for 2005. The increase was primarily due to increased compensation, due to annual salary increases and the recognition of stock-based employee compensation in accordance with Financial Accounting Standards No. 123(R), "Share-based Payment," which was adopted in 2006. Occupancy and equipment totaled $2.4 million for 2006, an increase of $156 thousand (7.0%) compared to $2.2 million for 2005. The increase was a result of additional depreciation expense for equipment and technology expenditures. Data processing totaled $827 thousand for 2006, an increase of $53 thousand (6.8%), compared to $774 thousand for 2005. The change was a result of increased utilization and transaction volume with the Bancorp's core data processing system. Statement and check processing totaled $348 thousand for 2006, compared to $368 thousand for 2005. Marketing expense totaled $325 thousand for 2006, an increase of $55 thousand (20.2%), compared to $270 thousand for 2005. The marketing expense change was a result of increased market communication of the Bancorp's brand. Professional services expense related to the utilization of third parties totaled $378 thousand for 2006, an increase of $136 thousand (56.0%), compared to $242 for 2005. The increase was a result of the formation of the Bancorp's real estate investment trust. Other expense totaled $2.7 million for 2006 and 2005. The Bancorp's efficiency ratio for 2006 was 60.9% compared to 57.9% for 2005. 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 2006 totaled $2.7 million compared to $3.1 million for 2005, a decrease of $444 thousand (14.2%). The combined effective federal and state tax rates for the Bancorp were 29.3% for 2006 and 31.8% for 2005. The decrease was due to an increased investment in tax-exempt investments, loans, bank owned life insurance and the formation of a real estate investment trust.

Results of Operations - Comparison of 2005 to 2004

Net income for 2005 was $6.7 million, compared to $6.3 million for 2004, an increase of $382 thousand (6.1%), principally due to consistent core earnings, asset quality, increased noninterest income from banking activities and stable operating expenses. The earnings represent a return on average assets of 1.14% for 2005 compared to 1.17% for 2004. The return on average equity was 14.67% for 2005 compared to 14.64% for 2004.

Net interest income for 2005 was $20.3 million, up $510 thousand (2.6%) from $19.8 million for 2004. The increase in net interest income was due to an increase in average loan and core deposit balances. The rising interest rate environment during 2005 resulted in increased yields for investments and loans, as maturing securities were reinvested at higher rates and new loan production carried higher yields. During 2005, the cost of funds increased faster than earning asset yields due to the maturity structure of the Bancorp's certificates of deposit, growth in MMDA's, and a reduction in checking and savings account balances. The weighted-average yield on interest-earning assets was 5.50% for 2005 compared to 5.31% for 2004. The weighted-average cost of funds was 1.82% for 2005 compared to 1.40% for 2004. The impact of the 5.50% return on interest earning assets and the 1.82% cost of funds resulted in a net interest spread of 3.68% for 2005 compared to 3.91% for 2004. During 2005, total interest income increased by $3.4 million (12.8%) while total interest expense increased by $2.9 million (42.3%). The net interest margin was 3.71% for 2005 compared to 3.94% for 2004. During 2005, the Bancorp continued to focus on reducing its effective tax rate by investing in tax-exempt securities and loans. As a result, the Bancorp's tax equivalent net interest margin for 2005 was 3.80% compared to 3.97% for 2004.

During 2005, interest income from loans increased by $2.6 million (10.8%) compared to 2004. The increase was due to an increase in average loan balances and increased yields. The weighted-average yield on loans outstanding was 5.92% for 2005 compared to 5.71% for 2004. Loan balances averaged $443.5 million for 2005, up $28.4 million (6.8%) from $415.1 million for 2004. During 2005, interest income from securities and other interest earning assets increased by $855 thousand (29.4%) compared to 2004. The increase was due to higher average balances and an increase in portfolio yields. The weighted-average yield on securities and other interest earning assets was 3.67% for 2005 compared to 3.37% for 2004. Securities and other interest earning assets averaged $102.4 million for 2005, up $16.3 million (18.9%) from $86.1 million for 2004.

Interest expense for deposits increased by $2.6 million (48.8%) during 2005 compared to 2004. The change was due to an increase in the weighted-average rate paid on deposits and increased average balances. The weighted-average rate paid on deposits for 2005 was 1.82% compared to 1.40% for 2004. The higher cost of funds was a result of MMDA and certificates of deposit growth in a rising rate environment, and a decrease in low cost checking and savings account average balances. Total deposit balances averaged $482.9 million for 2005, up $42.1 million (9.6%) from $440.8 million for 2004. Interest expense on borrowed funds increased by $293 thousand (19.3%) during 2005 due to an increase in average daily balances and an increase in the cost of borrowing. The weighted-average cost of borrowed funds was 3.34% for 2005 compared to 3.10% for 2004. Borrowed funds averaged $54.3 million during 2005, up $5.3 million (10.8%) from $49.0 million for 2004. Borrowed funds have provided a cost-effective supplement to deposits for funding interest-earning asset growth.

Noninterest income was $3.5 million for 2005, up $228 thousand (6.9%) from $3.3 million during 2004. During 2005, fees and service charges increased $287 thousand (13.5%). The increase was primarily due to fees from deposit accounts and an increase in the cash value of bank owned life insurance. Fees from wealth management operations totaled $601 thousand for 2005, compared to $498 thousand for 2004, an increase of $103 thousand (20.7%). During 2005, the Bancorp reported $102 thousand in gains on sales of loans compared to $234 thousand for 2004, a decrease of $132 thousand (54.4%). Gains on securities totaled $70 thousand during 2005 compared to $284 thousand for 2004, a decrease of $214 thousand (75.4%). The decrease in gains on sales of loans and securities was a result of fewer sales due to the current interest rate environment. Income from the increase in the cash value of bank owned life insurance totaled $310 thousand during the current year, compared to $147 thousand in 2004, an increase of $163 thousand (110.9%). In addition, the Bancorp reported $8 thousand in gains on the sale of foreclosed real estate during 2005 compared to gains of $1 thousand for 2004.

Noninterest expense for 2005 was $13.8 million, up $597 thousand (4.5%) from $13.2 million for 2004. During the current year, compensation and benefits totaled $7.2 million, an increase of $342 thousand (5.0%) compared to $6.8 million for 2004. The increase was primarily due to increased compensation, due to annual salary increases, and additional staffing for current banking operations. Occupancy and equipment totaled $2.23 million for 2005, an increase of $30 thousand (1.4%) compared to $2.20 million for 2004. Marketing expense totaled $270 thousand for 2005, an increase of $37 thousand (15.9%), compared to $233 thousand for 2004. The marketing expense change was a result of increased market communication of the Bancorp’s brand, while selling its products and services. Data processing totaled $774 thousand for 2005, an increase of $51 thousand (7.1%), compared to $723 thousand for 2004. The change was a result of increased transaction volume with the Bancorp’s core data processing system. Other expense totaled $3.1 million for 2005, an increase of $193 thousand (6.7%) from $2.9 million for 2004. The increase was primarily due to expense associated with the imaging of customer checks and account statements, which was implemented during August 2004. The Bancorp’s efficiency ratio for 2005 was 57.9% compared to 57.1% for 2004.

Income tax expenses for 2005 totaled $3.1 million compared to $3.2 million for 2004, a decrease of $101 thousand (3.1%). The combined effective federal and state tax rates for the Bancorp were 31.8% for 2005 and 33.9% for 2004. The decrease was due to an increased investment in tax-exempt investments, loans and bank owned life insurance.

Critical Accounting Policies

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

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

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

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

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

The risk factors are applied to these types of loans to determine the appropriate level for the ALL. Adjustments may be made to these allocations that reflect management's judgment on current conditions, delinquency trends, and charge-off activity.

The Bancorp has not made any significant changes to its overall approach in the determination of the ALL for all periods reported. There have been no material changes in assumptions or estimation techniques. Based on the above discussion, management believes that the ALL is currently adequate, but not excessive, given the risk inherent in the loan portfolio.

Impact of Inflation and Changing Prices

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

Forward-Looking Statements

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

Regulatory Risk. The banking industry is heavily regulated. As discussed above, the Bancorp and Bank 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 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

Report of Independent Registered Public Accounting Firm

Board of Directors
NorthWest Indiana Bancorp
Munster, Indiana

We have audited the accompanying consolidated balance sheets of NorthWest Indiana Bancorp ("Company") as of December 31, 2006 and 2005 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NorthWest Indiana Bancorp as of December 31, 2006 and 2005, and the results of their operations and its cash flows for each of the three years in the period ended December 31, 2006 in conformity with U.S. generally accepted accounting principles.

As disclosed in Note 1, during 2006 the Company adopted new accounting guidance for post-retirement benefits.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

South Bend, Indiana
March 13, 2007

Consolidated Balance Sheets

(Dollars in thousands)	December 31, 2006	December 31, 2005
ASSETS		
Cash and noninterest bearing balances in financial institutions	$ 15,764	$ 19,772
Interest bearing balances in financial institutions	—	20,059
Total cash and cash equivalents	15,764	39,831
Securities available-for-sale	83,765	76,382
Securities held-to-maturity; fair value: December 31, 2006 - $15,380 December 31, 2005 - $13,668	15,247	13,711
Loans receivable	471,716	469,043
Less: allowance for loan losses	(4,267)	(4,181)
Net loans receivable	467,449	464,862
Federal Home Loan Bank stock	3,544	2,987
Accrued interest receivable	3,331	2,986
Premises and equipment	14,603	14,510
Foreclosed real estate	323	260
Cash value of bank owned life insurance	10,822	8,457
Investment in real estate limited partnerships	696	808
Other assets	3,438	2,645
Total assets	$ 618,982	$ 627,439
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	$ 43,889	$ 49,204
Interest bearing	469,042	476,527
Total	512,931	525,731
Borrowed funds	51,501	51,153
Accrued expenses and other liabilities	4,540	4,122
Total liabilities	568,972	581,006
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, 2006 - 2,870,437 December 31, 2005 - 2,856,539 shares outstanding: December 31, 2006 - 2,799,814 December 31, 2005 - 2,785,916	359	357
Additional paid-in capital	4,610	4,299
Accumulated other comprehensive loss	(389)	(1,089)
Retained earnings	46,952	44,388
Treasury stock, common shares at cost: December 31, 2006 and 2005 - 70,623	(1,522)	(1,522)
Total stockholders' equity	50,010	46,433
Total liabilities and stockholders' equity	$ 618,982	$ 627,439

See accompanying notes to consolidated financial statements.

(Dollars in thousands, except per share data)	Year Ended December 31, 2006	2005	2004
Interest income:			
Loans receivable			
Real estate loans	$ 25,819	$ 22,364	$ 21,007
Commercial loans	4,356	3,633	2,371
Consumer loans	250	267	331
Total loan interest	30,425	26,264	23,709
Taxable securities	3,342	2,758	2,517
Tax exempt securities	715	531	305
Other interest earning assets	497	471	83
Total interest income	34,979	30,024	26,614
Interest expense:			
Deposits	13,460	7,946	5,339
Borrowed funds	2,278	1,812	1,519
Total interest expense	15,738	9,758	6,858
Net interest income	19,241	20,266	19,756
Provision for loan losses	15	245	385
Net interest income after provision for loan losses	19,226	20,021	19,371
Noninterest income:			
Fees and service charges	2,950	2,409	2,122
Wealth management operations	657	601	498
Increase in cash value of bank owned life insurance	365	310	147
Gain on sale of loans, net	157	102	234
Gain on securities, net	3	70	284
Gain on sale of foreclosed real estate	43	8	1
Other	44	40	26
Total noninterest income	4,219	3,540	3,312
Noninterest expense:			
Compensation and benefits	7,329	7,179	6,837
Occupancy and equipment	2,381	2,225	2,195
Data processing	827	774	723
Statement and check processing	348	368	195
Marketing	325	270	233
Professional services	378	242	298
Other	2,708	2,713	2,693
Total noninterest expense	14,296	13,771	13,174
Income before income tax expenses	9,149	9,790	9,509
Income tax expenses	2,674	3,118	3,219
Net income	$ 6,475	$ 6,672	$ 6,290
Earnings per common share:			
Basic	$ 2.32	$ 2.40	$ 2.28
Diluted	$ 2.30	$ 2.37	$ 2.24
Dividends declared per common share	$ 1.40	$ 1.32	$ 1.24

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, 2004	$ 353	$ 3,567	$ 540	$ 38,534	$ (1,440)	$ 41,554
Comprehensive income:						
Net income	—	—	—	6,290	—	6,290
Net unrealized gain/(loss) on securities available-for-sale, net of reclassification and tax effects	—	—	(720)	—	—	(720)
Comprehensive income	—	—	—	—	—	5,570
Issuance of 18,747 shares of common stock at $10.63 - $30.00 per share, under stock-based compensation plans	2	403	—	—	—	405
Cash dividends, $1.24 per share	—	—	—	(3,432)	—	(3,432)
Balance at December 31, 2004	355	3,970	(180)	41,392	(1,440)	44,097
Comprehensive income:						
Net income	—	—	—	6,672	—	6,672
Net unrealized gain/(loss) on securities available-for-sale, net of reclassification and tax effects	—	—	(909)	—	—	(909)
Comprehensive income	—	—	—	—	—	5,763
Issuance of 15,560 shares of common stock at $10.63 - $35.50 per share, under stock-based compensation plans, including related tax effects	2	329	—	—	—	331
Purchase of treasury stock	—	—	—	—	(82)	(82)
Cash dividends, $1.32 per share	—	—	—	(3,676)	—	(3,676)
Balance at December 31, 2005	357	4,299	(1,089)	44,388	(1,522)	46,433
Comprehensive income:						
Net income	—	—	—	6,475	—	6,475
Net unrealized gain/(loss) on securities available-for-sale, net of reclassification and tax effects	—	—	593	—	—	593
Comprehensive income	—	—	—	—	—	7,068
Adjustment to initially apply SFAS No. 158, net of tax effects	—	—	107	—	—	107
Issuance of 15,348 shares of common stock at $10.63 - $35.50 per share, under stock-based compensation plans, including related tax effects	2	244	—	—	—	246
Stock-based compensation expense	—	67	—	—	—	67
Cash dividends, $1.40 per share	—	—	—	(3,911)	—	(3,911)
Balance at December 31, 2006	$ 359	$ 4,610	$ (389)	$ 46,952	$ (1,522)	$ 50,010

See accompanying notes to consolidated financial statements.

(Dollars in thousands)	Year Ended December 31, 2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 6,475	$ 6,672	$ 6,290
Adjustments to reconcile net income to net cash provided by operating activities:			
Origination of loans for sale	(9,141)	(5,499)	(3,835)
Sale of loans originated for sale	9,234	5,591	3,921
Depreciation and amortization, net of accretion	1,310	1,466	1,425
Amortization of mortgage servicing rights	84	97	71
Amortization of investment in real estate limited partnerships	132	125	50
Equity in (gain)/loss of investments in limited partnership, net of interest received	89	11	39
Stock-based compensation	67	—	—
Federal Home Loan Bank stock dividend	—	(83)	(129)
Net gains on sale of securities	(3)	(70)	(284)
Net gains on sale of loans	(157)	(102)	(234)
Net gain on sale of foreclosed real estate	(43)	(8)	(1)
Provision for loan losses	15	245	385
Net change in:			
Interest receivable	(345)	(527)	(210)
Cash value of bank owned life insurance	(365)	(310)	(147)
Other assets	(1,324)	(23)	732
Accrued expenses and other liabilities	542	(459)	(198)
Total adjustments	95	454	1,585
Net cash from operating activities	6,570	7,126	7,875
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from maturities and paydowns of securities available-for-sale	13,352	8,703	21,849
Proceeds from sales of securities available-for-sale	3,290	8,777	8,305
Purchase of securities available-for-sale	(23,137)	(26,126)	(39,500)
Purchase of securities held-to-maturity	(1,561)	(2,939)	(7,925)
Proceeds from maturities and paydowns of securities held-to-maturity	13	14	12
Proceeds from sale of loans transferred to held for sale	—	—	12,166
Loan participations purchased	(12,354)	(23,121)	(17,756)
Net change in loans receivable	9,413	(12,084)	(18,985)
Proceeds from sale of Federal Home Loan Bank Stock	164	—	—
Purchase of Federal Home Loan Bank Stock	(721)	—	—
Purchase of premises and equipment, net	(1,360)	(1,687)	(994)
Proceeds from sale of foreclosed real estate	319	28	35
Purchase of bank owned life insurance	(2,000)	—	(8,000)
Net cash from investing activities	(14,582)	(48,435)	(50,793)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Change in deposits	(12,800)	74,158	29,933
Proceeds from FHLB advances	26,000	12,000	20,000
Repayment of FHLB advances	(31,500)	(14,000)	(7,000)
Change in other borrowed funds	5,848	(4,048)	3,306
Tax effect of nonqualified stock option exercise	15	1	—
Proceeds from issuance of common stock	231	330	405
Dividends paid	(3,849)	(3,617)	(3,398)
Treasury stock purchased	—	(82)	—
Net cash from financing activities	(16,055)	64,742	43,246
Net change in cash and cash equivalents	(24,067)	23,433	328
Cash and cash equivalents at beginning of period	39,831	16,398	16,070
Cash and cash equivalents at end of period	$ 15,764	$ 39,831	$ 16,398
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest	$ 7,560	$ 9,612	$ 6,868
Income taxes	$ 3,230	$ 2,965	$ 2,450
SUPPLEMENTAL NONCASH INFORMATION:			
Transfers from loans to foreclosed real estate	$ 339	$ 307	$ 314
Transfers from loans to loans held for sale	$ —	$ —	$ 12,202

See accompanying notes to consolidated financial statements.

NOTE 1 — Summary of Significant Accounting Policies

Principles of Consolidation — The consolidated financial statements include NorthWest Indiana Bancorp (the Bancorp), its wholly owned subsidiary, Peoples Bank SB (the Bank), and the Bank's wholly owned subsidiaries, Peoples Service Corporation and NWIN, LLC. The Bancorp has no other business activity other than being a holding company for the Bank. The Bancorp's earnings are dependent upon the earnings of the Bank. Peoples Service Corporation provides insurance and annuity investments to the Bank's wealth management customers. NWIN, LLC is located in Las Vegas, Nevada and serves as the Bank's investment subsidiary and parent of a real estate investment trust, NWIN Funding, Inc.

NWIN Funding, Inc. was formed on September 1, 2006 as an Indiana Real Estate Investment Trust. The formation of NWIN Funding, Inc. provides the Bancorp with a vehicle that may be used to raise capital, utilizing portfolio mortgages as collateral, without diluting stock ownership. In addition, NWIN Funding, Inc. will receive favorable state tax treatment for income generated by its operations. All significant inter-company accounts and transactions have been eliminated in consolidation.

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

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

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

Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. In estimating other than temporary losses, management considers: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, and (3) the Bancorp's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

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

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

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

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

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

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

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

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

Premises and Equipment — Land is carried at cost. 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 39 years. Furniture and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 10 years.

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

Servicing Rights — Servicing assets represent the allocated value of retained servicing rights on loans sold. Servicing assets are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the assets, using groupings of the underlying loans as to interest rates. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market based assumptions. Any impairment of a grouping is reported as a valuation allowance, to the extent that fair value is less than the capitalized amount for a grouping.

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. The method of accounting used for each investment is based on ownership percentage in the investment. 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 — Premises and equipment, core deposit and other intangible assets, and other long term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Bank Owned Life Insurance — The Bank has purchased life insurance policies on certain key management personnel. Bank owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

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 — Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 123(R), “Share-based Payment,” using the modified prospective transition method. Accordingly, the Company has recorded stock-based employee compensation cost using the fair value method starting in 2006. For 2006, adopting this standard resulted in a reduction of income before income taxes of $37 thousand, a reduction in net income of $22 thousand, a decrease in basic and diluted earnings per share of $0.01 and a decrease in cash flow from operations of $37 thousand.

During 2006, the exercising of stock options increased cash flows from financing activities by $231 thousand. In addition, the tax effect from the exercising of nonqualified stock options increased cash flows from financing activities by $15 thousand.

As of December 31, 2006, there was $30 thousand of total unrecognized compensation cost related to nonvested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2.0 years.

Prior to January 1, 2006, employee compensation expense under stock options was reported using the intrinsic value method; therefore, no stock based compensation cost is reflected in net income for the years ending December 31, 2005 and 2004, 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 share if expense was measured using the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock Based Compensation,* for the years ending December 31:

	(Dollars in thousands) 2005	2004
Net income as reported	$ 6,672	$ 6,290
Deduct: Stock-based compensation expense determined under fair value based method	(45)	(51)
Pro forma net income	$ 6,627	$ 6,239
Basic earnings per common share as reported	$ 2.40	$ 2.28
Pro forma basic earnings per common share	$ 2.38	$ 2.26
Diluted earnings per common share as reported	$ 2.37	$ 2.24
Pro forma diluted earnings per common share	$ 2.35	$ 2.22

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

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

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

Comprehensive Income — Comprehensive income consists of net income and other comprehensive income. Other comprehensive income for the Bancorp includes unrealized gains and losses on securities available-for-sale.

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.

Restrictions on Cash — Cash on hand or on deposit with the Federal Reserve Bank of $345,000 and $5,398,000 was required to meet regulatory reserve and clearing requirements at year-end 2006 and 2005. These balances do not earn interest.

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

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

Reclassification — Certain amounts appearing in the consolidated financial statements and notes thereto for the years ended December 31, 2004 and December 31, 2005, may have been reclassified to conform to the December 31, 2006 presentation.

Adoption of New Accounting Standards — Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-based Payment." See "Stock Compensation" above for further discussion of the effect of adopting this standard.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158,*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans –an amendment of FASB Statements No. 87, 88, 106 and 132(R).* This Statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its balance sheet, beginning with year end 2006, and to recognize changes in the funded status in the year in which the changes occur through comprehensive income beginning in 2007. Additionally, defined benefit plan assets and obligations are to be measured as of the date of the employer's fiscal year-end, starting in 2008.

Adoption had the following effect on individual line items in the 2006 balance sheet:

	(Dollars in thousands)		
	Before Application of SFAS No. 58	*Adjustments*	*After Application of SFAS No. 58*
Liability for postretirement benefits	$ 207	$ (185)	$ 22
Deferred income taxes	(1,464)	78	(1,503)
Total assets	619,060	(78)	618,982
Total liabilities	569,157	(185)	568,972
Accumulated other comprehensive loss	(496)	107	(389)
Total stockholders' equity	$ 49,903	$ 107	$ 50,010

In September 2006, the Securities and Exchange Commission (SEC) released Staff Accounting Bulletin No. 108,*Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108), which is effective for fiscal years ending on or after November 15, 2006. SAB 108 provides guidance on how the effects of prior-year uncorrected financial statement misstatements should be considered in quantifying a current year misstatement. SAB 108 requires public companies to quantify misstatements using both an income statement (rollover) and balance sheet (iron curtain) approach and evaluate whether either approach results in a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. If prior year errors that had been previously considered immaterial now are considered material based on either approach, no restatement is required so long as management properly applied its previous approach and all relevant facts and circumstances were considered. Adjustments considered immaterial in prior years under the method previously used, but now considered material under the dual approach required by SAB 108, are to be recorded upon initial adoption of SAB 108. The amount so recorded is shown as a cumulative effect adjustment is recorded in opening retained earnings as of January 1, 2006. The adoption of SAB 108 had no effect on the Company's financial statements for the year ending December 31, 2006.

Effect of Newly Issued But Not Yet Effective Accounting Standards– In February 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 155, *Accounting for Certain Hybrid Financial Instruments-an amendment to FASB Statements No. 133 and 140.* This Statement permits fair value re-measurement for any hybrid financial instruments, clarifies which instruments are subject to the requirements of Statement No. 133, and establishes a requirement to evaluate interests in securitized financial assets and other items. The new standard is effective for financial assets acquired or issued after the beginning of the entity's first fiscal year that begins after September 15, 2006. Management does not expect the adoption of this Statement to have a material impact on its consolidated financial position or results of operations.

In March 2006, the FASB issued Statement No. 156,*Accounting for Servicing of Financial Assets-an amendment of FASB Statement No. 140.*This Statement provides the following: 1) revised guidance on when a servicing asset and servicing liability should be recognized; 2) requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; 3) permits an entity to elect to measure servicing assets and servicing liabilities at fair value each reporting date and report changes in fair value in earnings in the period in which the changes occur; 4) upon initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities for securities which are identified as offsetting the entity's exposure to changes in the fair value of servicing assets or liabilities that a servicer elects to subsequently measure at fair value; and 5) requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional footnote disclosures. This standard is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006 with the effects of initial adoption being reported as a cumulative-effect adjustment to retained earnings. Management does not expect that the adoption of this statement will have a material impact on its consolidated financial position or results of operations.

In September 2006, the FASB issued Statement No. 157,*Fair Value Measurements.* This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. The Company has not completed its evaluation of the impact of the adoption of this standard.

In July 2006, the FASB issued FASB Interpretation No. 48,*Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48), which prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company has determined that the adoption of FIN 48 will not have a material effect on the financial statements.

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-4,*Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements.* This issue requires that a liability be recorded during the service period when a split-dollar life insurance agreement continues after participants' employment or retirement. The required accrued liability will be based on either the post-employment benefit cost for the continuing life insurance or based on the future death benefit depending on the contractual terms of the underlying agreement. This issue is effective for fiscal years beginning after December 15, 2007. The Company has not completed its evaluation of the impact of adoption of EITF 06-4.

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-5,*Accounting for Purchases of Life Insurance — Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85- 4 (Accounting for Purchases of Life Insurance).* This issue requires that a policyholder consider contractual terms of a life insurance policy in determining the amount that could be realized under the insurance contract. It also requires that if the contract provides for a greater surrender value if all individual policies in a group are surrendered at the same time, that the surrender value be determined based on the assumption that policies will be surrendered on an individual basis. Lastly, the issue discusses whether the cash surrender value should be discounted when the policyholder is contractually limited in its ability to surrender a policy. This issue is effective for fiscal years beginning after December 15, 2006. The Company does not believe the adoption of this issue will have a material impact on the financial statements.

NOTE 2 – Securities

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

	(Dollars in thousands)		
	Fair Value	*Gross Unrealized Gains*	*Gross Unrealized Losses*
2006			
U.S. government sponsored entities	$ 39,596	$ 35	$ (450)
CMO and mortgage-backed securities	38,302	138	(515)
Municipal securities	4,959	—	(12)
CMO government sponsored entities	908	44	(19)
Total debt securities	$ 83,765	$ 217	$ (996)
2005			
U.S. government sponsored entities	$ 45,843	$ —	$ (958)
CMO and mortgage-backed securities	26,496	3	(676)
Municipal securities	2,880	1	(39)
CMO government sponsored entities	1,163	—	(28)
Total debt securities	$ 76,382	$ 4	$ (1,701)

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

	(Dollars in thousands)			
	Carrying Amount	*Gross Unrecognized Gains*	*Gross Unrecognized Losses*	*Fair Value*
2006				
Municipal securities	$ 14,709	$ 163	$ (29)	$ 14,843
Mortgage-backed securities	538	4	(5)	537
Total debt securities	$ 15,247	$ 167	$ (34)	$ 15,380
2005				
Municipal securities	$ 13,161	$ 59	$ (101)	$ 13,119
Mortgage-backed securities	550	5	(6)	549
Total debt securities	$ 13,711	$ 64	$ (107)	$ 13,668

The fair value of debt securities and carrying amount, if different, at year end 2006 by contractual maturity were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	(Dollars in thousands)		
	Available-for-sale	*Held-to-maturity*	
	Fair Value	*Carrying Amount*	*Fair Value*
Due in one year or less	$ 18,329	$ —	$ —
Due from one to five years	18,992	—	—
Due over five years	8,142	14,709	14,843
CMO and mortgage-backed securities	38,302	538	537
Total	$ 83,765	$ 15,247	$ 15,380

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

	(Dollars in thousands)		
	2006	*2005*	*2004*
Proceeds	$ 3,290	$ 8,777	$ 8,305
Gross gains	$ 3	$ 76	$ 284
Gross losses	—	(6)	—

Losses in 2005 were part of a portfolio reallocation that was executed in the investment portfolio. The transaction improved the investment yield while enhancing portfolio diversification. The tax benefit (provision) related to these net realized gains and losses were $1,000 for 2006, $27,000 for 2005 and $110,000 for 2004.

Securities with carrying values of $20,329,000 and $21,122,000 were pledged as of December 31, 2006 and 2005 as collateral for repurchase agreements and public funds and for other purposes as permitted or required by law.

Securities with unrealized losses at year-end 2006 not recognized in income are as follows:

	Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2006						
Description of Securities:						
U.S. government sponsored entities	$ —	$ —	$ 35,519	$ (450)	$ 35,519	$ (450)
CMO and mortgage-backed securities	918	(6)	21,594	(533)	22,512	(539)
Municipal securities	2,654	(10)	3,107	(31)	5,761	(41)
Total temporarily impaired	$ 3,572	$ (16)	$ 60,220	$ (1,014)	$ 63,792	$ (1,030)

Securities with unrealized losses at year end 2005 not recognized in income are as follows:

	Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2005						
Description of Securities:						
U.S. government sponsored entities	$ 15,551	$ (197)	$ 30,292	$ (761)	$ 45,843	$ (958)
CMO and mortgage-backed securities	17,230	(354)	9,881	(356)	27,111	(710)
Municipal securities	8,466	(113)	1,144	(27)	9,610	(140)
Total temporarily impaired	$ 41,247	$ (664)	$ 41,317	$ (1,144)	$ 82,564	$ (1,808)

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

The Bancorp evaluates securities for other-than-temporary impairment, at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Bancorp to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, the Bancorp may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

NOTE 3 — Loans Receivable

Year end loans are summarized below:

(Dollars in thousands)	2006	2005
Loans secured by real estate:		
Construction and land development	$ 48,688	$ 47,957
Residential, including home equity	234,560	235,488
Commercial real estate and other dwelling	126,966	112,685
Total loans secured by real estate	410,214	396,130
Consumer loans	2,997	4,057
Commercial business	46,918	50,215
Government and other	12,254	19,492
Subtotal	472,383	469,894
Less:		
Net deferred loan origination fees	(555)	(625)
Undisbursed loan funds	(112)	(226)
Loans receivable	$ 471,716	$ 469,043

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

(Dollars in thousands)	2006	2005	2004
Balance at beginning of period	$ 4,181	$ 3,892	$ 3,787
Provision charged to income	15	245	385
Loans charged-off	(7)	(37)	(341)
Recoveries	78	81	61
Balance at end of period	$ 4,267	$ 4,181	$ 3,892

Non-performing loans at year end were as follows:

(Dollars in thousands)	2006	2005
Loans past due over 90 days still on accrual	$ 182	$ 998
Non-accrual loans	2,896	1,113

Impaired loans at year end were as follows:

(Dollars in thousands)	2006	2005	2004
Year end loans with no allocated allowances for loan losses	$ —	$ —	$ —
Year end loans with allocated allowances for loan losses	1,887	1,688	266
Total	$ 1,887	$ 1,688	$ 266
Amount of the allowance for loan losses allocated	$ 522	$ 493	$ 116
Average of impaired loans during the year	2,059	1,408	462
Interest income recognized during impairment	—	—	—

Cash-basis interest income recognized	—	—	—

NOTE 4 — Loan Servicing

Mortgage loans serviced for others are not reported as assets. The principle balances of these loans at year end are as follows:

	(Dollars in thousands) 2006	2005
Mortgage loan portfolio serviced for FHLMC	$ 40,848	$ 38,048

Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately $385,000 and $636,000 at December 31, 2006 and 2005.

Activity for capitalized mortgage servicing rights, and the related valuation allowance, was as follows:

	(Dollars in thousands)		
	2006	2005	2004
Servicing rights:			
Beginning of year	$ 314	$ 365	$ 252
Additions	65	46	184
Amortized to expense	(84)	(97)	(71)
End of year	$ 295	$ 314	$ 365

At year end 2006, 2005 and 2004, there was no valuation allowance required.

NOTE 5 — Premises and Equipment, Net

At year end, premises and equipment are summarized below:

	(Dollars in thousands)	
	2006	2005
Cost:		
Land	$ 2,767	$ 2,127
Buildings and improvements	13,856	13,742
Furniture and equipment	8,084	7,478
Total cost	24,707	23,347
Less accumulated depreciation	(10,104)	(8,837)
Premises and equipment, net	$ 14,603	$ 14,510

Depreciation expense was $1,267,000; $1,251,000 and $1,242,000 for 2006, 2005 and 2004.

NOTE 6 — Income Taxes

Components of the income tax expenses consist of the following:

	(Dollars in thousands)		
	2006	2005	2004
Federal:			
Current	$ 2,578	$ 2,577	$ 2,531
Deferred	(110)	18	160
State:			
Current	254	513	503
Deferred	(48)	10	25
Income tax expenses	$ 2,674	$ 3,118	$ 3,219

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

	(Dollars in thousands)		
	2006	2005	2004
Federal statutory rate	34%	34%	34%
Tax expense at statutory rate	$ 3,111	$ 3,329	$ 3,233
State tax, net of federal effect	136	345	348
Tax exempt income	(546)	(474)	(247)
Other	(27)	(82)	(115)
Total income tax expenses	$ 2,674	$ 3,118	$ 3,219

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

	(Dollars in thousands)	
	2006	2005
Deferred tax assets:		
Bad debts	$ 1,656	$ 1,630
Deferred loan fees	215	243
Deferred compensation	492	445
Unrealized depreciation on securities available-for-sale	285	608
Other	98	146
Total deferred tax assets	2,746	3,072
Deferred tax liabilities:		
Depreciation	(731)	(800)
Other	(512)	(526)
Total deferred tax liabilities	(1,243)	(1,326)
Valuation allowance	—	—
Net deferred tax assets	$ 1,503	$ 1,746

The Bancorp qualified under provisions of the Internal Revenue Code, in prior years, 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, 2006 and 2005 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, 2006 and 2005.

NOTE 7 — Deposits

The aggregate amount of certificates of deposit with a balance of $100 thousand or more was $81.4 million at December 31, 2006 and $79.1 million at December 31, 2005.

At December 31, 2006, scheduled maturities of certificates of deposit were as follows:

	(Dollars in thousands)
2007	$ 202,256
2008	9,645
2009	990
2010	441
Total	$ 213,332

NOTE 8 — Borrowed Funds

At year end, borrowed funds are summarized below:

	(Dollars in thousands) 2006	2005
Repurchase agreements	$ 14,717	$ 12,075
Fixed rate advances from the FHLB	30,000	33,000
Putable advances from the FHLB	2,000	4,500
Line of credit from the FHLB	3,089	—
Limited partnership obligation	60	124
Other	1,635	1,454
Total	$ 51,501	$ 51,153

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) 2006	2005
Ending balance	$ 14,717	$ 12,075
Average balance during the year	14,242	13,938
Maximum month-end balance during the year	21,715	14,490
Securities underlying the agreements at year end:		
Carrying value	20,329	21,122
Fair value	20,329	21,122
Average interest rate during the year	3.42%	2.54%

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

	(Dollars in thousands) 2006	2005
Fixed rate advances, maturing January 2007 through October 2009, at rates from 2.80% to 5.48% average rate:		
2006 - 4.05%; 2005 - 3.40%	$ 30,000	$ 33,000
Putable advances, maturing July 2008, at a rate of 5.28%, average rate:		
2006 - 5.28%; 2005 - 5.17%	$ 2,000	$ 4,500

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 mortgage loans totaling $181,634,000 and $182,357,000 under a blanket lien arrangement at December 31, 2006 and 2005. In addition to the fixed rate and putable advances, the Bancorp maintains a $10.0 million line of credit with the Federal Home Loan Bank of Indianapolis. The outstanding balance on the line of credit was $3.1 million and $0 at December 31, 2006 and 2005. At December 31, 2006, based on eligible collateral, the Bancorp could borrow up to $130.4 million in FHLB advances.

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.

Other borrowings at December 31, 2006 and 2005 include Treasury, Tax and Loan and reclassified bank balances.

At December 31, 2006, scheduled maturities of borrowed funds were as follows:

	(Dollars in thousands)
2007	$ 41,501
2008	3,000
2009	7,000
2010	—
2011	—
Total	$ 51,501

NOTE 9 — Employees' Benefit Plans

The Bancorp maintains an Employees' Savings and Profit Sharing Plan and Trust for all employees who meet the plan qualifications. Employees are eligible to participate in the Employees' Savings and Profit Sharing Plan and Trust on the first day of the month coincident with or the next date following the completion of one year of employment, age 18, and completion of at least 1,000 hours of employment. The Employees' Savings Plan feature allows employees to make pre-tax contributions to the Employees' Savings Plan of 1% to 50% of Plan Salary, subject to limitations imposed by Internal Revenue Code section 401(k). The Profit Sharing Plan and Trust feature is 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 for the year ended December 31, 2006, were based on 6% of the participants' total compensation excluding incentives. Contributions during the years ended December 31, 2005 and 2004 were based on 8% and 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 $299,000, $387,000 and $514,000 for 2006, 2005 and 2004.

The Bancorp maintains an Unqualified Deferred Compensation Plan (the Plan). The purpose of the Plan is to provide deferred compensation to key senior management employees of the Bancorp in order to recognize their substantial contributions to the Bank and provide them with additional financial security as inducement to remain with the Bank. The Compensation Committee selects which persons shall be participants in the Plan. Participants' accounts are credited each year with an amount based on a formula involving the participant's employer funded contributions under all qualified plans and the limitations imposed by Internal Revenue Code subsection 401(a)(17) and Code section 415. The unqualified deferred compensation plan liability at December 31, 2006 and 2005 was $75,000 and $65,000. The Plan expense amounted to $6,000, $7,000 and $8,000 for 2006, 2005 and 2004.

Directors have deferred some of their fees in consideration of future payments. Fee deferrals, including interest totaled $129,000, $103,000 and $63,000 for 2006, 2005 and 2004. The deferred fee liability at December 31, 2006 and 2005 was $1,269,000 and $1,140,000.

During 2006 and 2004, the Bank purchased $2.0 million and $8.0 million in bank owned life insurance. The business purpose of the bank owned life insurance is to offset the cost of Bancorp sponsored employee benefits. The bank owned life insurance is recorded as an asset on the Bancorp's balance sheet. Increases in cash value of the policies are recorded as noninterest income.

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. Currently, the Bancorp pays $143.00 of the retiree monthly medical coverage premium. This amount will remain fixed over the benefit period. Retirees pay 100% of the premiums for all dependent medical coverage. The unrecognized net actuarial gain of $0 and $142,000 at December 31, 2006 and 2005, is a result of a decrease in the plan participation assumptions.

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

	(Dollars in thousands) 2006	2005
Change in benefit obligation:		
Beginning benefit obligation	$ 79	$ 75
Unrecognized net actuarial (gain)/loss	(56)	5
Service cost	2	2
Interest cost	5	4
Benefits paid	(8)	(7)
Ending benefit obligation	22	79
Change in plan assets	—	—
Funded status	(22)	(79)
Unrecognized net actuarial (gain)/loss	—	(142)
Net amount recognized	$ (22)	$ (221)

Prior to adoption of FAS Statement 158, $221 thousand was recognized in the balance sheet at December 31, 2005.

Net gains of $107 thousand were recognized in accumulated other comprehensive income at December 31, 2006. The accumulated benefit obligation was $22 thousand and $79 thousand at year end 2006 and 2005.

	2006	*(Dollars in thousands)* 2005	2004
Components of net periodic postretirement benefit cost:			
Adjustment for prior year expected net benefit cost	$ —	$ —	$ (12)
Service cost	2	2	14
Interest cost	5	4	17
Unrecognized net actuarial (gain)/loss	(13)	(13)	3
Net periodic postretirement benefit cost	$ (6)	$ (7)	$ 22

The estimated unrecognized gain for the postretirement benefit plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $18,305.

	2006	*(Dollars in thousands)* 2005	2004
Assumptions used:			
Discount rate	5.50%	6.00%	6.00%
Annual health care trend rates at year-end:			
Health care cost trend rate assumed	7.00%	7.00%	8.00%
Rate that the cost rate declines to	5.00%	5.00%	5.00%
Year that the rate reaches the rate it is assumed to remain at	2009	2008	2008

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	(Dollars in thousands) One Percentage Point Increase	One Percentage Point Decrease
Effect on total of service and interest cost	$ —	$ —
Effect on postretirement benefit obligation	—	—

The Bancorp expects to contribute $6,000 to its defined benefit postretirement plan in 2007.

The following benefit payments, which reflect expected future service, are expected:

	(Dollars in thousands)
2007	$ 201
2008	198
2009	194
2010	553
2011	772
Following 5 years	7,031

NOTE 11 — Regulatory Capital

The Bancorp and Bank are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet various capital requirements can initiate regulatory action. Prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized capital distributions are limited, as is asset growth and expansion, capital restoration plans are required.

At year end 2006 and 2005, the most recent regulatory notifications categorized the Bancorp and Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bancorp's or the Bank's category.

At year end, capital levels (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
2006									
Total capital to risk-weighted assets	$	54.7	12.0%	$	36.4	8.0%	$	45.5	10.0%
Tier 1 capital to risk-weighted assets	$	50.4	11.1%	$	18.2	4.0%	$	27.3	6.0%
Tier 1 capital to adjusted average assets	$	50.4	8.0%	$	19.0	3.0%	$	31.7	5.0%
2005									
Total capital to risk-weighted assets	$	51.7	11.6%	$	35.6	8.0%	$	44.5	10.0%
Tier 1 capital to risk-weighted assets	$	47.5	10.7%	$	17.8	4.0%	$	26.7	6.0%
Tier 1 capital to adjusted average assets	$	47.5	7.9%	$	18.1	3.0%	$	30.2	5.0%

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 because of the financial condition of the Bank. The aggregate amount of dividends which may be declared by the Bank in 2007, without prior regulatory approval, approximates $4,907,000 plus current 2007 net profits.

NOTE 12 — Stock Based Compensation

The Bancorp's 2004 Stock Option Plan (the Plan), which is shareholder-approved, permits the grant of share options to its employees for up to 250,000 shares of common stock. Awards granted under the Plan may be in the form of incentive stock options, non-incentive stock options, or restricted stock. The purposes of the Plan are to attract and retain the best available personnel, to provide additional incentives for all employees and to encourage their continued employment by facilitating employees' purchases of an equity interest in the Bancorp. Option awards are generally granted with an exercise price equal to the market price of the Bancorp's common stock at the date of grant; those option awards have 5 year vesting periods and have 10-year contractual terms. Total compensation cost that has been charged against income for those plans was $37 thousand, $0, and $0 for 2006, 2005 and 2004. The total income tax benefit was $15 thousand for 2006 and $0 for 2005 and 2004.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company's common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. (Employee and management options are tracked separately.) The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The fair value of options granted was determined using the following weighted average assumptions as of grant date:

	2006	2005	2004
Risk-free interest rate	—	—	3.28%
Expected term	—	—	6-7 years
Expected stock price volatility	—	—	16.50%
Dividend yield	—	—	4.13%

A summary of the Bancorp's stock option activity for 2006 follows:

	Shares	Weighted Average Exercise Price		Weighted Average Remaining Contractual Term	(Dollars in Thousands) Aggregate Intrinsic Value	
Outstanding at beginning of year	97,385	$	22.63			
Granted	—		—			
Exercised	(11,348)		20.44			
Outstanding at end of year	86,037	$	22.92	4.6	$	755
Exercisable at end of year	40,412	$	20.32	3.0	$	459

Information related to the stock option plan during each year follows:

	(Dollars in thousands)					
	2006		2005		2004	
Intrinsic value of options exercised	$	127	$	225	$	224
Cash received from options exercised		231		296		325
Tax benefit realized from options exercised		17		12		—
Weighted average fair value of options granted		n/a		n/a		3.48

As of December 31, 2006, there was $30,469 of total unrecognized compensation cost related to nonvested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2.0 years.

Restricted stock awards are generally granted with an award price equal to the market price of the Bancorp's common stock on the award date. Restricted stock awards have been issued with a five year cliff vesting period. Forfeiture provisions exist for personnel that separate employment before the vesting period expires. Compensation expense related to restricted stock awards are recognized over the employee's service period.

A summary of changes in the Bancorp's nonvested restricted stock for 2006 follows:

Nonvested Shares	*Shares*	*(Dollars in thousands) Weighted Average Grant Date Fair Value*
Nonvested at January 1, 2006	4,400	$ 123
Granted	3,000	
Nonvested at December 31, 2006	7,400	$ 218

As of December 31, 2006, there was $140,558 of total unrecognized compensation cost related to nonvested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 3.9 years. No shares vested during the years ended December 31, 2006, 2005 and 2004.

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 2006, 2005 and 2004 is presented below.

	2006	*2005*	*2004*
Basic earnings per common share:			
Net income available to common stockholders	$ 6,475,000	$ 6,672,000	$ 6,290,000
Weighted-average common shares outstanding	2,791,933	2,781,735	2,764,657
Basic earnings per common share	$ 2.32	$ 2.40	$ 2.28
Diluted earnings per common share:			
Net income available to common stockholders	$ 6,475,000	$ 6,672,000	$ 6,290,000
Weighted-average common shares outstanding	2,791,933	2,781,735	2,764,657
Add: dilutive effect of assumed stock option exercises	21,017	32,779	44,044
Weighted-average common and dilutive potential common shares outstanding	2,812,950	2,814,514	2,808,701
Diluted earnings per common share	$ 2.30	$ 2.37	$ 2.24

There were 11,450 antidilutive shares outstanding at December 31, 2006, and no antidilutive shares outstanding for 2005 and 2004.

NOTE 14 — Related Party Transactions

The Bancorp had aggregate loans outstanding to directors and executive officers (with individual balances exceeding $60,000) of $5,666,000 at December 31, 2006 and $6,900,000 at December 31, 2005. For the year ended December 31, 2006, the following activity occurred on these loans:

	(Dollars in thousands)
Aggregate balance — January 1, 2006	$ 6,900
New loans	716
Repayments	(1,950)
Aggregate balance — December 31, 2006	$ 5,666

Deposits from directors and executive officers were $2.7 million and $2.5 million at December 31, 2006 and 2005.

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:

		(Dollars in thousands)	
	Fixed Rate	*Variable Rate*	*Total*
December 31, 2006:			
Commercial business	$ —	$ 38,666	$ 38,666
Real estate	12,963	37,746	50,709
Consumer loans	—	41	41
Unsecured consumer overdrafts	5,874	—	5,874
Total	$ 18,837	$ 76,453	$ 95,290
December 31, 2005:			
Commercial business	$ —	$ 33,418	$ 33,418
Real estate	11,252	33,096	44,348
Consumer loans	—	79	79
Unsecured consumer overdrafts	6,240	—	6,240

Total	$ 17,492	$ 66,593	$ 84,085

The $12,963 in fixed rate commitments outstanding at December 31, 2006 had interest rates ranging from 4.75% to 9.125%, for a period not to exceed forty-five days. At December 31, 2005, fixed rate commitments outstanding of $11,252 had interest rates ranging from 4.25% to 8.625%, 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, 2006 and 2005, the Bancorp had standby letters of credit totaling $4,026,000 and $4,049,000. 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, 2006	
	Carrying Value	*Estimated Fair Value*
Cash and cash equivalents	$ 15,764	$ 15,764
Securities available-for-sale	83,765	83,765
Securities held-to-maturity	15,247	15,380
Loans receivable, net	467,449	464,706
Federal Home Loan Bank stock	3,544	3,544
Accrued interest receivable	3,331	3,331
Financial liabilities		
Demand and savings deposits	299,599	299,599
Certificates of deposit	213,332	212,621
Borrowed funds	51,501	50,676
Accrued interest payable	238	238

	(Dollars in thousands) December 31, 2005	
	Carrying Value	*Estimated Fair Value*
Financial assets		
Cash and cash equivalents	$ 39,831	$ 39,831
Securities available-for-sale	76,382	76,382
Securities held-to-maturity	13,711	13,668
Loans receivable, net	464,862	460,005
Federal Home Loan Bank stock	2,987	2,987
Accrued interest receivable	2,986	2,986
Financial liabilities		
Demand and savings deposits	311,128	311,128
Certificates of deposit	214,603	213,347
Borrowed funds	51,153	49,893
Accrued interest payable	205	205

For purposes of the above disclosures of estimated fair value, the following assumptions were used as of December 31, 2006 and 2005. 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, 2006 and 2005, 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, 2006 and 2005, applied for the time period until maturity. The estimated fair value for borrowed funds is based on current rates for similar financings. The estimated fair value of other financial instruments, and off-balance sheet loan commitments approximate cost and are not considered significant to this presentation.

NOTE 17 — Other Comprehensive Income/(Loss)

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

	2006	*2005*	*2004*
Net change in net unrealized gains and losses on securities available for sale:			
Unrealized gains/(losses) arising during the year	$ 919	$ (1,337)	$ (832)
Reclassification adjustment for gains included in net income	(3)	(70)	(284)
Net change in net unrealized gains and losses on securities available for sale	916	(1,407)	(1,116)
Tax effects, net	(323)	498	396
Total other comprehensive income/(loss)	$ 593	$ (909)	$ (720)

NOTE 18 — Selected Quarterly Financial Data (Unaudited)

Selected quarterly financial data is summarized as follows:

Year ended December 31, 2006:

	(Dollars in thousands, except per share data)			
	March 31, 2006	*June 30, 2006*	*September 30, 2006*	*December 31, 2006*
Total interest income	$ 8,305	$ 8,624	$ 8,907	$ 9,143
Total interest expense	3,266	3,729	4,185	4,558
Net interest income	5,039	4,895	4,722	4,585
Provision for loan losses	—	15	—	—
Net interest income after provision for loan losses	5,039	4,880	4,722	4,585
Total noninterest income	1,035	1,054	1,062	1,068
Total noninterest expense	3,620	3,559	3,558	3,558
Income before income taxes	2,454	2,375	2,226	2,095
Income tax expenses	778	722	639	536
Net income	$ 1,676	$ 1,653	$ 1,587	$ 1,559

Basic earnings per share	$ 0.60	$ 0.59	$ 0.57	$ 0.56
Diluted earnings per share	$ 0.60	$ 0.58	$ 0.57	$ 0.55

Year ended December 31, 2005:

	(Dollars in thousands, except per share data) March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005
Total interest income	$ 7,007	$ 7,411	$ 7,557	$ 8,049
Total interest expense	1,949	2,270	2,551	2,988
Net interest income	5,058	5,141	5,006	5,061
Provision for loan losses	65	60	40	80
Net interest income after provision for loan losses	4,993	5,081	4,966	4,981
Total noninterest income	802	904	883	951
Total noninterest expense	3,416	3,562	3,502	3,291
Income before income taxes	2,379	2,423	2,347	2,641
Income tax expenses	772	775	738	833
Net income	$ 1,607	$ 1,648	$ 1,609	$ 1,808
Basic earnings per share	$ 0.58	$ 0.59	$ 0.58	$ 0.65
Diluted earnings per sharee	$ 0.57	$ 0.58	$ 0.57	$ 0.65

NOTE 19 — Parent Company Only Statements

	(Dollars in thousands) NorthWest Indiana Bancorp Condensed Balance Sheets December 31, 2006	2005
Assets		
Cash on deposit with Peoples Bank	$ 1,108	$ 129
Investment in Peoples Bank	48,655	45,265
Dividends receivable from Peoples Bank	978	920
Other assets	923	1,088
Total assets	$ 51,664	$ 47,402
Liabilities and stockholders' equity		
Dividends payable	$ 980	$ 919
Other liabilities	674	50
Total liabilities	1,654	969
Common stock	359	357
Additional paid in capital	4,610	4,299
Accumulated other comprehensive loss	(389)	(1,089)
Retained earnings	46,952	44,388
Treasury stock	(1,522)	(1,522)
Total stockholders' equity	50,010	46,433
Total liabilities and stockholders' equity	$ 51,664	$ 47,402

	2006	*(Dollars in thousands)* NorthWest Indiana Bancorp Condensed Statements of Income Year Ended December 31, 2005	2004
Dividends from Peoples Bank	$ 3,907	$ 4,568	$ 3,425
Operating expenses	162	189	153
Income before income taxes			
and equity in undistributed income of Peoples Bank	3,745	4,379	3,272
Provision (benefit) for income taxes	(40)	(75)	(61)
Income before equity in undistributed income of Peoples Bank	3,785	4,454	3,333
Equity in undistributed income of Peoples Bank	2,690	2,218	2,957
Net income	$ 6,475	$ 6,672	$ 6,290

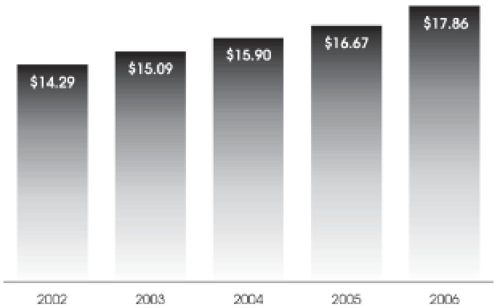
	2006	*(Dollars in thousands)* NorthWest Indiana Bancorp Condensed Statements of Cash Flows Year Ended December 31, 2005	2004
Cash flows from operating activities:			
Net income	$ 6,475	$ 6,672	$ 6,290
Adjustments to reconcile net income to net cash from operating activities			
Equity in undistributed net income of Peoples Bank	(2,690)	(2,218)	(2,957)
Stock-based compensation expense	67	—	—
Change in other assets	107	(42)	(481)
Change in other liabilities	624	(1,120)	(12)
Total adjustments	(1,892)	(3,380)	(3,450)
Net cash from operating activities	4,583	3,292	2,840
Cash flows from investing activities	—	—	—
Cash flows from financing activities:			
Dividends paid	(3,850)	(3,617)	(3,398)
Treasury stock purchased	—	(82)	—

Proceeds from issuance of common stock	246	331	405
Net cash from financing activities	(3,604)	(3,368)	(2,993)
Net change in cash	979	(76)	(153)
Cash at beginning of year	129	205	358
Cash at end of year	$ 1,108	$ 129	$ 205

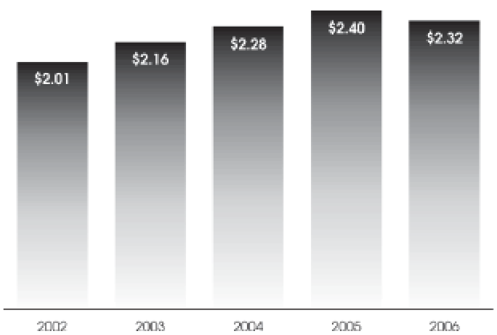
The Bancorp's Common Stock is traded in the over-the-counter market and quoted on the OTC Bulletin Board. The Bancorp's stock is not actively traded. As of February 23, 2007, the Bancorp had 2,801,265 shares of common stock outstanding and 409 stockholders of record. This does not reflect the number 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, 2006 and December 31, 2005. 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		Dividends Declared Per Common Share
		High	Low	
Year Ended December 31, 2006	1st Quarter	$32.00	$31.30	$ .35
	2nd Quarter	32.00	31.05	.35
	3rd Quarter	32.75	31.00	.35
	4th Quarter	32.50	31.50	.35
Year Ended December 31, 2005	1st Quarter	$37.05	$33.60	$ .33
	2nd Quarter	35.55	33.00	.33
	3rd Quarter	34.00	32.05	.33
	4th Quarter	33.00	29.10	.33

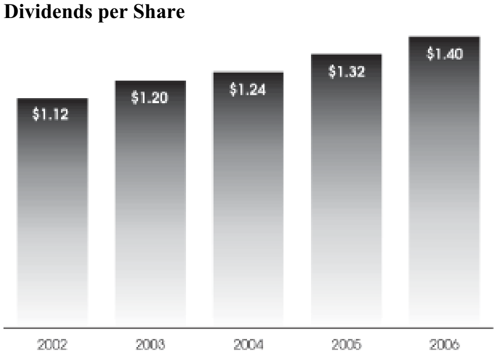
Book Value per Share



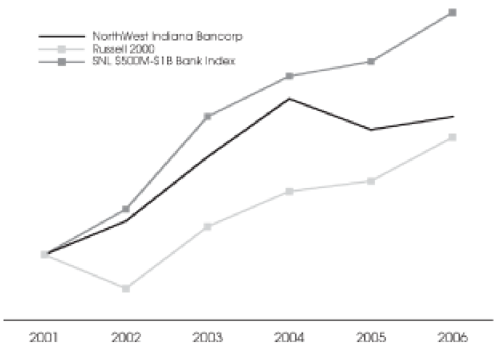
Basic Earnings per Share



Dividends per Share



Total Return Performance



		Period Ending December 31,				
Index	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*
NorthWest Indiana Bancorp	$ 100.00	120.46	159.61	194.92	176.11	183.98
Russell 2000	$ 100.00	79.52	117.09	138.55	144.86	171.47
SNL $500M-$1B Bank Index	$ 100.00	127.67	184.09	208.62	217.57	247.44

The performance graph and table above compare the cumulative total shareholder return for the Company with the cumulative total return for the Russell 2000 Index and for the SNL Securities index of bank stocks having $500 million to $1 billion in assets (“SNL $500M-$1B Bank Index”).

2006 Board of Directors

First column, top to bottom:

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

Frank J. Bochnowski
Retired; formerly Executive Vice President and Secretary of the Bancorp

Leroy F. Cataldi, P.D.
Retired; Pharmacist and former owner of Cataldi Prescription Shoppe, Sauk Drugs and Southlake Pharmacy

Lourdes M. Dennison
Executive Coordinator Asian American Medical Association; Managing Partner D&T LLC, a real estate investment partnership

Donald P. Fesko
Administrator of Community Hospital

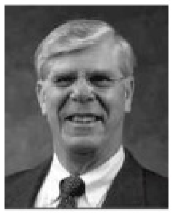
Second column, top to bottom:

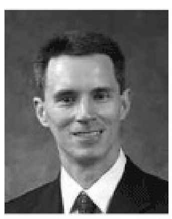
Edward J. Furticella
Former Executive Vice President and CFO of the Bancorp Currently part-time employee of the Bancorp, and Continuous Lecturer at Purdue University Calumet

Joel Gorelick
President and Chief Administrative Officer of the Bancorp

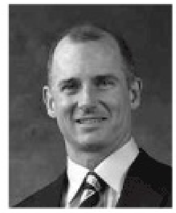
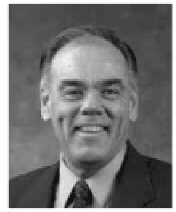
Kenneth V. Krupinski
Certified Public Accountant and Principal with Swartz Retson, P.C.

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



Third column, top to bottom:

Anthony M. Puntillo D.D.S., M.S.D.
Orthodontist, President of Puntillo Orthodontics, P.C.

James L. Wieser
Attorney with Wieser, Sterba & Wyllie, LLP

Fourth column, top to bottom:

Gloria C. Gray-Weissman
Director Emeritus

Harold G. Reuth
Director Emeritus

Board Committees

Asset, Liability, Capital & Technology Management
Frank J. Bochnowski, *Chairman*
Donald P. Fesko
Edward J. Furticella
Joel Gorelick
Kenneth V. Krupinski
Anthony M. Puntillo

Compensation & Benefits
Stanley E. Mize, *Chairman*
Lourdes M. Dennison
Kenneth V. Krupinski
James L. Wieser

Executive
David A. Bochnowski, *Chairman*
Frank J. Bochnowski
Leroy F. Cataldi
Lourdes M. Dennison
Stanley E. Mize

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

Risk Management
James L. Wieser, *Chairman*
Kenneth V. Krupinski
Stanley E. Mize

Wealth Management
Leroy F. Cataldi, *Chairman*
Lourdes M. Dennison
Joel Gorelick
Anthony M. Puntillo

Officers of NorthWest Indiana Bancorp and Peoples Bank

David A. Bochnowski
Chairman and Chief Executive Officer
Joel Gorelick
President and Chief Administrative Officer
Jon E. DeGuilio
Executive Vice President,
General Counsel and Corporate Secretary
Robert T. Lowry
Senior Vice President,
Chief Financial Officer and Treasurer

Officers of Peoples Bank

Tanya A. Buerger
Senior Vice President,
Operations & Technology Group
Stacy A. Januszewski
Senior Vice President,
Risk Management Group
Terrence M. Quinn
Senior Vice President,
Wealth Management Group
Todd M. Scheub
Senior Vice President, Lending Group

Management Personnel of Peoples Bank

Lending Group

Commercial Lending

Ronald P. Knestrict
Vice President,
Commercial Loan Officer
Daniel W. Moser
Vice President,
Construction & Development Lending
Brian E. Rusin
Vice President, Commercial Loan Officer
Daniel J. Duncan
Commercial Loan Officer

Retail Lending

Catherine L. Gonzalez
Vice President, Manager, Retail Lending
Leslie J. Bernacki
Assistant Vice President,
Residential Loan Officer
Jeremy A. Gorelick
Assistant Vice President,
Residential Loan Officer
Rachel C. Lentz
Assistant Vice President,
Retail Lending Officer
Austin P. Logue
Assistant Vice President,
Residential Loan Officer
Alicia Q. McMahon
Assistant Vice President,
Residential Loan Officer
Nancy L. Weckler
Assistant Vice President,
Loan Underwriting

Loan Collections

Thomas Guiden
Manager, Collections

Retail Banking Group

Carla J. Houck
Vice President, Retail Banking Group
Shannon E. Franko
Vice President, Banking Center Coordinator
Cynthia S. Miles
Assistant Vice President,
Retail Banking Assistant

Banking Centers

Donna M. Vurva
Assistant Vice President,
Manager, Dyer Banking Center
Margaret M. Haas
Manager, East Chicago Banking Center
Sandra L. Sigler
Assistant Vice President,
Manager, Hammond Banking Center

Marilyn K. Repp
Vice President,
Senior Manager, Hobart Banking Center
Colleen A. Mastalski
Assistant Vice President,
Manager, Merrillville-Broadway
Banking Center
Charman F. Williamson
Vice President,
Manager, Merrillville-Taft Banking Center
Lesli R. Heinrikson
Manager, Munster Banking Center
Kelly A. Stoming
Assistant Vice President,
Manager, Schererville Banking Center
Jennifer L. Gunning
Assistant Manager,
Schererville Banking Center

Wealth Management Group
Stephan A. Ziemba
Vice President,
Senior Wealth Management Officer
Mary T. Ciciora
Vice President, Wealth Management Officer
Randall H. Walker
Vice President,
Wealth Management Officer
Igor Marjanovic
Assistant Vice President,
Wealth Management Officer
Joyce M. Barr
Assistant Vice President,
Wealth Management Officer

Operations & Technology Group
Bank Operations
Mary D. Mulroe
Vice President, Manager, Bank Operations

Deposit Operations
Meredith L. Bielak
Vice President,
Manager, Deposit Operations
Charlotte V. Conn
Assistant Vice President, Deposit Operations

Information Technology
Donna M. Gin
Assistant Vice President,
Manager, Information Technology
Matthew S. Manoski
Assistant Vice President,
Information Technology

Loan Operations
Karen M. Sulek
Assistant Vice President,
Manager, Loan Operations
Sharon V. Vacendak
Assistant Vice President, Loan Operations

Systems Delivery
Cynthia D. Jones
Assistant Vice President,
Manager, Systems Delivery

Brand Learning & Communications Group
Linda L. Kollada
Vice President, Human Resources
Jill M. Knight
Vice President, Training Coordinator
Michelle L. Dvorscak
Assistant Vice President,
Manager, Human Resources
Heather A. Mutka
Assistant Vice President, Marketing

Finance & Controls Group
Peymon S. Torabi
Assistant Vice President, Controller
Michaelene M. Smith
Assistant Vice President, Accounting

Risk Management & Stakeholders Services Group
Christine M. Friel
Vice President, Loan Review
David W. Homrich
Vice President, Compliance

Linda C. Nemeth
Assistant Vice President, Internal Audit
Nicole M. Gullette
Assistant Vice President,
Assistant to the Internal Auditor
Michael J. Shimala,
Assistant Vice President, Security Officer

Other Management Personnel
Laura J. Spicer
Administrative Assistant to the Chairman
Jane G. Bridgman
Management Development
Candice N. Kouros
Management Development
Melissa L. Webb
Management Development

www.ibankpeoples.com

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

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

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

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

Annual Stockholders Meeting
The Annual Meeting of Stockholders of NorthWest Indiana Bancorp will be held at the Peoples Bank Corporate Center 9204 Columbia Avenue, Munster, Indiana, on April 18, 2007 at 10:15 a.m.

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

NorthWest Indiana
BANCORP

Peoples *Bank*

SUBSIDIARY OF NORTHWEST INDIANA BANCORP

DYER, 1300 Sheffield Avenue, 322-2530
EAST CHICAGO, 4901 Indianapolis Blvd., 378-1000
HAMMOND, 7120 Indianapolis Blvd., 844-4500
HOBART, 1501 S. Lake Park Avenue, 945-1305
MERRILLVILLE, 7915 Taft Street, 796-9000
8600 Broadway, 685-8600
MUNSTER, 9204 Columbia Avenue, 853-7550
LOAN CENTER, 853-7500
WEALTH MANAGEMENT, 853-7080
SCHERERVILLE, 141 W. Lincoln Highway, 865-4300

Member FDIC

www.ibankpeoples.com

Exhibit 21.

Subsidiaries of the Bancorp

	State of Incorporation
Peoples Bank SB	Indiana
Peoples Service Corporation	Indiana
NWIN, LLC	Nevada
NWIN Funding, Inc.	Maryland

Exhibit 23.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement No. 333-115666 on Form S-8 of NorthWest Indiana Bancorp of our report dated March 13, 2007 on the consolidated financial statements of NorthWest Indiana Bancorp, which report is in Form 10-K for NorthWest Indiana Bancorp for the year ended December 31, 2006.

/s/ Crowe Chizek and Company LLC
Crowe Chizek and Company LLC

South Bend, Indiana
March 19, 2007

Exhibit 31.1

CERTIFICATION PURSUANT TO

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

I, David A. Bochnowski, certify that:

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

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

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

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

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

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

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

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

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

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

Date: March 23, 2007

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

Exhibit 31.2

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

I, Robert T. Lowry, certify that:

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

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

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

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

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

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

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

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

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

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

Date: March 23, 2007

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

Exhibit 32.

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

In connection with the Annual Report on Form 10-K of NorthWest Indiana Bancorp (the "Company") for the year ended December 31, 2006, as filed with the Securities and Exchange Commission (the "Report"), each of David A. Bochnowski, Chairman of the Board and Chief Executive Officer of the Company, and Robert T. Lowry, Senior Vice President, Chief Financial Officer and Treasurer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Dated: March 23, 2007

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

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

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