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, 2012**

OR

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

For the transition period from __________ to __________

Commission file number 0-26128

NorthWest Indiana Bancorp

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act:
Large accelerated filer: ☐ Accelerated filer: ☐ Non-Accelerated filer: ☐ Smaller reporting company ☒
(Do not check if a smaller reporting company)
Based on the average bid and ask prices for the registrant's Common Stock at June 30, 2012, 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 $41,311,739.

There were 2,837,396 shares of the registrant's Common Stock, without par value, outstanding at January 31, 2013.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents have been incorporated by reference into this Annual Report on Form 10-K:
1. 2012 Annual Report to Shareholders. (Part II)
2. Definitive Proxy Statement for the 2013 Annual Meeting of Shareholders. (Part III)

PART I

Item 1. Business

General

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

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

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

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

Recent Developments

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

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

Impact of Legislation. Over the last four-and-a-half years, Congress and the U.S. Department of the Treasury have enacted legislation and taken actions to address the disruptions in the financial system, declines in the housing market, and the overall regulation of financial institutions and the financial system. In this regard, the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), includes provisions affecting large and small financial institutions alike, including several provisions that profoundly affect the regulation of community banks, thrifts, and small bank and thrift holding companies, such as the Bancorp. Among other things, the Dodd-Frank Act abolished the Office of Thrift Supervision effective July 21, 2011 and transferred its functions to the Office of the Comptroller of the Currency ("OCC"), FDIC, and Federal Reserve. The Dodd-Frank Act also relaxes rules regarding interstate branching, allows financial institutions to pay interest on business checking accounts, changes the scope of federal deposit insurance coverage, imposes new capital requirements on bank and thrift holding companies, and imposes limits on debit card interchange fees charged by issuer banks (commonly known as the Durbin Amendment).

The Dodd-Frank Act also established the Consumer Financial Protection Bureau (the "CFPB") within the Federal Reserve, which has broad authority to regulate consumer financial products and services and entities offering such products and services, including banks. Many of the consumer financial protection functions formerly assigned to the federal banking and other designated agencies are now performed by the CFPB. The CFPB has a large budget and staff, and has broad rulemaking authority over providers of credit, savings, and payment services and products. In this regard, the CFPB has the authority to implement regulations under federal consumer protection laws and enforce those laws against, and examine, financial institutions. State officials also will be authorized to enforce consumer protection rules issued by the CFPB. This bureau also is authorized to collect fines and provide consumer restitution in the event of violations, engage in consumer financial education, track consumer complaints, request data, and promote the availability of financial services to underserved consumers and communities. The CFPB also is directed to prevent "unfair, deceptive or abusive practices" and ensure that all consumers have access to markets for consumer financial products and services, and that such markets are fair, transparent, and competitive. Although the CFPB has begun to implement its regulatory, supervisory, examination, and enforcement authority, there continues to be significant uncertainty as to how the agency's strategies and priorities will impact the Bancorp.

The CFPB has indicated that mortgage lending is an area of supervisory focus and that it will concentrate its examination and rulemaking efforts on the variety of mortgage-related topics required under the Dodd-Frank Act, including steering consumers to less-favorable products, discrimination, abusive or unfair lending practices, predatory lending, origination disclosures, minimum mortgage underwriting standards, mortgage loan originator compensation, and servicing practices. The CFPB recently published several final regulations impacting the mortgage industry, including rules related to ability-to-pay, mortgage servicing, and mortgage loan originator compensation. The ability-to-repay rule makes lenders liable if they fail to assess ability to repay under a prescribed test, but also creates a safe harbor for so called “qualified mortgages.” The “qualified mortgages” standards include a tiered cap structure that places limits on the total amount of certain fees that can be charged on a loan, a 43% cap on debt-to-income (i.e., total monthly payments on debt to monthly gross income), exclusion of interest-only products, and other requirements. The 43% debt-to-income cap does not apply for the first seven years the rule is in effect for loans that are eligible for sale to Fannie Mae or Freddie Mac or eligible for government guarantee through the FHA or the Veterans Administration. Failure to comply with the ability-to-repay rule may result in possible CFPB enforcement action and special statutory damages plus actual, class action, and attorneys fees damages, all of which a borrower may claim in defense of a foreclosure action at any time. The Bancorp’s management is currently assessing the impact of these requirements on our mortgage lending business.

In addition, the Federal Reserve and other federal bank regulatory agencies have issued a proposed rule under the Dodd-Frank Act that would exempt “qualified residential mortgages” from the securitization risk retention requirements of the Dodd-Frank Act. Although the Bancorp is primarily a portfolio lender, the final definition of what constitutes a “qualified residential mortgage” may impact the pricing and depth of the secondary market into which we may sell mortgages we originate. At this time, we cannot predict the content of final CFPB and other federal agency regulations or the impact they might have on the Bancorp’s financial results. The CFPB’s authority over mortgage lending, and its authority to change regulations adopted in the past by other regulators (i.e., regulations issued under the Truth in Lending Act, for example), or to rescind or ignore past regulatory guidance, could increase the Bancorp’s compliance costs and litigation exposure.

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

New Proposed Capital Rules. On June 7, 2012, the Federal Reserve approved proposed rules that would substantially amend the regulatory risk-based capital rules applicable to the Bancorp and the Bank. The FDIC and the OCC subsequently approved these proposed rules on June 12, 2012. The proposed rules implement the “Basel III” regulatory capital reforms and changes required by the Dodd-Frank Act. “Basel III” refers to two consultative documents released by the Basel Committee on Banking Supervision in December 2009, the rules text released in December 2010, and loss absorbency rules issued in January 2011, which include significant changes to bank capital, leverage and liquidity requirements. The proposed rules received extensive comments during a comment period that ran through October 2012. In November 2012, the federal ban regulatory agencies jointly stated that they do not expect any of the proposed rules to become effective on the original target date of January 1, 2013. Further guidance from the bank regulatory agencies is expected in early 2013.

The proposed rules include new risk-based capital and leverage ratios, which would be phased in from 2013 to 2019, and would refine the definition of what constitutes “capital” for purposes of calculating those ratios. The proposed new minimum capital level requirements applicable to the Bancorp and the Bank under the proposals would be: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The proposed rules would also establish a “capital conservation buffer” of 2.5% above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital and would result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement would be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase by that amount each year until fully implemented in January 2019. An institution would be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations would establish a maximum percentage of eligible retained income that could be utilized for such actions.

Basel III provided discretion for regulators to impose an additional buffer, the “countercyclical buffer,” of up to 2.5% of common equity Tier 1 capital to take into account the macro-financial environment and periods of excessive credit growth. However, the proposed rules permit the countercyclical buffer to be applied only to “advanced approach banks” (i.e. , banks with $250 billion or more in total assets or $10 billion or more in total foreign exposures), which currently excludes the Bancorp and the Bank. The proposed rules also implement revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses, as well as certain instruments that will no longer qualify as Tier 1 capital, some of which would be phased out over time.

The federal bank regulatory agencies also proposed revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including the Bank, if their capital levels begin to show signs of weakness. These revisions would take effect January 1, 2015. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions would be required to meet the following increased capital level requirements in order to qualify as “well capitalized:” (i) a new common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8% (increased from 6%); (iii) a total capital ratio of 10% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 5% (increased from 4%).

The proposed rules set forth certain changes for the calculation of risk-weighted assets, which we would be required to utilize beginning January 1, 2015. The standardized approach proposed rule utilizes an increased number of credit risk exposure categories and risk weights, and also addresses: (i) a proposed alternative standard of creditworthiness consistent with Section 939A of the Dodd-Frank Act Act; (ii) revisions to recognition of credit risk mitigation; (iii) rules for risk weighting of equity exposures and past due loans; (iv) revised capital treatment for derivatives and repo-style transactions; and (v) disclosure requirements for top-tier banking organizations with $50 billion or more in total assets that are not subject to the “advance approach rules” that apply to banks with greater than $250 billion in consolidated assets.

Based on our current capital composition and levels, we believe that we would be in compliance with the requirements as set forth in the proposed rules if they were presently in effect.

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

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

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

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

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

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

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

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

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

Forward-Looking Statements

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

Lending Activities

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

The Bancorp is primarily a portfolio lender. Mortgage banking activities are limited to the sale of fixed rate mortgage loans with contractual maturities generally exceeding fifteen years and greater. These loans are sold, on a case-by-case basis, in the secondary market as part of the Bancorp's efforts to manage interest rate risk. All loan sales are made to Freddie Mac, additionally the Bancorp will begin selling to the Federal Home Loan Bank of Indianapolis during 2013. 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, 2012, under the 15% of capital and surplus limitation was approximately $11,396,000. At December 31, 2012, the Bank had no loans that exceeded the regulatory limitations.

At December 31, 2012, 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).

	2012	2011	2010	2009	2008
Type of loan:					
Conventional real estate loans:					
Construction and development loans	$ 23,984	$ 21,143	$ 46,371	$ 53,288	$ 54,975
Loans on existing properties (1)	334,452	307,850	298,993	325,880	368,476
Consumer loans	347	472	763	1,504	1,966
Commercial business	69,329	63,293	61,726	63,099	49,309
Government and other (2)	8,869	8,643	10,380	14,474	14,783
Loans receivable (3)	$ 436,981	$ 401,401	$ 418,233	$ 458,245	$ 489,509
Type of collateral:					
Real estate:					
1-to-4 family	$ 154,627	$ 154,135	$ 152,881	$ 184,437	$ 225,936
Other dwelling units, land and commercial real estate	203,809	174,859	192,482	194,731	197,514
Consumer loans	347	472	763	1,446	1,879
Commercial business	69,329	63,293	60,232	61,522	47,523
Government	8,740	8,526	10,269	14,385	14,688
Loans receivable (4)	$ 436,852	$ 401,285	$ 416,627	$ 456,521	$ 487,540
Average loans outstanding during the period (3)	$ 423,567	$ 409,787	$ 446,551	$ 472,541	$ 484,854

(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).

	2012	2011	2010
Loans originated:			
Conventional real estate loans:			
Construction and development loans	$ 2,128	$ 583	$ 2,058
Loans on existing property	44,171	29,054	34,782
Loans refinanced	15,697	12,909	17,473
Total conventional real estate loans originated	61,996	42,546	54,313
Commercial business loans	162,170	87,943	93,909
Consumer loans	383	265	400
Total loans originated	$ 224,549	$ 130,754	$ 148,622
Loan participations purchased	$ 14,475	$ 999	$ 974
Whole loans and participations sold	$ 38,472	$ 10,647	$ 42,364

Loan Maturity Schedule. The following table sets forth certain information at December 31, 2012 regarding the dollar amount of loans in the Bancorp's portfolio based on their contractual terms to maturity. Demand loans, loans having no schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. Contractual principal repayments of loans do not necessarily reflect the actual term of the loan portfolio. The average life of mortgage loans is substantially less than their contractual terms because of loan prepayments and because of enforcement of due-on-sale clauses, which give the Bancorp the right to declare a loan immediately due and payable in the event, among other things, that the borrower sells the property subject to the mortgage. The amounts are stated in thousands (000's).

	Maturing Within one year	After one but within five years	After five years	Total
Real estate loans	$ 45,195	$ 77,799	$ 235,442	$ 358,436
Consumer loans	45	302	-	347
Commercial business, other loans	35,458	32,915	9,825	78,198
Total loans receivable	$ 80,698	$ 111,016	$ 245,267	$ 436,981

The following table sets forth the dollar amount of all loans due after one year from December 31, 2012, 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	$ 118,998	$ 194,243	$ 313,241
Consumer loans	302	-	302
Commercial business, other loans	30,280	12,460	42,740
Total	$ 149,580	$ 206,703	$ 356,283

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

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

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

Designated officers have authorities, established by the Board of Directors, to approve loans. Loans up to $2,000,000 are approved by the loan officers' loan committee. Loans from $2,000,000 to $3,000,000 are approved by the senior officers' loan committee. All loans in excess of $3,000,000, up to the legal lending limit of the Bank, must be approved by the Bank's Board of Directors or its Executive Committee. (All members of the Bank's Board of Directors and Executive Committee are also members of the Bancorp's Board of Directors and Executive Committee, respectively.) The maximum in-house legal lending limit as set by the Board of Directors is $6,000,000. Requests that exceed this amount will be considered on a case-by-case basis, after taking into consideration the legal lending limit, by specific Board action. Peoples Bank will not extend credit to any of its executive officers, directors, or principal shareholders or to any related interest of that person, except in compliance with the insider lending restrictions of Regulation O under the Federal Reserve Act and in an amount that, when aggregated with all other extensions of credit to that person, exceeds $500,000 unless: (1) the extension of credit has been approved in advance by a majority of the entire Board of Directors of the Bank, and (2) the interested party has abstained from participating directly or indirectly in the voting.

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

The Current Lending Programs

Residential Mortgage Loans. The primary lending activity of the Bancorp has been the granting of conventional mortgage loans to enable borrowers to purchase existing homes, refinance existing homes, or construct new homes. Conventional loans are made up to a maximum of 95% of the purchase price or appraised value, whichever is less. For loans made in excess of 80% of value, private mortgage insurance is generally required in an amount sufficient to reduce the Bancorp's exposure to 80% or less of the appraised value of the property. Loans insured by private mortgage insurance companies can be made for up to 95% of value. During 2012, 86% of mortgage loans closed were conventional loans with borrowers having 20% or more equity in the property. This type of loan does not require private mortgage insurance because of the borrower's level of equity investment.

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

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

The Bancorp's Adjustable Rate Mortgage Loans ("ARMs") include offerings that reprice annually or are "Mini-Fixed." The "Mini-Fixed" mortgage reprices annually after a one, three, five or seven year period. ARM originations totaled $4.0 million for 2012 and $5.8 million for 2011. During 2012, ARMs represented 7.8% of total mortgage loan originations. The ability of the Bancorp to successfully market ARM's depends upon loan demand, prevailing interest rates, volatility of interest rates, public acceptance of such loans and terms offered by competitors.

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

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

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

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

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

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

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

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

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

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

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

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

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

At December 31, 2012, the Bancorp classified fifteen loans totaling $15.1 million as troubled debt restructurings, which involves modifying the terms of a loan to forego a portion of interest or principal or reducing the interest rate on the loan to a rate materially less than market rates, or materially extending the maturity date of a loan. The Bancorp's troubled debt restructurings include two commercial real estate participation hotel loans in the amount of $5.6 million and one commercial real estate hotel loan in the amount of $4.9 million, for which significant deferrals of principal repayments were granted; one commercial real estate loan in the amount of $2.4 million for which a significant deferral of principal and interest repayment was granted; one commercial real estate loan in the amount of $547 thousand for which a significant deferral of principal and interest repayment was granted by the Bank as required by a bankruptcy plan; two development loans in the amount of $893 thousand for which an interest rate concession was granted; and one commercial business loan in the amount of $88 thousand and seven mortgage loans totaling $693 thousand, for which maturity dates were materially extended. At December 31, 2012, $9.7 million of the Bancorp's loans classified as troubled debt restructurings are accruing loans. The valuation basis for the Bancorp's troubled debt restructurings is based on the present value of cash flows, unless consistent cash flows are not present, then the fair value of the collateral securing the loan is the basis for valuation.

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

	2012	2011	2010	2009	2008
Loans accounted for on a non-accrual basis:					
Real estate:					
Residential	$ 1,846	$ 2,481	$ 2,843	$ 2,789	$ 2,316
Commercial	7,753	10,603	20,642	13,927	7,902
Commercial business	1,644	926	482	358	712
Consumer	10	-	-	-	7
Total	$ 11,253	$ 14,010	$ 23,967	$ 17,074	$ 10,937
Accruing loans which are contractually past due 90 days or more:					
Real estate:					
Residential	$ -	$ 279	$ 145	$ 1,268	$ 1,198
Commercial	-	-	-	-	278
Commercial business	229	-	-	-	-
Consumer	-	-	3	223	-
Total	$ 229	$ 279	$ 148	$ 1,491	$ 1,476
Loans that qualify as troubled debt restructurings:					
Real estate:					
Residential	$ 534	$ 1,123	$ -	$ -	$ -
Commercial	9,113	7,373	5,016	-	-
Commercial business	88	-	-	-	-
Consumer	-	-	-	-	-
Total	$ 9,735	$ 8,496	$ 5,016	$ -	$ -
Total of non-accrual, 90 days past due, and restructurings	$ 21,217	$ 22,785	$ 29,131	$ 18,565	$ 12,413
Ratio of non-performing loans to total assets	1.66%	2.19%	3.82%	2.81%	1.87%
Ratio of non-performing loans to total loans	2.63%	3.56%	5.77%	4.05%	2.54%
Foreclosed real estate	$ 425	$ 2,457	$ 3,298	$ 3,747	$ 527
Ratio of foreclosed real estate to total assets	0.06%	0.38%	0.52%	0.57%	0.08%

During 2012, gross interest income of $681,000 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 $134,000.

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. Loans internally classified as substandard totaled $19.7 million at December 31, 2012, compared to $24.6 million at December 31, 2011. No loans are internally classified as doubtful at December 31, 2012 or 2011. No loans were classified as loss at either December 31, 2012 or 2011. Substandard loans include non-performing loans and potential problem loans, where information about possible credit issues or other conditions causes management to question the ability of such borrowers to comply with loan covenants or repayment terms. In addition to identifying and monitoring non-performing and other classified loans, management maintains a list of watch loans. Watch loans represent loans management is closely monitoring due to one or more factors that may cause the loan to become classified. Watch loans totaled $17.7 million at December 31, 2012, compared to $16.6 million at December 31, 2011.

A loan is considered impaired when, based on current information and events, it is probable that a borrower will be unable to pay all amounts due according to the contractual terms of the loan agreement. At December 31, 2012, impaired loans totaled $19.9 million, compared to $21.7 million at December 31, 2011 a decrease of $1.8 million or 8.3%. The December 31, 2012, impaired loan balances consist of twenty-six commercial real estate and commercial business loans totaling $19.2 million that are secured by business assets and real estate, and are personally guaranteed by the owners of the businesses. In addition, seven mortgage loans totaling $692 thousand, which are troubled debt restructurings have also been classified as impaired. The December 31, 2012 ALL contained $2.0 million in specific allowances for collateral deficiencies, compared to $1.6 million at December 31, 2011. During the fourth quarter of 2012, two commercial business loans totaling $435 thousand were newly classified as impaired and one impaired mortgage loan totaling $39 thousand was transferred to foreclosed real estate. There were no other loans considered to be impaired loans as of December 31, 2012. Typically, management does not individually classify smaller-balance homogeneous loans, such as residential mortgages or consumer loans, as impaired, unless they are troubled debt restructurings.

At December 31, 2012, management is of the opinion that there are no loans, except those discussed above, where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which will imminently result in disclosure of such loans as non-accrual, past due or restructured loans. Management does not presently anticipate that any of the non-performing loans or classified loans would materially impact future operations, liquidity or capital resources.

The Bancorp is a party to financial instruments in the normal course of business to meet financing needs of its customers. These financial instruments, which include commitments to make loans and standby letters of credit, are not reflected in the accompanying consolidated financial statements. Such financial instruments are recorded when they are funded. The Bancorp has a $1.1 million participation in a $5.7 million letter of credit, which acts as payment support to bondholders. The letter of credit is secured by a cash collateral account in the amount of $2.4 million and a collateralized guarantee in the amount of $1.0 million. In June of 2012 the participants approved a two year extension of the letter of credit. Currently, the letter of credit participants have secured a signed lease from a tenant that opened for operations during May 2009. This lease will expire in June 2015. The lease contains escalating payments that will continue to provide sufficient cash flow to allow the borrower to meet debt obligations to the participants.

For 2012, $2.4 million in provisions to the ALL were required, compared to $3.5 million for 2011. The ALL provision decrease for 2012 is primarily a result of improved asset quality. The current year ALL provisions were primarily related to the current credit risk in the commercial real estate participation and commercial real estate loan portfolios. For 2012, charge-offs, net of recoveries, totaled $1.9 million, compared to $4.6 million for 2011. The 2012 net loan charge-offs of $1.9 million were comprised of $765 thousand in commercial real estate participation loans, $243 thousand in commercial real estate loans, $332 thousand in residential real estate loans, $582 thousand in commercial business loans and $12 thousand in consumer loans. For all periods presented, the ALL provisions take into consideration management's current judgments about the credit quality of the loan portfolio, loan portfolio balances, changes in the portfolio mix, and local economic conditions. In determining the provision for loan losses for the current period, management has given consideration to historically elevated risks associated with the local economy, changes in loan balances and mix, and asset quality.

The ALL to total loans was 1.93% at December 31, 2012, compared to 1.99% at December 31, 2011. The decrease in ALL to total loans was largely a result of charge-offs related to loans with previously identified valuation reserves. The ALL to non-performing loans (coverage ratio) was 73.34% at December 31, 2012, compared to 56.03% at December 31, 2011. The December 31, 2012 balance in the ALL account of $8.4 million is considered adequate by management after evaluation of the loan portfolio, past experience and current economic and market conditions. While management may periodically allocate portions of the allowance for specific problem loans, the whole allowance is available for any loan charge offs that occur. The allocation of the ALL reflects performance and growth trends within the various loan categories, as well as consideration of the facts and circumstances that affect the repayment of individual loans, and loans which have been pooled as of the evaluation date, with particular attention given to non-performing loans and loans which have been classified as substandard, doubtful or loss. Management has allocated reserves to both performing and non-performing loans based on current information available.

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

	2012	2011	2010	2009	2008
Balance at beginning of period	$ 8,005	$ 9,121	$ 6,114	$ 5,830	$ 4,581
Loans charged-off:					
Real estate - residential	(336)	(470)	(764)	(489)	(27)
Commercial real estate	(256)	(880)	(900)	(268)	(64)
Commercial real estate participations	(873)	(3,366)	(987)	(7,133)	(1,026)
Commercial business	(619)	(163)	(182)	(504)	(1)
Consumer	(17)	(55)	(35)	(46)	(109)
Total charge-offs	(2,101)	(4,934)	(2,868)	(8,440)	(1,227)
Recoveries:					
Residential real estate	4	112	38	1	2
Commercial real estate	13	182	-	15	7
Commercial real estate participations	108	-	248	45	-
Commercial business	37	3	10	116	-
Consumer	5	11	9	7	79
Total recoveries	167	308	305	184	88
Net (charge-offs) / recoveries	(1,934)	(4,626)	(2,563)	(8,256)	(1,139)
Provision for loan losses	2,350	3,510	5,570	8,540	2,388
Balance at end of period	$ 8,421	$ 8,005	$ 9,121	$ 6,114	$ 5,830
ALL to loans outstanding	1.93%	1.99%	2.18%	1.33%	1.19%
ALL to nonperforming loans	73.34%	56.03%	37.82%	32.93%	46.97%
Net charge-offs / recoveries to average loans out - standing during the period	-0.46%	-1.13%	-0.57%	-1.75%	-0.24%

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.

	2012		2011		2010		2009		2008	
	$	%	$	%	$	%	$	%	$	%
Real estate loans:										
Residential	1,024	35.4	1,161	38.4	994	36.6	241	40.2	394	46.2
Commercial and other dwelling	6,158	46.6	5,728	43.5	7,477	45.9	5,371	42.5	3,934	40.3
Consumer loans	19	0.1	15	0.1	30	0.2	51	0.3	69	0.4
Commercial business and other	1,220	17.9	1,101	18.0	620	17.3	451	17.0	1,433	13.1
Total	8,421	100.0	8,005	100.0	9,121	100.0	6,114	100.0	5,830	100.0

Investment Activities

The primary objective of the investment portfolio is to provide for the liquidity needs of the Bancorp and to contribute to profitability by providing a stable flow of dependable earnings. Securities can be classified as either held-to-maturity (HTM) or available-for-sale (AFS) at the time of purchase. No securities are classified as trading. During 2011, management transferred its entire HTM securities portfolio to AFS in order to provide management with the ability to sell lower balance odd lot securities, divest of certain securities to reduce credit or interest rate risk within the portfolio, and be positioned to take advantage of other portfolio restructuring opportunities. AFS securities are those the Bancorp may decide to sell if needed for liquidity, asset-liability management or other reasons. During 2012, the Bancorp did not have derivative instruments and was not involved in hedging activities as defined by Accounting Standards Codification Topic 815 Derivatives and Hedging. It has been the policy of the Bancorp to invest its excess cash in U.S. government agency securities, mortgage-backed securities, collateralized mortgage obligations and municipal securities. In addition, short-term funds are generally invested as interest-bearing balances in financial institutions and federal funds. At December 31, 2012, the Bancorp's investment portfolio totaled $187.5 million. In addition, the Bancorp had $5.4 million federal funds sold, and $3.1 million in FHLB stock.

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

	2012	2011	2010
U.S. government agencies:			
Available-for-sale	23,096	15,648	4,169
Mortgage-backed securities (1):			
Available-for-sale	36,068	50,683	32,682
Held-to-maturity	-	-	824
Collateralized Mortgage Obligations (1):			
Available-for-sale	63,846	60,514	64,460
Municipal Securities:			
Available-for-sale	63,073	58,756	39,365
Held-to-maturity	-	-	17,573
Corporate Securities:			
Available-for-sale	-	-	-
Trust Preferred Securities:			
Available-for-sale	1,392	1,361	1,379
Totals	$ 187,475	$ 186,962	$ 160,452

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

The contractual maturities and weighted average yields for the U.S. government securities, agency securities, municipal securities, and trust preferred securities at December 31, 2012, are summarized in the table below. Securities not due at a single maturity date, such as mortgage-backed securities and collateralized mortgage obligations are not included in the following table. The carrying values are stated in thousands (000's).

Yields presented are not on a tax-equivalent basis.

	Within 1 Year		1 - 5 Years		5 - 10 Years		After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. government Securities:								
AFS	-	0.00%	-	0.00%	-	0.00%	-	0.00%
U.S. government Agencies:								
AFS	-	0.00%	9,543	1.31%	13,553	1.45%	-	0.00%
Municipal Securities:								
AFS	972	3.95%	5,399	4.35%	24,760	4.06%	31,942	3.81%
Trust Preferred Securities:								
AFS	-	0.00%	-	0.00%	-	0.00%	1,392	1.30%
Totals	$ 972	3.95%	$ 14,942	2.41%	$ 38,313	3.14%	$ 33,334	3.71%

The Bancorp currently holds four trust preferred securities of which three of the securities' quarterly interest payments have been placed in "payment in kind" status. Payment in kind status results in a temporary delay in the payment of interest. As a result of a delay in the collection of the interest payments, management placed these securities in non-accrual status. At December 31, 2012, the cost basis of the three trust preferred securities in non-accrual status totaled $3.9 million. Current estimates indicate that the interest payment delays may exceed ten years. One trust preferred security with a cost basis of $1.3 million remains in accrual status.

Sources of Funds

General. Deposits are the major source of the Bancorp's funds for lending and other investment purposes. In addition to deposits, the Bancorp derives funds from maturing investment securities and certificates of deposit, dividend receipts from the investment portfolio, loan principal repayments, repurchase agreements, advances from the Federal Home Loan Bank of Indianapolis (FHLB) and other borrowings. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by general interest rates and money market conditions. Borrowings may be used on a short-term basis to compensate for reductions in the availability of other sources of funds. They may also be used on a longer-term basis for general business purposes. The Bancorp uses repurchase agreements, as well as a line-of-credit and advances from the FHLB for borrowings. At December 31, 2012, the Bancorp had $16.3 million in repurchase agreements. Other borrowings totaled $33.2 million, of which $33.0 million represents FHLB advances.

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

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

	2012		2011		2010	
	Amount	Rate %	Amount	Rate %	Amount	Rate %
Noninterest bearing demand deposits	$ 62,746	-	$ 54,126	-	$ 48,975	-
Interest bearing demand deposits	97,735	0.09	99,040	0.17	110,078	0.32
MMDA accounts	125,035	0.21	116,527	0.30	116,871	0.48
Savings accounts	75,541	0.07	69,529	0.15	60,830	0.20
Certificates of deposit	177,523	0.66	186,730	0.99	216,168	1.33
Total deposits	$ 538,580	0.29	$ 525,952	0.47	$ 552,922	0.71

Maturities of time certificates of deposit and other time deposits of $100,000 or more at December 31, 2012 are summarized as follows. The amounts are stated in thousands (000's).

3 months or less	$ 23,225
Over 3 months through 6 months	10,627
Over 6 months through 12 months	22,430
Over 12 months	17,738
Total	$ 74,020

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

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

	At December 31, 2012	At December 31, 2011	At December 31, 2010
Repurchase agreements:			
Balance	$ 16,298	$ 15,395	$ 16,074
Securities underlying the agreements:			
Ending carrying amount	28,002	26,622	24,484
Ending fair value	28,002	26,622	24,915
Weighted average rate (1)	0.31%	0.43%	0.70%

	For year ended December 31, 2012	For year ended December 31, 2011	For year ended December 31, 2010
Highest month-end balance	$ 25,278	$ 24,258	$ 22,369
Average outstanding balance	20,561	20,767	19,469
Weighted average rate on securities sold under agreements to repurchase (2)	0.38%	0.51%	0.92%

	At December 31, 2012	At December 31, 2011	At December 31, 2010
Fixed rate short-term advances from the FHLB	$ 14,000	$ 5,000	$ 3,000
Fixed rate long-term advances from the FHLB	$ 14,000	$ 26,000	$ 21,000
Putable advances from the FHLB	5,000	5,000	5,000
Variable advances from the FHLB	-	-	-
FHLB line-of-credit	-	-	3,248
Limited partnership obligation	-	-	-
Overdrawn due from other financial institutions	207	618	296
Total borrowings	$ 33,207	$ 36,618	$ 32,544

(1) The weighted average rate for each period is calculated by weighting the principal balances outstanding for the various interest rates.
(2) The weighted average rate is calculated by dividing the interest expense for the period by the average daily balances of securities sold under agreements to repurchase for the period.

Wealth Management Group

The activities of the Bancorp's Wealth Management Group provides estate and retirement planning, guardianships, land trusts, profit sharing and 401(k) retirement plans, IRA and Keogh accounts, investment agency accounts, and serves as personal representative of estates and acts as trustee for revocable and irrevocable trusts. At December 31, 2012, the market value of the Wealth Management Group's assets totaled $263.8 million, an increase of $3.3 million, compared to December 31, 2011.

Analysis of Profitability and Key Operating Ratios

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

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

The following table presents the weighted average yields on loans and securities, the weighted average cost of interest-bearing deposits and other borrowings, and the interest rate spread for the year ended December 31, 2012.

Weighted average yield:	
Securities	2.83%
Loans receivable	4.88%
Federal Home Loan Bank stock	3.38%
Total interest-earning assets	4.14%
Weighted average cost:	
Deposit accounts	0.29%
Borrowed funds	1.32%
Total interest-bearing liabilities	0.39%
Interest rate spread:	
Weighted average yield on interest-earning assets minus the weighted average cost of interest-bearing funds	3.75%

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,		
	2012	2011	2010
Return on average assets	1.02%	0.84%	0.77%
Return on average equity	10.27%	8.90%	9.03%
Average equity-to-average assets ratio	9.95%	9.40%	8.56%
Dividend payout ratio	29.83%	31.57%	39.26%

	At December 31,		
	2012	2011	2010
Total stockholders' equity to total assets	9.78%	9.66%	8.89%

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, 2012			Year ended December 31, 2011			Year ended December 31, 2010		
	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	$ 8,715	$ 22	0.25%	$ 7,215	$ 18	0.25%	$ 12,135	$ 28	0.23%
Federal funds sold	7,460	1	0.01	5,366	1	0.01	5,227	1	0.01
Securities	190,101	5,387	2.83	178,089	6,074	3.41	157,730	6,006	3.81
Total investments	206,276	5,410	2.62	190,670	6,093	3.20	175,092	6,035	3.45
Loans:*									
Real estate mortgage loans	348,169	17,167	4.93	335,529	17,258	5.14	366,566	19,759	5.39
Commercial business loans	74,916	3,466	4.63	73,664	3,590	4.87	78,921	4,216	5.34
Consumer loans	482	31	6.43	594	45	7.58	1,064	76	7.14
Total loans	423,567	20,664	4.88	409,787	20,893	5.10	446,551	24,051	5.39
Total interest-earning assets	629,843	26,074	4.14	600,457	26,986	4.49	621,643	30,086	4.84
Allowance for loan losses	(8,334)			(9,092)			(7,585)		
Cash and due from banks	8,795			8,365			7,773		
Premises and equipment	17,963			18,780			19,412		
Other assets	22,812			25,211			28,322		
Total assets	$ 671,079			$ 643,721			$ 669,565		
Liabilities:									
Demand deposit	$ 62,746	-	-%	$ 54,126	-	-%	$ 48,975	-	-%
NOW accounts	97,735	86	0.09	99,040	172	0.17	110,078	353	0.32
Money market demand accounts	125,035	268	0.21	116,527	350	0.30	116,871	556	0.48
Savings accounts	75,541	54	0.07	69,529	102	0.15	60,830	122	0.20
Certificates of deposit	177,523	1,167	0.66	186,730	1,849	0.99	216,168	2,883	1.33
Total interest-bearing deposits	538,580	1,575	0.29	525,952	2,473	0.47	552,922	3,914	0.71
Borrowed funds	58,688	773	1.32	50,538	758	1.50	52,792	1,075	2.04
Total interest-bearing liabilities	597,268	2,348	0.39	576,490	3,231	0.56	605,714	4,989	0.82
Other liabilities	7,069			6,720			6,516		
Total liabilities	604,337			583,210			612,230		
Stockholders' equity	66,742			60,511			57,335		
Total liabilities and stockholders' equity	$ 671,079			$ 643,721			$ 669,565		
Net interest income		$ 23,726			$ 23,755			$ 25,097	
Net interest spread			3.75%			3.93%			4.02%
Net interest margin**			3.77%			3.96%			4.04%

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

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

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

	Year Ended December 31, 2012 vs. 2011 Increase / (Decrease) Due To			Year Ended December 31, 2011 vs. 2010 Increase / (Decrease) Due To		
	Volume	Rate	Total	Volume	Rate	Total
Interest income:						
Loans receivable	$ 689	$ (918)	$ (229)	$ (1,916)	$ (1,242)	$ (3,158)
Securities	390	(1,077)	(687)	730	(662)	68
Other interest-earning assets	5	(1)	4	(7)	(3)	(10)
Total interest-earning assets	1,084	(1,996)	(912)	(1,193)	(1,907)	(3,100)
Interest Expense:						
Deposits	58	(956)	(898)	(183)	(1,258)	(1,441)
Borrowed Funds	114	(99)	15	(44)	(273)	(317)
Total interest-bearing liabilities	172	(1,055)	(883)	(227)	(1,531)	(1,758)
Net change in net interest income/(expense)	$ 912	$ (941)	$ (29)	$ (966)	$ (376)	$ (1,342)

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, 2012, the Bank had an investment balance of $165 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, 2012, the Bank had an investment balance of $218.7 million in NWIN, LLC. The investment balance represents a decrease of $15.3 million, as a result of a return of capital to the Bank during 2012.

NWIN Funding, Inc. is a subsidiary of NWIN, LLC, and was formed as an Indiana Real Estate Investment Trust (REIT). The formation of NWIN Funding, Inc. provides the Bancorp with a vehicle that may be used to raise capital utilizing portfolio mortgages as collateral, without diluting stock ownership. In addition, NWIN Funding, Inc. will receive favorable state tax treatment for income generated by its operations. At December 31, 2012, the REIT held assets of $38.2 million in real estate loans.

Columbia Development Company, LLC is a wholly owned subsidiary of the Bank and was incorporated under the laws of the State of Indiana. The subsidiary holds real estate properties that the Bank has acquired through the foreclosure process. At December 31, 2012, the Bank had an investment balance of $2.0 million in Columbia Development Company, LLC.

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

Competition

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

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

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

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

Personnel

As of December 31, 2012, the Bank had 161 full-time and 25 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 the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act”), a bank holding company is expected to serve as a source of financial and managerial strength to its subsidiary banks. Pursuant to this requirement, a bank holding company should stand ready to use its resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity. This support may be required by the FRB at times when the Bancorp may not have the resources to provide it or, for other reasons, would not be inclined to provide it. Additionally, under the Federal Deposit Insurance Corporation Improvements Act of 1991 ("FDICIA"), a bank holding company is required to provide limited guarantee of the compliance by any insured depository institution subsidiary that may become "undercapitalized" (as defined in the statute) with the terms of any capital restoration plan filed by such subsidiary with its appropriate federal banking agency.

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

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

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

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

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

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

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

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

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

The following table shows that, at December 31, 2012, the Bancorp's capital exceeded all regulatory capital requirements. At December 31, 2012, the Bancorp's and the Bank's regulatory capital ratios were substantially the same. At December 31, 2012, 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	$ 70.1	14.6%	$ 38.3	8.0%	$ 47.9	10.0%
Tier 1 capital to risk weighted assets	$ 64.1	13.4%	$ 19.1	4.0%	$ 28.7	6.0%
Tier 1 capital to adjusted average assets	$ 64.1	9.4%	$ 20.5	3.0%	$ 34.2	5.0%

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

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

The FDIC has the authority to prohibit the Bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice in light of the financial condition of the Bank. In addition, under FRB supervisory policy, a bank holding company generally should not maintain its existing rate of cash dividends on common shares unless (i) the organization's net income available to common shareholders over the past year has been sufficient to fully fund the dividends and (ii) the prospective rate of earnings retention appears consistent with the organization's capital needs, assets, quality, and overall financial condition. The FRB issued a letter dated February 24, 2009, to bank holding companies providing that it expects banks holding companies to consult with it in advance of declaring dividends that could raise safety and soundness concerns (i.e., such as when the dividend is not supported by earnings or involves a material increase in the dividend rate) and in advance of repurchasing shares of common preferred stock.

Federal Deposit Insurance. Deposits in the Bank are insured by the Deposit Insurance Fund of the FDIC up to a maximum amount, which is generally $250,000 per depositor, subject to aggregation rules. There is no longer unlimited insurance coverage for noninterest-bearing transaction accounts, which expired on December 31, 2012. Deposits held in noninterest-bearing transaction accounts are now aggregated with interest-bearing deposits the owner may hold in the same ownership category, and the combined insured up to at least $250,000. The Bank is subject to deposit insurance assessments by the FDIC pursuant to its regulations establishing a risk-related deposit insurance assessment system, based on the institution's capital levels and risk profile. Under the FDIC's risk-based assessment system, insured institutions are assigned to one of four risk-weighted categories based on supervisory evaluations, regulatory capital levels, and certain other factors with less risky institutions paying lower assessments. An institution's initial assessment rate depends upon the category to which it is assigned. There are also adjustments to a bank's initial assessment rates based on levels of long-term unsecured debt, secured liabilities in excess of 25% of domestic deposits and, for certain institutions, brokered deposit levels. Under the rules in effect through March 31, 2011, initial assessments ranged from 12 to 45 basis points of assessable deposits. However, pursuant to FDIC rules adopted under the Dodd-Frank Act (described below), effective April 1, 2011, initial assessments ranged from 5 to 35 basis points of the institution's total assets minus its tangible equity. The Bank paid deposit insurance assessments of $571 thousand during the year ended December 31, 2012. For 2012, the deposit insurance assessment rate before applying one time credits was approximately 0.099% of insured deposits. No institution may pay a dividend if it is in default of the federal deposit insurance assessment.

The Bank is also subject to assessment for the Financing Corporation (FICO) to service the interest on its bond obligations. The amount assessed on individual institutions, including the Bank, by FICO is in addition to the amount paid for deposit insurance according to the risk-related assessment rate schedule. These assessments will continue until the FICO bonds are repaid between 2017 and 2019. During 2012, the FICO assessment rate ranged between 0.64 and 0.66 basis points for each $100 of insured deposits per quarter. The Bank paid interest payment assessments of $39 thousand during the year ended December 31, 2012. Future increases in deposit insurance premiums or changes in risk classification would increase the Bank's deposit related costs.

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

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

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

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

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

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

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

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

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

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

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

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

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

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank of Indianapolis, which is one of 12 regional Federal Home Loan Banks. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from funds deposited by member institutions and proceeds from the sale of consolidated obligations of the Federal Home Loan Bank system. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of trustees of the Federal Home Loan Bank. As a member, the Bank is required to purchase and maintain stock in the Federal Home Loan Bank of Indianapolis in an amount equal to the greater of 1% of its aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year or 5% of our outstanding advances from the Federal Home Loan Bank. At December 31, 2012, the Bank was in compliance with this requirement.

At December 31, 2012, the Bancorp owned $3.09 million of stock of the Federal Home Loan Bank of Indianapolis ("FHLBI") and had outstanding borrowings of $33.0 million from the FHLBI. The FHLBI stock entitles the Bancorp to dividends from the FHLBI. The Bancorp recognized dividend income of approximately $104 thousand in 2012. At December 31, 2012, the Bancorp's excess borrowing capacity from the FHLBI was $54.7 million. Generally, the loan terms from the FHLBI are better than the terms the Bancorp can receive from other sources making it cheaper to borrow money from the FHLBI.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Federal Taxation

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

State Taxation

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

During 2010, the Bank's state income tax returns were subject to an examination by the Indiana Department of Revenue for the years 2007, 2008, and 2009. No improper tax positions were identified during 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, 2012, the Bancorp's consolidated total deferred tax assets were $5.3 million and the consolidated total deferred tax liabilities were $3.6 million, resulting in a consolidated net deferred tax asset of $1.7 million, net of a $474,000 valuation allowance. The valuation allowance of $474,000 was provided for the state net operating loss and state tax credit, as management does not believe these amounts will be fully utilized before statutory expiration.

Item 1A. Risk Factors

Not applicable.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

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

The following table sets forth additional information with respect to the Bank's offices as of December 31, 2012. Net book value and total investment figures are for land, buildings, furniture and fixtures.

Office location	Year facility opened	Net book value	Approximate square footage	Total cost
9204 Columbia Avenue Munster, IN 46321-3517	1985	$ 737,867	11,640	$ 3,114,651
141 W. Lincoln Highway Schererville, IN 46375-1851	1990	720,719	9,444	2,106,630
7120 Indianapolis Blvd. Hammond, IN 46324-2221	1978	100,183	2,600	895,183
1300 Sheffield Dyer, IN 46311-1548	1976	130,911	2,100	869,636
7915 Taft Merrillville, IN 46410-5242	1968	73,689	2,750	784,969
8600 Broadway Merrillville, IN 46410-7034	1996	1,106,151	4,400	2,381,550
4901 Indianapolis Blvd. East Chicago, IN 46312-3604	1995	730,266	4,300	1,607,733
1501 Lake Park Avenue Hobart, IN 46342-6637	2000	1,614,535	6,992	2,764,150
9204 Columbia Avenue Corporate Center Building Munster, IN 46321-3517	2003	5,405,464	36,685	11,704,698
855 Stillwater Parkway Crown Point, IN 46307-5361	2007	1,762,565	3,945	2,452,128
1801 W. 25th Avenue Gary, IN 46404-3546	2008	1,532,097	2,700	1,920,759
2905 Calumet Avenue Valparaiso, IN 46383-2645	2009	1,996,102	2,790	2,304,533
9903 Wicker Avenue Saint John, IN 46373-9402	2010	1,767,465	2,980	2,154,428

At December 31, 2012, the Bank had an investment totaling $340 thousand in one location, which has been acquired for future development. The Bank outsources its core processing activities to Fidelity National Information Services, Inc., or FIS (formerly Metavante) Corporation located in Brown Deer, Wisconsin. FIS provides real time services for loans, deposits, retail delivery systems, card solutions and electronic banking. Additionally, the Bank utilizes Accutech in Muncie, Indiana for its Wealth Management operations.

The net book value of the Bank's property, premises and equipment totaled $17.7 million at December 31, 2012.

Item 3. Legal Proceedings

Not applicable

Item 4. Mine Safety Disclosures

Not applicable.

Item 4.5 Executive Officers of the Bancorp

Pursuant to General Instruction G(3) of Form 10-K, the following information is included as an unnumbered item in this Part I in lieu of being included in the Bancorp's Proxy Statement for the 2013 Annual Meeting of Shareholders:

The executive officers of the Bancorp are as follows:

	Age at December 31, 2012	Position
David A. Bochnowski	67	Chairman, Chief Executive Officer, and President
John J. Diederich	60	Executive Vice President
Robert T. Lowry	51	Executive Vice President, Chief Financial Officer and Treasurer
Leane E. Cerven	54	Senior Vice President, General Counsel Corporate Secretary

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

David A. Bochnowski is Chairman, Chief Executive Officer, and President of the Bancorp and the Bank, and is accountable to the Board of Directors, customers, shareholders, employees and stakeholders for the operation of the company. He has been the Chief Executive Officer since 1981 and became the Chairman in 1995. He has been a director since 1977 and was the Bank's legal counsel from 1977 to 1981. Mr. Bochnowski is a past Chairman of America's Community Bankers (ACB), now known as the new American Bankers Association (ABA) a national bank trade association where he serves on the Government Relations Council and Task Force on Regulatory Relations. He is a member of the Security and Exchange Commission's Advisory Committee on Small and Emerging Companies. He is a trustee and treasurer of the Munster Community Hospital, a director of the Community Healthcare System, a former chairman and current board member of the Legacy Foundation of Lake County, a Director of One Region, a trustee of the Purdue Technology Center Northwest Indiana, a trustee of Calumet College, and an advisory trustee for the Gary YWCA. He is a former Chairman of the Indiana Department of Financial Institutions; former Chairman of the Indiana League of Savings Institutions, now known as the Indiana Bankers Association; former director of the Federal Home Loan Bank of Indianapolis; and, a former member of the Federal Reserve Thrift Institutions Advisory Committee. Before joining the Bank, Mr. Bochnowski was an attorney, self-employed in private practice. He holds undergraduate and Juris Doctorate degrees from Georgetown University and a Masters Degree from Howard University. He served as an officer in the United States Army and is a Vietnam veteran.

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

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

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

PART II

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

The information contained under the caption "Market Information" in the 2012 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 2012 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 2012 Annual Report to Shareholders is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 8. Financial Statements

The financial statements contained in the 2012 Annual Report to Shareholders, which are listed under Item 15 herein, are incorporated herein by reference.

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

There are no items reportable under this item.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

NorthWest Indiana Bancorp (the "Bancorp") conducted an evaluation under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of December 31, 2012. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer determined that the disclosure controls and procedures were effective to ensure that material information required to be disclosed by the Bancorp in the reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported as and when required. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on management's best estimates and judgments.

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

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

(i) Management's Responsibility for Financial Statements

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

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

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

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

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

With the participation of the Bancorp's Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the framework in Internal Control-Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management determined that the Bancorp's system of internal control over financial reporting was effective as of December 31, 2012.

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

There were no changes in the Bancorp's internal control over financial reporting in the fourth quarter of 2012 that have materially affected, or are reasonably likely to materially affect, the Bancorp's internal control over financial reporting.

Item 9B. Other Information

There are no items reportable under this item.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information contained under the sections captioned "Election of Directors," “Corporate Governance - Board Committees,” "Security Ownership by Certain Beneficial Owners and Management,” “Section 16(a) Beneficial Ownership Reporting Compliance" and “Corporate Governance - Code of Ethics” in the Bancorp’s definitive Proxy Statement for the 2013 Annual Meeting of Shareholders is incorporated herein by reference. Information regarding the Bancorp’s executive officers is included under Item 4.5 captioned "Executive Officers of the Bancorp" at the end of Part I hereof and is incorporated herein by reference, in accordance with General Instruction G(3) to Form 10-K and Instruction 3 to Item 401(b) of Regulation S-K.

Item 11. Executive Compensation

The information contained under the section captioned “Executive Compensation" in the Bancorp’s definitive Proxy Statement for its 2013 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 2013 Annual Meeting of Shareholders, under the section captioned “Security Ownership by Certain Beneficial Owners and Management,” and the table providing information on the Bancorp’s director nominees and continuing directors in the section captioned “Election of Directors” is incorporated herein by reference.

Equity Compensation Plan Information

The following table provides certain information as of December 31, 2012 with respect to the Company’s existing equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a) (c)
Equity compensation plans approved by security holders	25,950	$ 27.06	240,450
Equity compensation plans not approved by security holders	0	0	0
Total	25,950	$ 27.06	240,450

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

The information contained under the sections captioned “Transactions with Related Persons” and “Corporate Governance-Director Independence,” and the information contained in the “Summary Compensation Table for 2012” under the section captioned “Executive Compensation,” in the Bancorp’s definitive Proxy Statement for its 2013 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 2013 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 2012 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, 2012 and 2011

(c) Consolidated Statements of Income for the years ended December 31, 2012 and 2011

(d) Consolidated Statements of Comprehensive Income for the years ended December 31, 2012 and 2011

(e) Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2012 and 2011

(f) Consolidated Statements of Cash Flows for the years ended December 31, 2012 and 2011

(g) Notes to Consolidated Financial Statements

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

(3) **Exhibits:**

Exhibit Number	Description
2.	Plan of Conversion of Peoples Bank, A Federal Savings Bank, dated December 18, 1993 (incorporated herein by reference to Exhibit A to the Bancorp's Definitive Proxy Statement/Prospectus dated March 23, 1994, as filed pursuant to Rule 424(b) under the 1933 Act on March 28, 1994).
3.i.	Articles of Incorporation (incorporated herein by reference to Exhibit 3(i) to the Bancorp's Registration Statement on Form S-4 filed March 3, 1994 (File No. 33-76038)).
3.ii.	By-Laws of NorthWest Indiana Bancorp (incorporated herein by reference to Exhibit 3.1 of the Bancorp's Form 8-K dated August 3, 2009).
10.1. *	1994 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit A to the Bancorp's Definitive Proxy Statement/Prospectus dated March 23, 1994, as filed pursuant to Rule 424(b) under the 1933 Act on March 28, 1994).
10.2. *	Amended and Restated Employment Agreement, dated December 29, 2008, between Peoples Bank SB, NorthWest Indiana Bancorp and David A. Bochnowski (incorporated herein by reference to Exhibit 10.1 of the Bancorp's Form 8-K dated December 30, 2008).

10.3. *	Unqualified Deferred Compensation Plan for the Officers of Peoples Bank effective January 1, 2005.
10.4. *	Amended and Restated 2044 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.5 of the Bancorp's Form 10-K for the year ended December 31, 2011).
10.5 *	Post 2004 Unfunded Deferred Compensation Plan for the Directors of Peoples Bank SB effective January 1, 2005.
10.6 *	Form of Incentive Stock Option Agreement (incorporated by reference to Exhibit 10.7 of the Bancorp's Form 10-K for the year ended December 31, 2011).
10.7 *	Form of Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.7 of the Bancorp's Form 10-K for the year ended December 31, 2011).
10.8 *	Form of Agreement for Restricted Stock (incorporated by reference to Exhibit 10.7 of the Bancorp's Form 10-K for the year ended December 31, 2011).
13.	2012 Annual Report to Shareholders.
21.	Subsidiaries of the Bancorp (incorporated herein by reference to Exhibit 21 to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2006).
23.1	Plante & Moran, PLLC - Consent of Independent Registered Public Accounting Firm.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32	Section 1350 Certifications.
101	The following materials from the Bancorp's Form 10-K for the fiscal year ended December 31, 2012, formatted in an XBRL Interactive Data File: (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Changes in Stockholders' Equity; (v) Consolidated Statements if Cash Flows; and (vi) Notes to Consolidated Financial Statements, with detailed tagging of notes and financial statement schedules.**

* - The indicated exhibit is a management contract, compensatory plan or arrangement required to be filed by Item 601 of Regulation S-K.
** - Users of the XBRL-related information in Exhibit 101 of the Annual Report on Form 10-K are advised, in accordance with Regulation S-T Rule 406T, that this Interactive Data File is deemed not filed or as part of a registration statement for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Ace of 1934, as amended, and otherwise is not subject to the liability under these sections. The financial information contained in the XBRL-related documents is unaudited and unreviewed.

SIGNATURES

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

NORTHWEST INDIANA BANCORP

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

Date: February 15, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on February 15, 2013:

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	Executive Vice President, Chief Financial Officer and Treasurer
The Board of Directors:	
/s/Frank J. Bochnowski Frank J. Bochnowski	Director
/s/Edward J. Furticella Edward J. Furticella	Director
/s/Joel Gorelick Joel Gorelick	Director
/s/Kenneth V. Krupinski Kenneth V. Krupinski	Director
/s/Stanley E. Mize Stanley E. Mize	Director
/s/Anthony M. Puntillo Anthony M. Puntillo	Director
/s/James L. Wieser James L. Wieser	Director
/s/Donald P. Fesko Donald P. Fesko	Director
/s/Amy W. Han Amy W. Han	Director

EXHIBIT INDEX

Exhibit	Description
10.3	Unqualified Deferred Compensation Plan for the Officers of Peoples Bank effective January 1, 2005.
10.5	Post 2004 Unfunded Deferred Compensation Plan for the Directors of Peoples Bank SB effective January 1, 2005.
13.	2012 Annual Report to Shareholders.
23.1	Plante & Moran, PLLC - Consent of Independent Registered Public Accounting Firm.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
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101	The following materials from the Bancorp's Form 10-K for the fiscal year ended December 31, 2012, formatted in an XBRL Interactive Data File: (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Changes in Stockholders' Equity; (v) Consolidated Statements if Cash Flows; and (vi) Notes to Consolidated Financial Statements, with detailed tagging of notes and financial statement schedules.*

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Exhibit 10.3

AMENDED POST - 2004
PEOPLES BANK, A STATE SAVINGS BANK
UNQUALIFIED DEFERRED COMPENSATION PLAN
(Approved May 28, 2010)

ARTICLE I

NATURE AND PURPOSE OF PLAN

Section 1.1. Type of Plan. The Peoples Bank, a State Savings Bank (the “Bank”), Unqualified Deferred Compensation Plan (“Plan”) is established by the Bank as an unfunded, non-qualified deferred-compensation plan for a select group of the Bank’s management and highly-compensated employees. It is the intent of all parties that the Plan meets the requirements of Section 409A of the Internal Revenue Code and the regulations thereunder.

Section 1.2. Purpose of Plan. The purpose of the Plan is to provide a means for the payment of deferred compensation to a select group of key senior management employees of the Bank, in recognition of their substantial contributions to the operation of the Bank, and to provide those individuals with additional financial security as an inducement to them to remain in employment with the Bank.

ARTICLE II

DEFINITIONS AND RULES OF CONSTRUCTION

Section 2.1. Definitions. As used in the Plan, the following words and phrases, when capitalized, have the following meanings except when used in a context that plainly requires a different meaning:

(a) “Account” means, with respect to a Participant, the bookkeeping account that serves as a record of the contributions and interest credited to the Participant under the terms of this Plan.
(b) “Bank” means Peoples Bank, A State Savings Bank.
(c) “Beneficiary” means, with respect to a Participant, the person or persons designated pursuant to the Section 6.2 to receive benefits under the Plan in the event of the Participant’s death.
(d) “Board of Directors” means the Board of Directors of the Bank.
(e) “Code” means the Internal Revenue Code of 1986, as amended from time to time, and interpretive rules and regulations.
(f) “Committee” means the Committee appointed by the Bank to administer the Plan.
(g) “Effective Date” means the date the Plan is approved by the Board of Directors.
(h) “Eligible Employee” means a key management Employee who has the opportunity to impact significantly the annual operating success of the Bank.
(i) “Employee” means any person employed by the Bank on a full-time salaried basis, including officers of the Bank.
(j) “Participant” means an Eligible Employee who becomes a participant in the Plan pursuant to Section 3.1.
(k) “Plan” means the Peoples Bank, A State Savings Bank Unqualified Deferred Compensation Plan, as amended from time to time.
(l) “Plan Year” means a calendar year commencing on or after January 1, 1994.

(m) “Qualified Plan” means the Peoples Bank, A State Savings Bank Profit Sharing Plan and Trust and the Peoples Bank, A State Savings Bank Employee Stock Ownership Plan.
(n) “Termination of Employment” means a separation of services as defined under Section 409A of the Internal Revenue Code and the regulations thereunder.

Section 2.2. Rules of Construction. The following rules of construction shall govern in interpreting the Plan:

(a) The provisions of this Plan shall be construed and governed in all respects under and by the internal laws of the State of Indiana, to the extent not preempted by federal law.
(b) Words used in the masculine gender shall be construed to include the feminine gender, where appropriate, and vice versa.
(c) Words used in the singular shall be construed to include the plural, where appropriate, and vice versa.
(d) The headings and subheadings in the Plan are inserted for convenience of reference only and are not to be considered in the construction of any provision of the Plan.
(e) If any provision of the Plan shall be held to be illegal or invalid for any reason, that provision shall be deemed to be null and void, but the invalidation of that provision shall not otherwise impair or affect the Plan.

ARTICLE III

ELIGIBILITY AND PARTICIPATION

Section 3.1. Eligibility. Only Eligible Employees selected by the Committee to participate in the Plan shall become Participants.

Section 3.2. Date of Participation. An Eligible Employee shall become a Participant on the date specified by the Committee.

Section 3.3. Cessation of Participation. Any Participant who ceases to be an Eligible Employee, but continues to be an Employee, shall cease to be eligible to be credited with contributions determined under Article V but shall continue to have an Account and to be credited with interest on his Account as provided in Section 5.2 until that Account is fully distributed.

ARTICLE IV

PARTICIPANTS’ ACCOUNTS

Section 4.1. Establishment of Accounts. The Committee shall create and maintain adequate records to disclose the interest in the Plan of each Participant and Beneficiary. Records shall be in the form of individual bookkeeping accounts, which shall be credited with the contributions and interest determined pursuant to Article V. Each Participant shall have a separate Account. The Participant’s interest in his Account shall be fully vested at all times.

Section 4.2. Accounts Unfunded. Accounts shall be accounting accruals, in the names of Participants, on the Bank’s books. Accounts shall be unfunded, so that the Bank’s obligation to pay benefits under the Plan is merely a contractual duty to make payments when due under the Plan. The Bank’s promise to pay benefits under the Plan shall not be secured in any way, and the Bank shall not set aside or segregate assets for the purpose of paying contributions and interest credited to Participants’ Accounts.

Section 4.3. Valuation of Accounts. The value of a Participant's Account as of any date shall equal the contributions credited to the Account pursuant to Section 5.1, increased by interest earnings deemed to be credited to the Account in accordance with Section 5.2.

Section 4.4. Annual Report. Within 120 days following the end of each Plan Year, the Committee shall provide to each Participant a written statement of the amount standing to his credit in his Account as of the end of that Plan Year.

ARTICLE V

CONTRIBUTIONS AND INTEREST

Section 5.1. Basic Contributions. For each Plan Year, there shall be credited to the Account of each Participant an amount that is reasonably calculated to equal the amount by which:

(a) the Participant's employer-funded contributions under all Qualified Plans for the Plan Year determined without application of the limitations imposed by Code subsection 401(a)(17) or Code section 415, exceeds
(b) the amount of the Participant's employer-funded contributions under all Qualified Plans for the Plan Year determined after application of the limitations imposed by Code subsection 401(a)(17) and Code section 415.

Section 5.2. Interest on Accounts. Amounts credited to a Participant's Account during each Plan Year shall earn interest at a rate which is the lower of either (i) the interest rate paid on the Bank's regular six-month certificate of deposit, plus 2%, or (ii) 120% of the applicable federal long-term rate in effect during the month in which the Committee determines the appropriate interest rate for the applicable Plan. The interest rate will be reset on the first business day of each month.

ARTICLE VI

BENEFITS

Section 6.1. Termination of Employment. If the Participant incurs a Termination of Employment, the Participant's Account shall be distributed to the Participant (or, in the event of his death, to his Beneficiary) in monthly installments for 60 months within 90 days after termination of employment. However, a "specified employee" as that term is defined under Section 409A of the Internal Revenue Code and the regulations thereunder, may not receive any benefit payments within six months of separation from service unless the employee dies in the interim. The company has complete discretion as to how the six-month delay will be handled. The determination of "specified employees" shall take affect on the April 1st immediately following each calendar year determination period.

Section 6.2. Designation of Beneficiary. A Participant's Beneficiary shall be the person or persons, including a trustee, designated by the Participant in writing pursuant to the practices of, or rules prescribed by, the Committee, as the recipient of any benefits payable under the Plan following the Participant's death. To be effective, a Beneficiary designation must be filed with the Committee during the Participant's life on a form prescribed by the Committee. If no person has been designated as the Participant's Beneficiary or if no person designated as Beneficiary survives the Participant, the Participant's estate shall be his Beneficiary.

ARTICLE VII

ADMINISTRATION

Section 7.1. Administrator. The Committee shall be the Administrator of the Plan. All decisions of the Committee shall be by a vote of a majority of its members and shall be final and binding.

Section 7.2. Powers and Duties of the Committee. Subject to the specific limitations stated in this Plan, the Committee shall have the following powers, duties, and responsibilities:

(a)To carry out the general administration of the Plan;
(b)To cause to be prepared all forms necessary or appropriate for the administration of the Plan;
(c)To keep appropriate books and records;
(d)To determine amounts to be distributed to Participants and Beneficiaries under the provisions of the Plan;
(e)To determine the appropriate interest rate credited under the Plan with respect to each Plan Year;
(f)To determine, consistent with the provisions of this instrument all questions of eligibility, rights, and status of Participants and Beneficiaries under the Plan;
(g)To issue, amend, and rescind rules relating to the administration of the Plan, to the extent those rules are consistent with the provisions of this instrument;
(h)To exercise all other powers and duties specifically conferred upon the Committee elsewhere in this instrument; and
(i)To interpret, with discretionary authority, the provisions of this Plan and to resolve, with discretionary authority, all disputed questions of Plan interpretation and benefit eligibility.

ARTICLE VIII

AMENDMENT AND TERMINATION

Section 8.1. Amendment. The Bank reserves the right to amend the Plan at any time by action of the Board of Directors, with written notice given to each Participant in the Plan. The Bank, however, may not make any amendment that reduces a Participant’s benefits accrued as of the date of the amendment unless the Participant consents in writing the amendment.

Section 8.2. Termination. The Bank reserves the right to terminate the Plan, by action of the Board of Directors, at any time, it deems appropriate. Upon termination of the Plan, no further contribution shall be made to the Plan. In no event will benefits be paid as a result of the termination of the plan unless permitted under Section 409A of the Internal Revenue Code and the regulations thereunder.

ARTICLE IX

MISCELLANEOUS

Section 9.1. Relationship. Notwithstanding any other provision of this Plan, the Plan and action taken pursuant to it shall not be deemed or construed to establish a trust or fiduciary relationship of any kind between or among the Bank, Participants, Beneficiaries or any other persons. The Plan is intended to be unfunded for purposes of the Code and the Employee Retirement Income Security Act of 1974, as amended. The rights of Participants and Beneficiaries to receive payment of benefits under the Plan is strictly a contractual right of payment, and this Plan does not grant, nor shall it be deemed to grant Participants, Beneficiaries, or any other person any interest or right to any of the funds, property, or assets of the Bank other than as an unsecured general creditor of the Bank.

Section 9.2. Other Benefits and Plans. Nothing in this Plan shall be deemed to prevent Participants from receiving, in addition to the benefits provided for under this Plan, any funds that may be distributable to them at any time under any other present or future retirement or incentive plan maintained by the Bank.

Section 9.3. Anticipation of Benefits. Neither Participants nor Beneficiaries shall have the power to transfer, assign, anticipate, pledge, alienate, or otherwise encumber in advance any of the payments that may become due under this Plan, and any attempt to do so shall be void. Any payments that may become due under this Plan shall not be subject to attachment, garnishment, execution, or be transferable by operation of law in the event of bankruptcy, insolvency, or otherwise.

Section 9.4. No Guarantee of Continued Employment. Nothing contained in this Plan or any action taken under the Plan shall be construed as a contract of employment or as giving any participant any right to be retained in employment with the Bank. The Bank specifically reserves the right to terminate any Participant's employment at any time with or without cause, and with or without notice or assigning a reason, subject to the terms of any written employment agreement between the Participant and the Bank.

Section 9.5. Waiver of Breach. The Bank's or the Committee's waiver of any Plan provision shall not operate or be construed as a waiver of any subsequent breach by the Participant.

Section 9.6. Benefit. This Plan shall be binding upon and inure to the benefit of the Employer and its successors and assigns.

Section 9.7. Responsibility for Legal Affect. Neither the Committee nor the Bank makes any recommendations or warranties, express or implied, assumes any responsibility concerning the legal context, or other implications or affects of this Plan.

Section 9.8. Tax Withholding. The Bank shall withhold from any payment made under the Plan such amount or amounts as may be required by applicable federal, state, or local laws.

Peoples Bank, a State Savings Bank, has caused this Plan to be executed by its duly authorized officers as of the 28th day of May 2010.

PEOPLES BANK, A STATE SAVINGS BANK

By: ______________________________

Office: ______________________________

ATTEST:

By: ______________________________

Office: ______________________________

Exhibit 10.5

AMENDED POST 2004 UNFUNDED DEFERRED COMPENSATION PLAN
FOR THE DIRECTORS OF PEOPLES BANK SB
(Approved May 28, 2010)

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 is otherwise prohibited from making such an election by Section 409A of the Internal Revenue Code and the regulations thereunder.

3. The rate of interest to be paid on deferred fees will be equal to the lower of either (i) the bank's regular six-month certificate of deposit, plus 2% or (ii) 120% of the applicable federal long-term rate in effect during the month in which the bank determined or reviews the appropriate interest rate for the Plan. 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 ten annual installments over a nine-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 "specified 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 specified 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 specified 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 and the regulations thereunder. Any such payments as a result of the termination of the Plan shall be made in accordance with the requirements of Section 409A of the Internal Revenue Code and 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 28th day of May 2010 and made effective immediately.

Attested by:

______________________________ ______________________________

CEO

Corporate Secretary

2012 Annual Report

David A. Bochnowski
Chairman and
Chief Executive Officer

Dear Shareholder:

2012 will be remembered as a noteworthy year for banking as our economy recovers from the effects of the Great Recession. The outlook has brightened for Northwest Indiana as job losses stabilized with some jobs returning in the manufacturing sector, although not at the pace that would hasten the recovery. Other positive signs include an upswing in housing prices, the strengthening of exports, and consumer households shedding record high debt and returning to their lowest levels since 1993.

Across the nation and locally, community banks are emerging from the Great Recession with balance sheets that demonstrate historically high levels of capital as well as core deposits. Banks are poised to provide the fuel for household and small business growth, but policy uncertainty by our national government has hampered the emergence of a consistent upward trend of confidence in the economy.

Record Income

2012 proved to be our best year of performance ever for the Northwest Indiana Bancorp and Peoples Bank as our community banking effort provided record income of $6.9 million.

Our results reflect a 27.3% jump in earnings over last year and were driven by loan and core deposit growth, improved asset quality, increased income from banking operations, and stable operating expenses. At year end, our loan balances were up 8.9% over 2011, core deposits were up 12.8%, non-performing loans decreased 19.6%, income from banking operations increased 20.6%, and our operating costs rose only 1% as management carefully controlled expenses to meet the challenges of current economic conditions.

The Bancorp's key ratios outperformed the industry as we reported an average return on assets (ROA) of 1.02% and a return on equity (ROE) of 10.27%. Our earnings per share increased 26.8% over the prior year and the book value per share of your stock rose to $23.83 at year end.

Strategic Focus

Banking in general, and especially community banks, face the retooling of traditional business models as the most comprehensive banking reforms in 70 years have brought forth new regulatory and compliance requirements. Stakeholders are demanding improved enterprise risk management practices designed to identify and limit risks that could threaten the stability of an individual bank, as well as, bring on systemic risks to the banking system.

The Great Recession and its lingering effects have changed banking in meaningful ways. From new regulations to shifts in our local market, a "new normal" has emerged for banking with an emphasis on higher levels of capital along with streamlined operations.

In the 21st century, community banks will need to shift organization structures so that we remain relevant and drive sustainable performance that differentiates community bankers from larger, impersonal banking companies.

Your Bank will maintain our commitment to serving the credit needs of our consumer and business customers. At the same time we will take advantage of technology to improve customer service by meeting the ever increasing demand of mobile savvy customers for 24/7 access to banking through such services as mobile payments, mobile wallets and remote deposit capture.

The Board of Directors has adopted a five year strategic plan that affirms our commitment to remaining an independent community bank. We plan to achieve a larger scale that will help the Bank absorb increased regulatory and operational costs and reinvest in growing our core business, while continuing to deliver an exceptional “You First Banking” customer experience.

Our franchise will be built on three pillars: asset growth, core funding growth, and income growth, including wealth management, with the pillars resting on a platform of a rigorous Enterprise Risk Management (ERM) program. ERM will support strategic direction rather than dictate strategy. Management will define opportunities for growth and ERM will serve to ensure that value from those opportunities is realized safely.

Leadership

Joel Gorelick, president and chief operating officer of Peoples Bank and the Bancorp since 2005, announced his decision to retire early last year and did so in January of 2013.

When Joel joined the Bank in 1983 as Vice President for Commercial Lending, we had a vision for a community bank that would serve the needs of consumers and small business with exceptional service and competitive products. We have succeeded due to the effort of the entire Peoples team and, in no small measure, to Joel’s leadership ability in understanding the needs of consumer and small business borrowers while providing insight into the Bank’s strategic direction. Throughout his career, Joel has also been recognized for his involvement and leadership in a wide range of community activities and causes.

Every day for the last three decades, Joel has come to work with energy, commitment, and passion for serving the Bank’s customers and community. Although he will no longer have day to day responsibilities at the Bank, and we will miss him, we are pleased that the Bancorp and Peoples Bank will continue to benefit from Joel’s expertise as a director and consultant in our effort to build a unique community bank serving the needs of our customers and community.

During the year, two valuable members of the Peoples team passed away. Marilyn Repp, our Vice-President and Senior Banking Center Manager, joined the Bank in 1981 as a teller. Jane Bridgman came on board in 2003 as a consumer loan processor and later became our Vice-President, Credit Administration Manager. Both of these outstanding women uniquely contributed to the Bank’s success with their highly-skilled performance and commitment to the customers they served. Their presence will be missed, but their legacy will endure in our You First Banking culture.

Shareholder Value

This year’s results demonstrate the ability of the Peoples team to stay on course and successfully engage traditional banking principles that deliver sustainable growth. We focused on growing earnings and capital, improving asset quality, and holding the line on operating expenses.

The market recognized the strength of our performance as the price of our stock increased 32.6% during the year, rising from $14.40 per share at the end of 2011 compared to $19.10 per share on December 31, 2012.

Our core income, or net interest income, held steady during the year despite steadily falling asset yields due to the Federal Reserve's continuation of its policy decision to maintain a historically low interest rate environment. Net interest income for the year totaled $23.7 million compared to $23.8 million in 2011, a remarkable achievement driven by our low cost of funds, significant core deposit growth, and loan growth.

At year-end, core deposits, which include checking, savings, and money market accounts, totaled $394.7 million, an increase of $44.8 million or 12.8%. Core accounts represent 69.7% of total deposits, with additional growth as a high strategic priority. Loan growth also assisted in sustaining our net interest margin as the loan portfolio grew $35.6 million or 8.9% compared to the prior year.

The beginning of the economic recovery spurred on borrower demand across residential and small business customers. Attractive rates for home loans drove both new home purchases and the refinance of home loans while credit facilities for small business customers increased. Local governments also increased their borrowings in anticipation of revenue due from tax collections. Growing our relationships with small business customers and local government units continues to be a strategic priority.

Our strong earnings performance drove our capital ratios to new highs during the year. Tangible equity capital stood at $67.7 million, or 9.8% of total assets at the end of December 2012. Under all regulatory capital requirements, the Bancorp is considered well capitalized with our tier 1 capital at 9.4%, 14.6% for total capital to risk based assets, and 13.4% for tier 1 capital to risk-weighted assets.

The combination of our capital strength and consistent core earnings will position the Bank to act on growth opportunities to expand our operation to better serve our customers and community.

Improving asset quality in the aftermath of the Great Recession has been a focal point of management over the last several years and 2012 was no exception. At the end of 2012, non-performing loans totaled $11.5 million, a decrease of 19.6% over the prior year. Our ratio of non-performing assets to total assets declined to 1.84% at the end of 2012, compared to 2.68% a year earlier. Management anticipates further declines in non-performing loans during 2013 as the disposition of loan workouts initiated during 2012 are completed.

As the "new normal" dawns on banking, operating expenses will be closely scrutinized for greater efficiency. Doing more with less is the new normal and our 2012 operating costs provide a guidepost for the future. During the last year, operating expenses rose only 1% as management took action to reduce occupancy, equipment, data processing, and marketing costs consistent with the new reality of banking.

Your Board of Directors was pleased to respond to our positive earnings track during the year by raising our dividend 26.7% from $.15 per share to $.19 per share. The Board will continue to review our dividend policy each year and, among other factors, will take into consideration in its decision matrix the Bancorp's income, capital needs, and a dividend payout ratio range of 30% to 40% of earnings.

Customer Value

Remaining relevant and providing up to date products and services for our customers will be critical to the long-term growth of community banks. Fortunately, and unlike some other banks who have made headlines, we do not have to repair our public image as a result of issues related to poor performance or reliance on government assistance programs viewed as "bailouts." Our customer surveys and unsolicited social media comments confirm the success of our "You First Banking" philosophy that provides value and an unparalleled banking experience to our customers. The public continues to put their trust in community banks and, specifically, Peoples Bank.

Your company has weathered the negative perception of banking and emerged even stronger as evidenced by increased customer utilization of our products and services during the year. Not only did we experience record earnings but also our assets grew to $691.8 million resulting from our core account and loan growth. Our 6.2% asset growth rate during the year reflects our consistent effort to garner a higher wallet share from our existing customers and to attract new customers to our brand.

We launched a "Brand Refresh" during the year to carry the philosophy of You First Banking to a broader audience with a new, contemporary look and messaging, emphasizing our commitment to build relationships with our customers and provide appropriate channels for the delivery of our products and services. A prime example of this commitment is the work that began in the fall of 2012 to transform the Bank's website into an eBranch, enabling us to bring Peoples Bank to our customers and engage them whether they are on their phone, their laptop, or on their home computer.

We are committed to keeping pace with increasing customer preferences for technology-based banking. Our surveys of the Bank's younger demographic customers substantiated these preferences, and we have also noted that baby boomer customers mirror some of the same expectations. As a result, work also began on plans to deliver mobile banking upgrades like check deposit, business mobile banking, and an iPad application.

Working with our small business customers to build relationships through an understanding of their unique individual needs is the central focus of our You First Banking approach to commercial banking. Our business bankers work to define a pathway for the success of their business customers. We are proud to note that Peoples Bank was awarded the 2012 Lender of the Year award by the Regional Development Company.

Community Value

As a community banking organization, we are committed to serving the needs of our community through financial support and through volunteering in numerous community and faith based organizations. We recognize that a community gathers strength from the well being of its neighborhoods and that neighborhoods gather strength from community organizations.

During the year, our team served side by side with our friends and neighbors to pool our talent and sustain and improve the quality of life in our community. We maintained our commitment to the "Bank On" initiative with the Lake Area United Way to provide banking services to the unbanked and underbanked of our community. And, we continued our financial literacy effort by teaming with the Boys and Girls Clubs of Lake County to teach financial awareness to the youth of our community. Our Community Reinvestment team continued their outreach to forge new relationships and create innovative ways to revitalize neighborhoods.

The Bank's Community First Committee (CFC), run entirely by employees, again this year set a new record for fund raising among our employees despite the challenges of the economy. Our CFC provided financial support for numerous organizations including the Boys and Girls Clubs of Lake and Porter counties, Haven House, Neighborhoods Inc., Opportunity Enterprises, Legacy Foundation, and the Food Bank of Northwest Indiana. Community First also joined with the Bank in supporting the Boys and Girls Club Tolleston capital campaign. In addition, Peoples Bank provided financial assistance to over 150 community organizations during the year.

Banking on Our Future

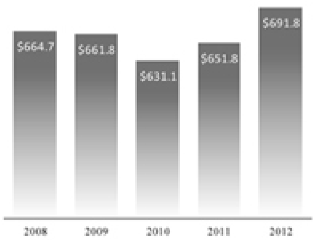
Like many of our shareholders and customers, the Bank was buffeted by the ill winds of the Great Recession, but we are wiser and stronger for the experience. However, unlike many banks, we were able to continue to pay a dividend throughout the stress of the last several years. We are grateful for the support of our shareholders and for your commitment to the Northwest Indiana Bancorp.

As the economy recovers, the Bancorp and our operating subsidiary, Peoples Bank, are well positioned to meet the challenges of our industry, just as we have been able to overcome the challenges of the recent past. Your Board of Directors and the entire Peoples team are cautiously optimistic about the future and bullish on the prospect of doing business in Northwest Indiana.

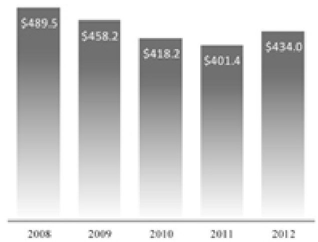
Sincerely,

David A. Bochnowski
Chairman and Chief Executive Officer

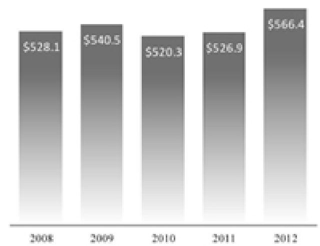
Total Assets
in millions



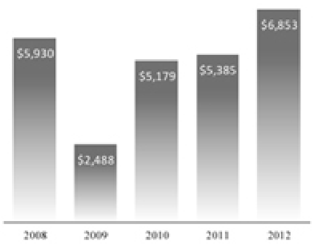
Total Loans
in millions



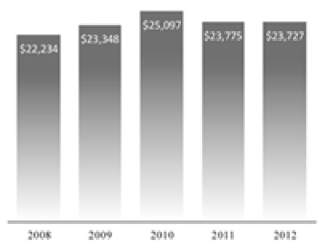
Total Deposits
in millions



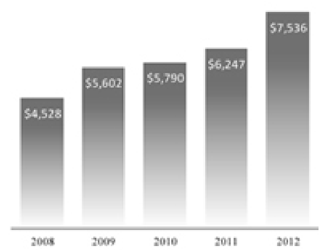
Net Income
in thousands



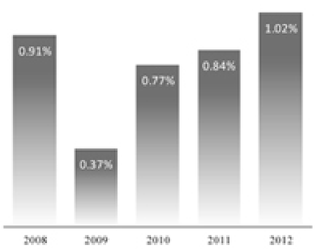
Net Interest Income
in thousands



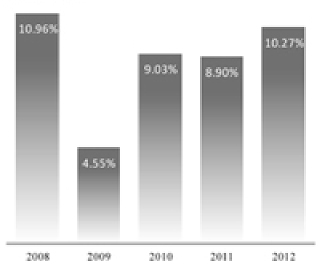
Noninterest Income
in thousands



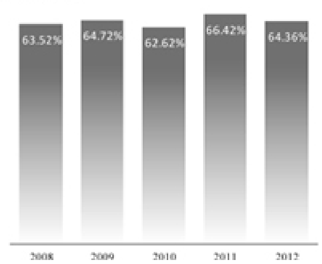
Return on Assets



Return on Equity



Efficiency Ratio



Selected Consolidated Financial Data

in thousands of dollars, except per share data

Fiscal Year Ended	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004	December 31, 2003
Statement of Income:										
Total interest income	$ 26,075	$ 26,986	$ 30,086	$ 32,189	$ 35,167	$ 35,768	$ 34,979	$ 30,024	$ 26,614	$ 26,357
Total interest expense	2,348	3,231	4,989	8,841	12,933	17,882	15,737	9,758	6,858	7,521
Net interest income	23,727	23,755	25,097	23,348	22,234	17,886	19,242	20,266	19,756	18,836
Provision for loan losses	2,350	3,510	5,570	8,540	2,388	552	15	245	385	420
Net interest income after provision for loan losses	21,377	20,245	19,527	14,808	19,846	17,334	19,227	20,021	19,371	18,416
Noninterest income	7,536	6,247	5,790	5,602	4,528	4,431	4,219	3,540	3,312	2,968
Noninterest expense	20,119	19,928	19,341	18,735	16,999	14,525	14,296	13,771	13,174	12,037
Net noninterest expense	12,583	13,681	13,551	13,133	12,471	10,094	10,077	10,231	9,862	9,069
Income tax expenses/(benefit)	1,941	1,179	797	(813)	1,445	1,651	2,674	3,118	3,219	3,411
Cumulative effect of changes in accounting	-	-	-	-	-	-	-	-	-	-
Net income	$ 6,853	$ 5,385	$ 5,179	$ 2,488	$ 5,930	$ 5,589	$ 6,475	$ 6,672	$ 6,290	$ 5,936
Basic earnings per common share	$ 2.41	$ 1.90	$ 1.83	$ 0.88	$ 2.11	$ 1.99	$ 2.32	$ 2.40	$ 2.28	$ 2.16
Diluted earnings per common share	$ 2.41	$ 1.90	$ 1.83	$ 0.88	$ 2.10	$ 1.98	$ 2.30	$ 2.37	$ 2.24	$ 2.13
Cash dividends declared per common share	$ 0.72	$ 0.60	$ 0.72	$ 1.21	$ 1.44	$ 1.44	$ 1.40	$ 1.32	$ 1.24	$ 1.20

	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004	December 31, 2003
Balance Sheet:										
Total assets	$ 691,845	$ 651,758	$ 631,053	$ 661,017	$ 664,732	$ 628,718	$ 617,518	$ 627,439	$ 557,393	$ 508,775
Loans receivable	436,981	401,401	418,233	458,245	489,509	468,459	471,716	469,043	433,790	409,808
Investment securities	187,475	186,962	160,452	144,333	126,722	114,644	99,012	79,979	79,979	63,733
Deposits	566,409	526,881	520,271	540,527	528,148	512,931	512,931	525,731	451,573	421,640
Borrowed funds	49,505	52,013	48,618	63,022	74,795	76,930	51,501	51,152	57,201	40,895
Total stockholders' equity	67,651	62,960	56,089	53,078	52,773	52,733	49,902	46,433	44,097	41,554

	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004	December 31, 2003
Interest Rate Spread During Period:										
Average effective yield on loans and investment securities	4.14%	4.50%	4.84%	5.16%	5.78%	6.21%	6.02%	5.49%	5.31%	5.65%
Average effective cost of deposits and borrowings	0.39%	0.56%	0.82%	1.45%	2.19%	3.18%	2.77%	1.82%	1.40%	1.67%
Interest rate spread	3.75%	3.94%	4.02%	3.71%	3.59%	3.03%	3.25%	3.67%	3.91%	3.98%
Net interest margin	3.77%	3.96%	4.04%	3.74%	3.65%	3.10%	3.31%	3.71%	3.94%	4.04%
Return on average assets	1.02%	0.84%	0.77%	0.37%	0.91%	0.91%	1.04%	1.14%	1.17%	1.20%
Return on average equity	10.27%	8.90%	9.03%	4.55%	10.96%	10.78%	13.42%	14.67%	14.64%	14.65%

	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004	December 31, 2003
Tier 1 capital to risk-weighted assets	14.6%	14.3%	12.9%	11.5%	12.0%	12.0%	11.1%	10.7%	11.2%	11.5%
Total capital to risk-weighted assets	13.4%	13.1%	11.7%	10.3%	10.8%	11.0%	12.1%	11.6%	12.2%	12.5%
Tier 1 capital leverage ratio	9.4%	9.2%	8.5%	7.8%	8.2%	8.3%	8.0%	7.9%	8.0%	8.0%
Allowance for loan losses to total loans	1.93%	1.99%	2.18%	1.33%	1.19%	0.98%	0.90%	0.89%	0.90%	0.92%
Allowance for loan losses to non-performing loans	73.34%	56.03%	37.82%	32.93%	46.97%	53.16%	153.95%	198.00%	371.00%	220.31%
Non-performing loans to total loans	2.63%	3.56%	5.77%	4.05%	2.54%	1.02%	0.58%	0.45%	0.24%	0.42%
Total loan accounts	4,416	4,567	4,594	4,846	5,193	5,268	5,422	5,370	5,213	5,049
Total deposit accounts	27,790	28,303	28,912	32,616	33,692	30,760	33,963	32,866	32,502	31,385

Business

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

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

The Bancorp's common stock is traded in the over-the-counter market and is quoted on the OTC Bulletin Board. On January 31, 2013, the Bancorp had 2,837,396 shares of common stock outstanding and 405 stockholders of record. This does not reflect the number of persons or entities who may hold their stock in nominee or "street" name through brokerage firms.

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

General

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

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

At December 31, 2012, the Bancorp had total assets of $691.8 million and total deposits of $566.4 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, 2012, stockholders' equity totaled $67.7 million, with book value per share at $23.83. Net income for 2012 was $6.9 million, or $2.41 basic and diluted earnings per common share. The return on average assets was 1.02%, while the return on average stockholders' equity was 10.27%.

Recent Developments

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

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

Impact of Legislation. Over the last four-and-a-half years, Congress and the U.S. Department of the Treasury have enacted legislation and taken actions to address the disruptions in the financial system, declines in the housing market, and the overall regulation of financial institutions and the financial system. In this regard, the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), includes provisions affecting large and small financial institutions alike, including several provisions that profoundly affect the regulation of community banks, thrifts, and small bank and thrift holding companies, such as the Bancorp. Among other things, the Dodd-Frank Act abolished the Office of Thrift Supervision effective July 21, 2011 and transferred its functions to the Office of the Comptroller of the Currency ("OCC"), FDIC, and Federal Reserve. The Dodd-Frank Act also relaxes rules regarding interstate branching, allows financial institutions to pay interest on business checking accounts, changes the scope of federal deposit insurance coverage, imposes new capital requirements on bank and thrift holding companies, and imposes limits on debit card interchange fees charged by issuer banks (commonly known as the Durbin Amendment).

The Dodd-Frank Act also established the Consumer Financial Protection Bureau (the “CFPB”) within the Federal Reserve, which has broad authority to regulate consumer financial products and services and entities offering such products and services, including banks. Many of the consumer financial protection functions formerly assigned to the federal banking and other designated agencies are now performed by the CFPB. The CFPB has a large budget and staff, and has broad rulemaking authority over providers of credit, savings, and payment services and products. In this regard, the CFPB has the authority to implement regulations under federal consumer protection laws and enforce those laws against, and examine, financial institutions. State officials also will be authorized to enforce consumer protection rules issued by the CFPB. This bureau also is authorized to collect fines and provide consumer restitution in the event of violations, engage in consumer financial education, track consumer complaints, request data, and promote the availability of financial services to underserved consumers and communities. The CFPB also is directed to prevent “unfair, deceptive or abusive practices” and ensure that all consumers have access to markets for consumer financial products and services, and that such markets are fair, transparent, and competitive. Although the CFPB has begun to implement its regulatory, supervisory, examination, and enforcement authority, there continues to be significant uncertainty as to how the agency’s strategies and priorities will impact the Bancorp.

The CFPB has indicated that mortgage lending is an area of supervisory focus and that it will concentrate its examination and rulemaking efforts on the variety of mortgage-related topics required under the Dodd-Frank Act, including steering consumers to less-favorable products, discrimination, abusive or unfair lending practices, predatory lending, origination disclosures, minimum mortgage underwriting standards, mortgage loan originator compensation, and servicing practices. The CFPB recently published several final regulations impacting the mortgage industry, including rules related to ability-to-pay, mortgage servicing, and mortgage loan originator compensation. The ability-to-repay rule makes lenders liable if they fail to assess ability to repay under a prescribed test, but also creates a safe harbor for so called “qualified mortgages.” The “qualified mortgages” standards include a tiered cap structure that places limits on the total amount of certain fees that can be charged on a loan, a 43% cap on debt-to-income (i.e., total monthly payments on debt to monthly gross income), exclusion of interest-only products, and other requirements. The 43% debt-to-income cap does not apply for the first seven years the rule is in effect for loans that are eligible for sale to Fannie Mae or Freddie Mac or eligible for government guarantee through the FHA or the Veterans Administration. Failure to comply with the ability-to-repay rule may result in possible CFPB enforcement action and special statutory damages plus actual, class action, and attorneys fees damages, all of which a borrower may claim in defense of a foreclosure action at any time. The Bancorp’s management is currently assessing the impact of these requirements on our mortgage lending business.

In addition, the Federal Reserve and other federal bank regulatory agencies have issued a proposed rule under the Dodd-Frank Act that would exempt “qualified residential mortgages” from the securitization risk retention requirements of the Dodd-Frank Act. Although the Bancorp is primarily a portfolio lender, the final definition of what constitutes a “qualified residential mortgage” may impact the pricing and depth of the secondary market into which we may sell mortgages we originate. At this time, we cannot predict the content of final CFPB and other federal agency regulations or the impact they might have on the Bancorp’s financial results. The CFPB’s authority over mortgage lending, and its authority to change regulations adopted in the past by other regulators (i.e., regulations issued under the Truth in Lending Act, for example), or to rescind or ignore past regulatory guidance, could increase the Bancorp’s compliance costs and litigation exposure.

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

New Proposed Capital Rules. On June 7, 2012, the Federal Reserve approved proposed rules that would substantially amend the regulatory risk-based capital rules applicable to the Bancorp and the Bank. The FDIC and the OCC subsequently approved these proposed rules on June 12, 2012. The proposed rules implement the “Basel III” regulatory capital reforms and changes required by the Dodd-Frank Act. “Basel III” refers to two consultative documents released by the Basel Committee on Banking Supervision in December 2009, the rules text released in December 2010, and loss absorbency rules issued in January 2011, which include significant changes to bank capital, leverage and liquidity requirements. The proposed rules received extensive comments during a comment period that ran through October 2012. In November 2012, the federal ban regulatory agencies jointly stated that they do not expect any of the proposed rules to become effective on the original target date of January 1, 2013. Further guidance from the bank regulatory agencies is expected in early 2013.

The proposed rules include new risk-based capital and leverage ratios, which would be phased in from 2013 to 2019, and would refine the definition of what constitutes "capital" for purposes of calculating those ratios. The proposed new minimum capital level requirements applicable to the Bancorp and the Bank under the proposals would be: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The proposed rules would also establish a "capital conservation buffer" of 2.5% above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital and would result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement would be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase by that amount each year until fully implemented in January 2019. An institution would be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations would establish a maximum percentage of eligible retained income that could be utilized for such actions. Basel III provided discretion for regulators to impose an additional buffer, the "countercyclical buffer," of up to 2.5% of common equity Tier 1 capital to take into account the macro-financial environment and periods of excessive credit growth. However, the proposed rules permit the countercyclical buffer to be applied only to "advanced approach banks" (i.e. , banks with $250 billion or more in total assets or $10 billion or more in total foreign exposures), which currently excludes the Bancorp and the Bank. The proposed rules also implement revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses, as well as certain instruments that will no longer qualify as Tier 1 capital, some of which would be phased out over time.

The federal bank regulatory agencies also proposed revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including the Bank, if their capital levels begin to show signs of weakness. These revisions would take effect January 1, 2015. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions would be required to meet the following increased capital level requirements in order to qualify as "well capitalized:" (i) a new common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8% (increased from 6%); (iii) a total capital ratio of 10% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 5% (increased from 4%). The proposed rules set forth certain changes for the calculation of risk-weighted assets, which we would be required to utilize beginning January 1, 2015. The standardized approach proposed rule utilizes an increased number of credit risk exposure categories and risk weights, and also addresses: (i) a proposed alternative standard of creditworthiness consistent with Section 939A of the Dodd-Frank Act Act; (ii) revisions to recognition of credit risk mitigation; (iii) rules for risk weighting of equity exposures and past due loans; (iv) revised capital treatment for derivatives and repo-style transactions; and (v) disclosure requirements for top-tier banking organizations with $50 billion or more in total assets that are not subject to the "advance approach rules" that apply to banks with greater than $250 billion in consolidated assets.

Based on our current capital composition and levels, we believe that we would be in compliance with the requirements as set forth in the proposed rules if they were presently in effect.

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

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

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

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

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

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

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

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

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

Financial Condition

During the year ended December 31, 2012, total assets increased by $40.1 million (6.2%), to $691.9 million, with interest-earning assets increasing by $45.2 million (7.4%). At December 31, 2012, interest-earning assets totaled $653.1 million and represented 94.4% of total assets. Loans totaled $437.3 million and represented 67.0% of interest-earning assets, 63.2% of total assets and 77.2% of total deposits. The loan portfolio, which is the Bancorp's largest asset, is a significant source of both interest and fee income. The Bancorp's lending strategy emphasizes quality growth, product diversification, and competitive and profitable pricing. The loan portfolio includes $154.9 million (35.4%) in residential real estate loans, $148.2 million (33.9%) in commercial real estate loans, $69.3 million (15.9%) in commercial business loans, $31.7 million (7.2%) in multifamily loans, $24.0 million (5.5%) in construction and land development loans, $8.9 million (2.0%) in government and other loans, and $347 thousand (0.1%) in consumer loans. Adjustable rate loans comprised 57.2% of total loans at year-end. During 2012, loan balances increased by $35.9 million (8.9%), with multifamily, commercial real estate, commercial business, residential real estate loans, construction and development, and government balances increasing while consumer balances decreased. The increase in loans during the year is the result of improving credit and economic conditions.

The Bancorp is primarily a portfolio lender. Mortgage banking activities historically have been limited to the sale of fixed rate mortgage loans with contractual maturities greater than 15 years. However, during 2012, as a result of the low interest rate environment, management began selling some newly originated fixed rate mortgage loans with contractual maturities greater than 10 years in an effort to reduce interest rate risk. These loans are identified as held for sale when originated and sold, on a loan-by-loan basis, in the secondary market. During 2012, the Bancorp sold $26.4 million in newly originated fixed rate mortgage loans, compared to $10.6 million during 2011. Net gains realized from the mortgage loan sales totaled $804 thousand for 2012, compared to $256 thousand for 2011. Also, during the second quarter of 2012, the Bancorp conducted a $3.4 million one-time sale of portfolio fixed rate mortgage loans, which the Bancorp's management considers an interest rate risk mitigation strategy to reduce loan prepayment risk. The segment of loans that were sold had a higher premium value and was projected to prepay significantly faster than the mortgage portfolio's average repayment speed. The gain realized from the prepayment risk reduction strategy totaled $183 thousand and was recorded during the second quarter of 2012. The proceeds from the loan sale were used to fund loans with longer durations and similar yields to the loans that were included in the sales strategy. At December 31, 2012, the Bancorp had $323 thousand in loans that were classified as held for sale.

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

Historically, the Bancorp has successfully originated commercial real estate loans within its primary lending area. However, beginning in the fourth quarter of 2005, in response to a decrease in local loan demand and in an effort to reduce the potential credit risk associated with geographic concentrations, a strategy was implemented to purchase commercial real estate participation loans outside of the Bancorp's primary lending area. The strategy to purchase these commercial real estate participation loans was limited to 10% of the Bancorp's loan portfolio. The Bancorp's management discontinued the out of market strategy during the third quarter of 2007. As of December 31, 2012, the Bancorp's commercial real estate participation loan portfolio carried an aggregate balance of $28.0 million, of which $18.0 million has been purchased within the Bancorp's primary lending area and $10.0 million outside of the primary lending area. At December 31, 2012, $5.4 million, or 19.3%, of the Bancorp's commercial real estate participation loans have been internally classified as substandard and have been placed on non-accrual status. All $5.4 million in substandard commercial real estate participation loans placed on non-accrual status are located outside of the Bancorp's primary lending area. The discussion in the paragraphs that follow regarding non-performing loans, internally classified loans and impaired loans includes loans from the Bancorp's commercial real estate participation loan portfolio.

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

Non-performing loans include those loans that are 90 days or more past due and those loans that have been placed on non-accrual status. Non-performing loans totaled $11.5 million at December 31, 2012, compared to $14.3 million at December 31, 2011, a decrease of $2.8 million or 19.6%. The ratio of non-performing loans to total loans was 2.63% at December 31, 2012, compared to 3.56% at December 31, 2011. The ratio of non-performing loans to total assets was 1.66% at December 31, 2012, compared to 2.19% at December 31, 2011. The decrease in non-performing loans for 2012 is related to loans moving off of non-accrual status, pay downs and charge-offs. At December 31, 2012, all non-performing loans are also accounted for on a non accrual basis, except for one loan totaling $229 thousand that was classified as accruing and 90 days past due. The current level of non-performing loans is concentrated in two previously reported out of market commercial real estate participation loans totaling $5.4 million in the aggregate. Both of the non-performing commercial real estate participation loans are hotel loans that have been charged down to their fair value based on the current fair value of the respective project's collateral, less estimated selling costs. For these commercial real estate participation loans, to the extent that actual cash flows, collateral values and strength of personal guarantees differ from current estimates, additional provisions to the allowance for loan losses may be required.

Loans, internally classified as substandard, totaled $19.7 million at December 31, 2012, compared to $24.6 million at December 31, 2011 a decrease of $4.9 million or 19.9%. The current level of substandard loans is concentrated in the previously mentioned two non-performing commercial real estate participation loans and one accruing commercial real estate hotel loan in the amount of $4.9 million, which is the largest loan in this group. Substandard loans include non-performing loans and potential problem loans, where information about possible credit issues or other conditions causes management to question the ability of such borrowers to comply with loan covenants or repayment terms. No loans were internally classified as doubtful or loss at December 31, 2012 or December 31, 2011. In addition to identifying and monitoring non-performing and other classified loans, management maintains a list of watch loans. Watch loans represent loans management is closely monitoring due to one or more factors that may cause the loan to become classified as substandard. Watch loans totaled $17.7 million at December 31, 2012, compared to $16.6 million at December 31, 2011 an increase of $1.1 million or 6.6%. The increase in watch loans is related to the upgrading of one commercial real estate participation loan totaling $935 thousand, which had been previously classified as substandard.

A loan is considered impaired when, based on current information and events, it is probable that a borrower will be unable to pay all amounts due according to the contractual terms of the loan agreement. At December 31, 2012, impaired loans totaled $19.9 million, compared to $21.7 million at December 31, 2011 a decrease of $1.8 million or 8.3%. The December 31, 2012, impaired loan balances consist of twenty-six commercial real estate and commercial business loans totaling $19.2 million that are secured by business assets and real estate, and are personally guaranteed by the owners of the businesses. In addition, seven mortgage loans totaling $692 thousand, which are troubled debt restructurings have also been classified as impaired. The December 31, 2012 ALL contained $2.0 million in specific allowances for collateral deficiencies, compared to $1.6 million at December 31, 2011. During the fourth quarter of 2012, two commercial business loans totaling $435 thousand were newly classified as impaired. There were no other loans considered to be impaired loans as of December 31, 2012. Typically, management does not individually classify smaller-balance homogeneous loans, such as residential mortgages or consumer loans, as impaired, unless they are troubled debt restructurings.

At December 31, 2012, the Bancorp classified fifteen loans totaling $15.1 million as troubled debt restructurings, which involves modifying the terms of a loan to forego a portion of interest or principal or reducing the interest rate on the loan to a rate materially less than market rates, or materially extending the maturity date of a loan. The Bancorp's troubled debt restructurings include two commercial real estate participation hotel loans in the amount of $5.6 million and one commercial real estate hotel loan in the amount of $4.9 million, for which significant deferrals of principal repayments were granted; one commercial real estate loan in the amount of $2.4 million for which a significant deferral of principal and interest repayment was granted; one commercial real estate loan in the amount of $547 thousand for which a significant deferral of principal and interest repayment was granted by the Bank as required by a bankruptcy plan; two development loans in the amount of $893 thousand for which an interest rate concession was granted; and one commercial business loan in the amount of $88 thousand and seven mortgage loans totaling $692 thousand, for which maturity dates were materially extended. At December 31, 2012, $9.7 million of the Bancorp's loans classified as troubled debt restructurings are accruing loans. The valuation basis for the Bancorp's troubled debt restructurings is based on the present value of cash flows, unless consistent cash flows are not present, then the fair value of the collateral securing the loan is the basis for valuation.

At December 31, 2012, management is of the opinion that there are no loans, except those discussed above, where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which will imminently result in such loans being classified as past due, non-accrual or a troubled debt restructure. Management does not presently anticipate that any of the non-performing loans or classified loans would materially impact future operations, liquidity or capital resources.

For 2012, $2.4 million in provisions to the ALL were required, compared to $3.5 million for 2011 a decrease of $1.1 million or 31.4%. The ALL provision decrease for 2012 is primarily a result of improved asset quality. The current year ALL provisions were primarily related to the current credit risk in the commercial real estate loan portfolio and 2012 loan originations. For 2012, charge-offs, net of recoveries, totaled $1.9 million, compared to $4.6 million for 2011. The net loan charge-offs for 2012 were comprised of $765 thousand in commercial real estate participation loans, $582 thousand in commercial business loans, $243 thousand in commercial real estate loans, $332 thousand in residential real estate loans, and $12 thousand in consumer loans. The ALL provisions take into consideration management's current judgments about the credit quality of the loan portfolio, loan portfolio balances, changes in the portfolio mix and local economic conditions. In determining the provision for loan losses for the current period, management has given consideration to historically elevated risks associated with the local economy, changes in loan balances and mix, and asset quality.

The ALL to total loans was 1.93% at December 31, 2012, compared to 1.99% at December 31, 2011. The ALL to non-performing loans (coverage ratio) was 73.34% at December 31, 2012, compared to 56.03% at December 31, 2011. The December 31, 2012 balance in the ALL account of $8.4 million is considered adequate by management after evaluation of the loan portfolio, past experience and current economic and market conditions. While management may periodically allocate portions of the allowance for specific problem loans, the whole allowance is available for any loan charge offs that occur. The allocation of the ALL reflects performance and growth trends within the various loan categories, as well as consideration of the facts and circumstances that affect the repayment of individual loans, and loans which have been pooled as of the evaluation date, with particular attention given to non-performing loans and loans which have been classified as substandard, doubtful or loss. Management has allocated reserves to both performing and non-performing loans based on current information available.

At December 31, 2012, foreclosed real estate totaled $425 thousand, which was comprised of ten properties, compared to $2.5 million and eleven properties at December 31, 2011. During 2012, loans totaling $1.6 million were transferred into foreclosed real estate, while net sales of foreclosed real estate totaled $3.8 million. Net gains from the 2012 sales totaled $430 thousand. At the end of December 2012 all of the Bancorp’s foreclosed real estate is located within its primary market area.

At December 31, 2012, the Bancorp's investment portfolio totaled $187.5 million and was invested as follows: 53.4% in U.S. government agency mortgage-backed securities and collateralized mortgage obligations, 33.6% in municipal securities, 12.3% in U.S. government agency debt securities, and 0.7% in trust preferred securities. During 2011, management transferred its entire held-to-maturity securities portfolio to available-for-sale in order to provide management with the ability to sell lower balance odd lot securities, divest of certain securities to reduce credit or interest rate risk within the portfolio, and be positioned to take advantage of other portfolio restructuring opportunities. Available-for-sale securities are those the Bancorp may decide to sell if needed for liquidity, asset-liability management or other reasons. The book value of the securities transferred totaled $16.4 million, with an unrealized gain of $1.0 million that was recorded as a component of other comprehensive income at the date of transfer. During 2012, securities increased by $513 thousand (0.3%). In addition, at December 31, 2012, the Bancorp had $3.1 million in FHLB stock.

As of December 31, 2012, three of the Bancorp’s four investments in trust preferred securities are in “payment in kind” status. Payment in kind status results in a temporary delay in the payment of interest. As a result of a delay in the collection of the interest payments, management placed these securities on non-accrual status. At December 31, 2012, the cost basis of the three trust preferred securities on non-accrual status totaled $3.9 million. Current estimates indicate that the interest payment delays may exceed ten years. One trust preferred security with a cost basis of $1.3 million remains on accrual status.

Deposits are a fundamental and cost-effective source of funds for lending and other investment purposes. The Bancorp offers a variety of products designed to attract and retain customers, with the primary focus on building and expanding relationships. At December 31, 2012, deposits totaled $566.4 million. During 2012, deposits increased by $39.5 million (7.5%). The 2012 change in deposits was comprised of the following: certificates of deposit decreased by $5.3 million (3.0%), checking accounts increased by $35.2 million (22.3%), savings accounts increased by $6.2 million (8.7%), and money market deposit accounts (MMDA’s) increased by $3.4 million (2.8%). During 2012, management continues to allow higher cost certificates of deposit to mature while relying on funding from checking, MMDA, and savings deposits. The increase in checking, savings, and MMDA balances is a result of customer preferences for liquid investments in the current low interest rate environment.

The Bancorp’s borrowed funds are primarily comprised of repurchase agreements and FHLB advances that are used to fund asset growth not supported by deposit generation. At December 31, 2012, borrowed funds totaled $49.5 million compared to $52.0 million at December 31, 2011, a decrease of $2.5 million (4.8%). During 2012, management reduced borrowed funds with an average rate of 1.32%, while relying more on low cost core deposits for funding. Retail repurchase agreements totaled $16.3 million at December 31, 2012, compared to $15.4 million at December 31, 2011, an increase of $903 thousand (5.9%). FHLB advances totaled $33.0 million, decreasing $3.0 million or 8.3%. The Bancorp’s FHLB line of credit carried a zero balance at December 31, 2012 and 2011. Other short-term borrowings totaled $207 thousand at December 31, 2012, compared to $618 thousand at December 31, 2011.

Liquidity and Capital Resources

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

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

During 2012, cash and cash equivalents increased $7.4 million compared to an increase of $15.4 million for 2011. During 2012, the primary sources of cash and cash equivalents were from maturities and sales of securities, deposit originations, loan sales and repayments, an FHLB advance, and cash from operating activities. The primary uses of cash and cash equivalents were loan originations, purchase of securities, expenditures for premises and equipment, FHLB advance repayments, and the payment of common stock dividends. During 2012, cash from operating activities totaled $8.5 million, compared to $14.8 million for 2011. The 2012 decrease in cash provided by operating activities was primarily a result of timing differences of customer ACH deposit activity. Cash outflows from investing activities totaled $36.3 million during 2012, compared to outflows of $7.9 million during 2011. The changes for the current year were related to increased loan originations, the purchase of loan participations, purchases of securities, and increased investment in premises and equipment as detailed in the notes to the financial statements. Net cash inflows from financing activities totaled $35.2 million in 2012, compared to net cash inflows of $8.4 million in 2011. The change during 2012 was primarily due to an increase in deposits and other borrowed funds as detailed in the notes to the financial statements. The Bancorp paid dividends on common stock on a cash basis of $1.9 million and $1.7 million during 2012 and 2011, respectively. During 2012, the Bancorp's Board of Directors increased dividends as earnings and capital improved.

Management strongly believes that safety and soundness is enhanced by maintaining a high level of capital. Stockholders' equity totaled $67.7 million at December 31, 2012, compared to $63.0 million at December 31, 2011, an increase of $4.7 million (7.5%). The increase was primarily the result of $6.9 million in net income for 2012. Additional items increasing stockholders' equity was $141 thousand from the sale of treasury stock, and $16 thousand from stock-based compensation plans. Decreasing stockholders' equity were the Bancorp's declaration of $2.0 million in cash dividends, and $197 thousand from the change in other comprehensive income. At December 31, 2012, book value per share was $23.83 compared to $22.20 for 2011.

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, 2012, the Bancorp's capital exceeded all regulatory capital requirements. At December 31, 2012, the Bancorp's and the Bank's regulatory capital ratios were substantially the same. The dollar amounts are in millions.

At December 31, 2012	*Actual*		*Minimum Required For Capital Adequacy Purposes*		*Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations*	
	Amount	*Ratio*	*Amount*	*Ratio*	*Amount*	*Ratio*
Total capital to risk-weighted assets	$ 70.1	14.6%	$ 38.3	8.0%	$ 47.9	10.0%
Tier 1 capital to risk-weighted assets	$ 64.1	13.4%	$ 19.1	4.0%	$ 28.7	6.0%
Tier 1 capital to adjusted average assets	$ 64.1	9.4%	$ 20.5	3.0%	$ 34.2	5.0%

The Bancorp's ability to pay dividends to its shareholders is entirely dependent upon the Bank's ability to pay dividends to the Bancorp. Under Indiana law, the Bank may pay dividends from its undivided profits (generally, earnings less losses, bad debts, taxes and other operating expenses) as is considered expedient by the Bank's Board of Directors. However, the Bank must obtain the approval of the Indiana Department of Financial Institutions (DFI) for the payment of a dividend if the total of all dividends declared by the Bank during the current year, including the proposed dividend, would exceed the sum of retained net income for the year to date plus its retained net income for the previous two years. For this purpose, "retained net income," means net income as calculated for call report purposes, less all dividends declared for the applicable period. The aggregate amount of dividends that may be declared by the Bank in 2013, with prior DFI approval is $8.7 million plus 2013 net profits. Moreover, the FDIC and the Federal Reserve Board may prohibit the payment of dividends if it determines that the payment of dividends would constitute an unsafe or unsound practice in light of the financial condition of the Bank. On November 30, 2012, the Board of Directors of the Bancorp declared a fourth quarter dividend of $0.19 per share. The Bancorp's fourth quarter dividend was paid to shareholders on January 4, 2013.

Results of Operations – Comparison of 2012 to 2011

Net income for 2012 was $6.9 million, compared to $5.4 million for 2011, an increase of $1.5 million (27.3%). The increase in net income for 2012 was the result of lower interest expense, lower required provisions for loan losses, and higher noninterest income. The earnings represent a return on average assets of 1.02% for 2012 compared to 0.84% for 2011. The return on average equity was 10.27% for 2012 compared to 8.90% for 2011.

Net interest income for 2012 was $23.7 million, a decrease of $28 thousand (0.1%) from $23.8 million for 2011. During the year, the Bancorp's cost of funds continued to be positively impacted by the Federal Reserve's actions in maintaining a low short-term interest rate environment, however, the Bancorp's yield on interest earning assets is being negatively impacted by lower long-term interest rates. The weighted-average yield on interest-earning assets was 4.14% for 2012 compared to 4.49% for 2011. The weighted-average cost of funds was 0.39% for 2012 compared to 0.56% for 2011. The impact of the 4.14% return on interest earning assets and the 0.39% cost of funds resulted in a net interest spread of 3.75% for 2012 compared to 3.93% for 2011. During 2012, total interest income decreased by $911 thousand (3.4%) while total interest expense decreased by $883 thousand (27.3%). The net interest margin was 3.77% for 2012 compared to 3.96% for 2011. The Bancorp's tax equivalent net interest margin for 2012 was 3.96% compared to 4.17% for 2011.

During 2012, interest income from loans decreased by $228 thousand (1.1%) compared to 2011. The change was primarily due to a decrease in the weighted-average yield of the loan portfolio. The weighted-average yield on loans outstanding was 4.88% for 2012 compared to 5.10% for 2011. Loan balances averaged $423.6 million for 2012, an increase of $13.8 million (3.4%) from $409.8 million for 2011. During 2012, interest income from securities and other interest earning assets decreased by $683 thousand (11.2%) compared to 2011. The decrease was due to a decrease in the weighted average yield. The weighted-average yield on securities and other interest earning assets was 2.62% for 2012 compared to 3.20% for 2011. Securities and other interest earning assets averaged $206.3 million for 2012, up $15.6 million (8.2%) from $190.7 million for 2011.

Interest expense for deposits decreased by $898 thousand (36.3%) during 2012 compared to 2011. The change was due to a decrease in the weighted-average rate paid on deposits. The weighted-average rate paid on deposits for 2012 was 0.29% compared to 0.47% for 2011. Total deposit balances averaged $538.6 million for 2012, an increase of $12.6 million (2.4%) from $526.0 million for 2011. Interest expense for borrowed funds increased by $15 thousand (2.0%) during 2012 compared to 2011. The change was due to higher average balances. The weighted-average cost of borrowed funds was 1.32% for 2012 compared to 1.50% for 2011. Borrowed funds averaged $58.7 million during 2012, an increase of $8.2 million (16.2%) from $50.5 million for 2011.

Noninterest income for 2012 was $7.5 million, an increase of $1.3 million (20.6%) from $6.2 million for 2011. During 2012, fees and service charges totaled $2.7 million, an increase of $176 thousand (7.0%) from $2.5 million for 2011. The increase was the result of a concentrated effort made during the year to assess the competiveness of deposit fee and service charges in addition to additional fees related to loan activities. Fees from Wealth Management operations totaled $1.3 million for 2012, an increase of $87 thousand (7.4%) from $1.2 million for 2011. The increase in Wealth Management income is related to growth in assets under management and market value changes. Gains from the sale of securities totaled $1.1 million for the current year, an increase of $154 thousand (15.9%) from $1.0 million for 2011. Current market conditions continue to provide opportunities to manage securities cash flows, while recognizing gains from the sales of securities. Gains from loan sales totaled $987 thousand for the current year, an increase of $731 thousand (285.5%), compared to $256 thousand for 2011. The increase in gains from the sale of loans is a result of increased customer refinance activity to low rate fixed rate mortgages as well as a sale of seasoned fixed rate mortgages with high prepayment speeds, which resulted in a one-time gain of $183 thousand. Due to the passing of a senior manager during the third quarter, the Bancorp received a $587 thousand benefit from bank owned life insurance. For 2012, foreclosed real estate sales gains totaled $430 thousand, a decrease of $457 thousand (51.5%) from gains of $887 thousand for 2011. The decrease is partly related to the Bancorp's favorable settlement in its lawsuit against the lead lender of a commercial real estate participation loan in 2011. Income from the increase in the cash value of bank owned life insurance totaled $381 thousand for 2012, a decrease of $17 thousand (4.3%), compared to $398 thousand for 2011. During 2012, other-than-temporary impairment of $6 thousand was recognized compared to $1 thousand of impairment recognized during 2011. During 2012, other noninterest income totaled $96 thousand, an increase of $33 thousand (52.4%) from $63 thousand for 2011.

Noninterest expense for 2012 was $20.1 million, up $191 thousand (1.0%) from $19.9 million for 2011. During 2012, compensation and benefits totaled $10.8 million, an increase of $830 thousand (8.3%) from $10.0 million for 2011. The increase in compensation and benefits is the result of additional benefit accruals related to the Bancorp's strong operating performance. Occupancy and equipment expense totaled $3.1 million for 2012, a decrease of $269 thousand (8.1%) compared to $3.3 million for 2011. The decrease in occupancy and equipment expense is the result of lower required depreciation expense and building repair and maintenance expenses. Data processing expense totaled $1.1 million for 2012, an increase of $68 thousand (6.8%) from $1.0 million for 2011. The change is a result of increased utilization of internal systems. Federal deposit insurance premiums totaled $571 thousand for 2012, a decrease of $375 thousand (39.6%) from $946 thousand for 2011. The decrease was the result of lower FDIC assessment rates. Marketing expense related to banking products totaled $380 thousand for the year, a decrease of $23 thousand (5.7%) from $403 thousand for 2011. Statement and check processing expense totaled $317 thousand for the year, a decrease of $12 thousand (3.6%) from $329 thousand for 2011. Professional service expense totaled $279 thousand for the year, a decrease of $150 thousand (35.0%) from $429 thousand for 2011. The decrease in professional services is primarily related to lower legal expense, which was the result of the Bancorp being a party to less litigation during 2012. Other expenses related to banking operations totaled $3.7 million for 2012, an increase of $122 thousand (3.5%) from $3.5 million for 2011. The Bancorp's efficiency ratio for 2012 was 64.36% compared to 66.42% for 2011. The improvement is the result of higher total noninterest income. The ratio is determined by dividing total noninterest expense by the sum of net interest income and total noninterest income for the period.

The Bancorp had an income tax expense for 2012 of $1.9 million compared to income tax expense of $1.2 million for 2011, an increase to expense of $762 thousand (64.6%). The combined effective federal and state tax rates for the Bancorp were 22.0% for 2012 and 18.0% for 2011. The current year's higher effective tax rate is the result of higher taxable income as a percentage of total income. The Bancorp's current lower effective tax rate relative to federal and state statutory rates is a result of continued tax strategies associated with the Bancorp's tax-exempt investments and loans, bank owned life insurance, and real estate investment trust, all of which reduce the effective tax rate. Details of deferred and current tax items can be found in Note 6 – Income Taxes.

Critical Accounting Policies

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

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

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

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

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

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

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

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

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

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

Forward-Looking Statements

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

Report of Independent Registered Public Accounting Firm

Board of Directors
NorthWest Indiana Bancorp and Subsidiary
Munster, Indiana

We have audited the accompanying consolidated balance sheets of NorthWest Indiana Bancorp and Subsidiary (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended. The consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NorthWest Indiana Bancorp and Subsidiary as of December 31, 2012 and 2011, and the consolidated results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Plante & Moran, PLLC

Chicago, Illinois
February 15, 2013

Consolidated Balance Sheets

(Dollars in thousands)	December 31, 2012	December 31, 2011
ASSETS		
Cash and non-interest bearing balances in financial institutions	$ 8,512	$ 9,875
Interest bearing deposits in other financial institutions	19,832	10,676
Federal funds sold	5,407	5,816
Total cash and cash equivalents	33,751	26,367
Securities available-for-sale	187,475	186,962
Loans held-for-sale	323	0
Loans receivable	436,981	401,401
Less: allowance for loan losses	(8,421)	(8,005)
Net loans receivable	428,560	393,396
Federal Home Loan Bank stock	3,086	3,086
Accrued interest receivable	2,483	2,554
Premises and equipment	17,678	18,242
Foreclosed real estate	425	2,457
Cash value of bank owned life insurance	12,516	12,850
Prepaid FDIC insurance premium	991	1,523
Other assets	4,557	4,321
Total assets	$ 691,845	$ 651,758
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 75,228	$ 55,577
Interest bearing	491,181	471,304
Total	566,409	526,881
Repurchase agreements	16,298	15,395
Borrowed funds	33,207	36,618
Accrued expenses and other liabilities	8,280	9,904
Total liabilities	624,194	588,798
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, 2012 - 2,888,902; December 31, 2011 - 2,888,902; shares outstanding: December 31, 2012 - 2,839,137; December 31, 2011 - 2,835,403	361	361
Additional paid-in capital	5,189	5,173
Accumulated other comprehensive income	2,339	2,536
Retained earnings	60,817	56,032
Treasury stock, common shares at cost: December 31, 2012 - 49,765; December 31, 2011 - 53,499	(1,055)	(1,142)
Total stockholders' equity	67,651	62,960
Total liabilities and stockholders' equity	$ 691,845	$ 651,758

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

(Dollars in thousands, except per share data)	Year Ended December 31, 2012	2011
Interest income:		
Loans receivable		
Real estate loans	$ 17,168	$ 17,258
Commercial loans	3,466	3,590
Consumer loans	31	45
Total loan interest	20,665	20,893
Securities	5,387	6,074
Other interest earning assets	23	19
Total interest income	26,075	26,986
Interest expense:		
Deposits	1,575	2,473
Repurchase agreements	79	106
Borrowed funds	694	652
Total interest expense	2,348	3,231
Net interest income	23,727	23,755
Provision for loan losses	2,350	3,510
Net interest income after provision for loan losses	21,377	20,245
Noninterest income:		
Fees and service charges	2,677	2,501
Wealth management operations	1,264	1,177
Gain on sale of securities, net	1,120	966
Gain on sale of loans, net	987	256
Benefit from bank owned life insurance	587	-
Gain on sale of foreclosed real estate	430	887
Increase in cash value of bank owned life insurance	381	398
Other-than-temporary credit impairment of debt securities	(6)	(18)
Noncredit portion of other-than-temporary impairment of debt securities recognized in other comprehensive income	-	17
Other	96	63
Total noninterest income	7,536	6,247
Noninterest expense:		
Compensation and benefits	10,783	9,953
Occupancy and equipment	3,064	3,333
Data processing	1,073	1,005
Federal deposit insurance premiums	571	946
Marketing	380	403
Statement and check processing	317	329
Professional services	279	429
Other	3,652	3,530
Total noninterest expense	20,119	19,928
Income before income tax expenses	8,794	6,564
Income tax expenses	1,941	1,179
Net income	$ 6,853	$ 5,385
Earnings per common share:		
Basic	$ 2.41	$ 1.90
Diluted	$ 2.41	$ 1.90
Dividends declared per common share	$ 0.72	$ 0.60

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

(Dollars in thousands)	Year Ended December 31, 2012	2011
Net income	$ 6,853	$ 5,385
Net change in net unrealized gains and losses on securities available-for-sale:		
Unrealized gains arising during the period	813	5,607
Less: reclassification adjustment for gains included in net income	(1,114)	(965)
Net securities (loss)/gain during the period	(301)	4,642
Tax effect	109	(1,605)
Net of tax amount	(192)	3,037
Net change in unrecognized gain on postretirement benefit:		
Net gain/(loss) on post retirement benefit	1	(2)
Amortization of net actuarial gain	(6)	(7)
Net loss during the period	(5)	(9)
Tax effect	-	-
Net of tax amount	(5)	(9)
Other comprehensive (loss) income, net of tax	(197)	3,028
Comprehensive income, net of tax	$ 6,656	$ 8,413

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, 2011	$ 361	$ 5,140	$ (492)	$ 52,398	$ (1,318)	$ 56,089
Comprehensive income:						
Net income	-	-	-	5,385	-	5,385
Net unrealized gain/(loss) on securities available-for- sale, net of reclassification and tax effects	-	-	3,037	-	-	3,037
Change in unrealized gain on post retirement benefit, net of reclassification and tax effects	-	-	(9)	-	-	(9)
Comprehensive income						8,413
Stock-based compensation expense	-	33	-	-	-	33
Sale of treasury stock	-	-	-	(52)	176	124
Cash dividends, $0.60 per share	-	-	-	(1,699)	-	(1,699)
Balance at December 31, 2011	$ 361	$ 5,173	$ 2,536	$ 56,032	$ (1,142)	$ 62,960
Comprehensive income:						
Net income	-	-	-	6,853	-	6,853
Net unrealized gain/(loss) on securities available-for- sale, net of reclassification and tax effects	-	-	(192)	-	-	(192)
Change in unrealized gain on post retirement benefit, net of reclassification and tax effects	-	-	(5)	-	-	(5)
Comprehensive income						6,656
Stock-based compensation expense	-	16	-	-	-	16
Purchase of treasury stock	-	-	-	-	(78)	(78)
Sale of treasury stock	-	-	-	(24)	165	141
Cash dividends, $0.72 per share	-	-	-	(2,044)	-	(2,044)
Balance at December 31, 2012	$ 361	$ 5,189	$ 2,339	$ 60,817	$ (1,055)	$ 67,651

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

NorthWest Indiana Bancorp
Consolidated Statements of Cash Flows
(unaudited)

(Dollars in thousands)	Year ended December 31, 2012	Year ended December 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 6,853	$ 5,385
Adjustments to reconcile net income to net cash provided by operating activities:		
Origination of loans for sale	(26,049)	(10,043)
Sale of loans originated for sale	26,405	10,652
Depreciation and amortization, net of accretion	2,293	2,198
Deferred tax expense/(benefit)	152	318
Amortization of mortgage servicing rights	117	133
Stock based compensation expense	16	33
Gain on sale of securities, net	(1,120)	(966)
Gain on sale of loans held-for-sale, net	(987)	(256)
Net losses due to other-than-temporary impairment of securities	6	1
Gain on sale of foreclosed real estate	(430)	(887)
Benefit from bank owned life insurance	(587)	-
Provision for loan losses	2,350	3,510
Net change in:		
Interest receivable	71	37
Other assets	1,559	1,274
Cash value of bank owned life insurance	(381)	(398)
Accrued expenses and other liabilities	(1,740)	3,829
Total adjustments	1,675	9,435
Net cash - operating activities	8,528	14,820
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and pay downs of securities available-for-sale	53,862	42,536
Proceeds from sales of securities available-for-sale	25,900	22,713
Purchase of securities available-for-sale	(80,375)	(88,689)
Proceeds from maturities and pay downs of securities held-to-maturity	-	1,807
Proceeds from sale of loans transferred to loans held-for-sale	3,591	-
Loan participations purchased	(14,475)	(999)
Net change in loans receivable	(27,839)	11,553
Proceeds from sale of Federal Home Loan Bank stock	-	295
Purchase of premises and equipment, net	(797)	(417)
Proceeds from sale of foreclosed real estate, net	3,834	3,380
Net cash - investing activities	(36,299)	(7,821)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in deposits	39,528	6,610
Proceeds from FHLB advances	2,000	10,000
Repayment of FHLB advances	(5,000)	(3,000)
Change in other borrowed funds	492	(3,605)
Proceeds from sale of treasury stock	141	124
Dividends paid	(1,928)	(1,699)
Treasury stock purchased	(78)	-
Net cash - financing activities	35,155	8,430
Net change in cash and cash equivalents	7,384	15,429
Cash and cash equivalents at beginning of period	26,367	10,938
Cash and cash equivalents at end of period	$ 33,751	$ 26,367
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 2,363	$ 3,245
Income taxes	$ 2,123	$ 776
SUPPLEMENTAL NONCASH INFORMATION:		
Transfers from securities held-to-maturity to available-for-sale	$ -	$ 16,437
Transfers from loans to loans held-for-sale	$ 3,428	$ -
Transfers from loans to foreclosed real estate	$ 1,626	$ 2,371

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2012 and 2011

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

Principles of Consolidation - The consolidated financial statements include NorthWest Indiana Bancorp (the "Bancorp"), its wholly owned subsidiary, Peoples Bank SB (the "Bank"), and the Bank's wholly owned subsidiaries, Peoples Service Corporation, NWIN, LLC, and NWIN Funding, Incorporated, and Columbia Development Company, 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 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. Columbia Development Company is a limited liability company that serves to hold certain real estate properties that are acquired through foreclosure. All significant inter-company accounts and transactions have been eliminated in consolidation.

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

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

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

Securities - The Bancorp classifies securities into held-to-maturity, available-for-sale, or trading categories. Held-to-maturity securities are those which management has the positive intent and the Bancorp has the ability to hold to maturity, and are reported at amortized cost. Available-for-sale securities are those the Bancorp may decide to sell if needed for liquidity, asset-liability management or other reasons. Available-for-sale securities are reported at fair value, with unrealized gains and losses reported in other comprehensive income, net of tax. During 2011, the Bancorp transferred the balance of its held-to-maturity securities to the available-for-sale classification. The Bancorp does not have a trading portfolio. Realized gains and losses resulting from the sale of securities recorded on the trade date are computed by the specific identification method. Interest and dividend income, adjusted by amortization of premiums or discounts on a level yield method, are included in earnings. Securities are reviewed for other-than-temporary impairment on a quarterly basis.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Restrictions on Cash - Cash on hand or on deposit with the Federal Reserve Bank of $572,000 and $559,000 was required to meet regulatory reserve and clearing requirements at December 31, 2012 and 2011, respectively. These balances do not earn interest.

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

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

Reclassification - Certain amounts appearing in the consolidated financial statements and notes thereto for the year ended December 31, 2011, may have been reclassified to conform to the December 31, 2012 presentation.

Adoption of New Accounting Pronouncements

Update Number 2011-04 – Fair Value Measurement (Topic 820): *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS.* This update to Fair Value Measurement (Topic 820) results in common fair value measurement and disclosure requirements in U.S. GAAP and IFRS. The amendments in this update explain how to measure fair value. They do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. The amendments in this update are to be applied prospectively and are effective during interim and annual periods beginning after December 15, 2011. The Bancorp has adopted this update as of January 1, 2012. Adoption has not resulted in any changes in valuation techniques nor related inputs. Note 15 - Fair Value of Financial Instruments contains expanded disclosure of the level in the fair value hierarchy of inputs that are used in estimating and measuring fair value and information concerning how fair values have been calculated.

Update Number 2011-05 – Comprehensive Income (Topic 220): *Presentation of Comprehensive Income.* This accounting standard update was issued to increase the prominence of items reported in other comprehensive income and to facilitate the convergence of U.S. GAAP and IFRS. Previous U.S. GAAP allowed the Bancorp to present other comprehensive income as part of the statement of changes in stockholders' equity. This accounting standard update eliminates that option and requires consecutive presentation of the statement of net income and the statement of comprehensive income. The requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements are effective for public entities for reporting periods beginning after December 15, 2011 and will be applied retrospectively. A Consolidated Statement of Comprehensive Income has been included as part of the Bancorp's audited financial statements, for the twelve months ended December 31, 2012 and 2011.

Update Number 2011-12 – Comprehensive Income (Topic 220): *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards update No. 2011-05*. This update to Comprehensive Income (Topic 220) defers the requirement to present items that are reclassified from accumulated other comprehensive income to net income separately with their respective components of net income and other comprehensive income. The deferral supersedes only the paragraphs pertaining to how and where reclassification adjustments are presented. The amendments in this update are effective for public entities for reporting periods beginning after December 15, 2011. This update has not had an impact on the Bancorp's 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:

		Cost Basis		Gross Unrealized Gains		Gross Unrealized Losses		Estimated Fair Value
		(Dollars in thousands)						
December 31, 2012								
U.S. government sponsored entities	$	23,009	$	94	$	(7)	$	23,096
Collateralized mortgage obligations and residential mortgage-backed securities		96,782		3,147		(15)		99,914
Municipal securities		58,946		4,155		(28)		63,073
Collateralized debt obligations		5,208		-		(3,816)		1,392
Total securities available-for-sale	$	183,945	$	7,396	$	(3,866)	$	187,475
December 31, 2011								
U.S. government sponsored entities	$	15,610	$	41	$	(3)	$	15,648
Collateralized mortgage obligations and residential mortgage-backed securities		107,569		3,630		(2)		111,197
Municipal securities		54,738		4,018		-		58,756
Collateralized debt obligations		5,214		-		(3,853)		1,361
Total securities available-for-sale	$	183,131	$	7,689	$	(3,858)	$	186,962

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

The fair value of available-for-sale debt securities and carrying amount, if different, at year end 2012 by contractual maturity were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	(Dollars in thousands) Available-for-sale		
December 31, 2012		Estimated Fair Value	Tax-Equivalent Yield (%)
Due in one year or less	$	972	5.98
Due from one to five years		14,942	3.08
Due from five to ten years		38,313	4.16
Due over ten years		33,334	4.81
Collateralized mortgage obligations and residential mortgage-backed securities		99,914	2.86
Total	$	187,475	3.51

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

		December 31, 2012	*December 31, 2011*
		(Dollars in thousands)	
Proceeds	$	25,900	22,713
Gross gains		1,120	981
Gross losses		-	(15)

The tax provisions related to these net realized gains were approximately $440,000 for 2012 and $380,000 for 2011.

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

		(Dollars in thousands) *Unrealized gain/(loss)*
Beginning balance, December 31, 2011	$	2,476
Current period change		(192)
Ending balance, December 31, 2012	$	2,284

Securities with carrying values of approximately $32,935,000 and $70,412,000 were pledged as of December 31, 2012 and 2011, respectively, as collateral for repurchase agreements, public funds, and for other purposes as permitted or required by law. The reduction in pledged securities is a result of the lifting of a state requirement to pledge securities for public funds on deposit.

Securities with unrealized losses at December 31, 2012 and 2011 not recognized in income are as follows:

	Less than 12 months		*12 months or longer*		*Total*	
	(Dollars in thousands)					
	Estimated Fair Value	*Unrealized Losses*	*Estimated Fair Value*	*Unrealized Losses*	*Estimated Fair Value*	*Unrealized Losses*

	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
December 31, 2012						
U.S. government sponsored entities	$ 3,492	$ (7)	$ -	$ -	$ 3,492	$ (7)
Collateralized mortgage obligations and residential mortgage-backed securities	2,294	(15)	-	-	2,294	(15)
Municipal securities	3,330	(28)	-	-	3,330	(28)
Collateralized debt obligations	-	-	1,392	(3,816)	1,392	(3,816)
Total temporarily impaired	$ 9,116	$ (50)	$ 1,392	$ (3,816)	$ 10,508	$ (3,866)
Number of securities		14		4		18

(Dollars in thousands)

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

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

NOTE 3 – *Loans Receivable*

Year end loans are summarized below:

	(Dollars in thousands) 2012	2011
Loans secured by real estate:		
Construction and land development	$ 23,984	$ 21,143
Residential, including home equity	154,945	154,426
Commercial real estate and other dwelling	179,825	153,715
Total loans secured by real estate	358,754	329,284
Consumer loans	350	472
Commercial business	69,310	63,384
Government and other	8,869	8,643
Subtotal	437,283	401,783
Less:		
Net deferred loan origination fees	(251)	(264)
Undisbursed loan funds	(51)	(118)
Loans receivable	$ 436,981	$ 401,401

The Bancorp's activity in the allowance for loan losses, by loan segment, is summarized below for the years indicated.

(Dollars in thousands)	*Residential Real Estate, Including Home Equity*	*Consumer Loans*	*Commercial Real Estate, Construction & Land Development, and Other Dwellings*	*Commercial Participations Purchased*	*Commercial Business Loans*	*Government Loans*	*Total*
The Bancorp's activity in the allowance for loan losses is summarized below for the twelve months ended December 31, 2012:							
Allowance for loan losses:							
Beginning Balance	$ 1,161	$ 15	$ 3,329	$ 2,399	$ 1,101	$ -	$ 8,005
Charge-offs	(336)	(17)	(256)	(873)	(619)	-	(2,101)
Recoveries	4	5	13	108	37	-	167
Provisions	195	16	1,464	(26)	701	-	2,350
Ending Balance	$ 1,024	$ 19	$ 4,550	$ 1,608	$ 1,220	$ -	$ 8,421

The Bancorp's activity in the allowance for loan losses is summarized below for the twelve months ended December 31, 2011:

Allowance for loan losses:							
Beginning Balance	$ 994	$ 30	$ 2,773	$ 4,704	$ 620	$ -	$ 9,121
Charge-offs	(469)	(57)	(880)	(3,366)	(163)	-	$ (4,935)
Recoveries	112	11	183	-	3	-	$ 309
Provisions	524	31	1,253	1,061	641	-	$ 3,510
Ending Balance	$ 1,161	$ 15	$ 3,329	$ 2,399	$ 1,101	$ -	$ 8,005

The Bancorp's allowance for loan losses impairment evaluation and financing receivables are summarized below at December 31, 2012:

Ending balance: individually evaluated for impairment	$ 9	$ -	$ 1,783	$ -	$ 209	$ -	$ 2,001
Ending balance: collectively evaluated for impairment	$ 1,015	$ 19	$ 2,767	$ 1,608	$ 1,011	$ -	$ 6,420
FINANCING RECEIVABLES							
Ending balance	$ 154,627	$ 347	$ 175,769	$ 28,040	$ 69,329	$ 8,869	$ 436,981
Ending balance: individually evaluated for impairment	$ 692	$ -	$ 10,778	$ 6,378	$ 2,032	$ -	$ 19,880
Ending balance: collectively evaluated for impairment	$ 153,935	$ 347	$ 164,991	$ 21,662	$ 67,297	$ 8,869	$ 417,101

The Bancorp's allowance for loan losses impairment evaluation and financing receivables are summarized below at December 31, 2011:

Ending balance: individually evaluated for impairment	$ 10	$ -	$ 1,043	$ 252	$ 304	$ -	$ 1,609
Ending balance: collectively evaluated for impairment	$ 1,151	$ 15	$ 2,286	$ 2,147	$ 797	$ -	$ 6,396
FINANCING RECEIVABLES							
Ending balance	$ 154,135	$ 472	$ 154,618	$ 20,240	$ 63,293	$ 8,643	$ 401,401
Ending balance: individually evaluated for impairment	$ 1,282	$ -	$ 11,007	$ 7,170	$ 2,214	$ -	$ 21,673
Ending balance: collectively evaluated for impairment	$ 152,853	$ 472	$ 143,611	$ 13,070	$ 61,079	$ 8,643	$ 379,728

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

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

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

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

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

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

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

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

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

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

	Commercial Real Estate, Construction & Land Development, and Other Dwellings		*Commercial Participations Purchased*		*Commercial Business Loans*		*Government Loans*	
Loan Grades	2012	2011	2012	2011	2012	2011	2012	2011
2 Moderate risk	$ 19	$ 25	$ -	$ -	$ 5,674	$ 4,467	$ -	$ -
3 Acceptable risk	110,416	85,703	15,585	2,387	45,202	37,713	8,869	8,643
4 Pass/monitor	51,100	51,429	1,029	5,903	13,500	17,532	-	-
5 Special mention (watch)	3,630	5,509	5,984	4,780	3,300	978	-	-
6 Substandard	10,604	11,952	5,442	7,170	1,653	2,603	-	-
7 Doubtful	-	-	-	-	-	-	-	-
Total	$ 175,769	$ 154,618	$ 28,040	$ 20,240	$ 69,329	$ 63,293	$ 8,869	$ 8,643

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

	Residential Real Estate, Including Home Equity		*Consumer Loans*	
	2012	2011	2012	2011
Performing	$ 152,838	$ 151,375	$ 337	$ 472
Non-performing	1,789	2,760	10	-
Total	$ 154,627	$ 154,135	$ 347	$ 472

The Bancorp's troubled debt restructurings for the periods presented are summarized below:

	Number of Contracts	*Pre-Modification Outstanding Recorded Investment*	*Post-Modification Outstanding Recorded Investment*	*Number of Contracts*	*Pre-Modification Outstanding Recorded Investment*	*Post-Modification Outstanding Recorded Investment*
	(Dollars in thousands)					
	December 31, 2012			December 31, 2011		
Troubled debt restructurings during the period:						
Residential real estate, including home equity	7	$ 700	$ 692	14	$ 1,290	$ 1,282
Consumer loans	-	-	-	-	-	-
Commercial real estate, construction & land development, and other dwellings	3	1,440	1,440	3	8,097	7,836
Commercial participations purchased	1	1,290	935	2	7,975	5,635
Commercial business loans	1	108	88	-	-	-
Government loans	-	-	-	-	-	-

	Number of Contracts	*Recorded Investment*	*Number of Contracts*	*Recorded Investment*
	December 31, 2012		December 31, 2011	
Troubled debt restructurings that subsequently defaulted during the periods presented:				
Residential real estate, including home equity	1	$ 39	1	$ 159
Consumer loans	-	-	-	-
Commercial real estate, construction & land development, and other dwellings	-	-	3	6,009
Commercial participations purchased	-	-	-	-
Commercial business loans	-	-	-	-
Government loans	-	-	-	-

All of the loans classified as troubled debt restructurings are also considered impaired. The valuation basis for the Bancorp's troubled debt restructurings is based on the present value of cash flows, unless consistent cash flows are not present, then the fair value of the collateral securing the loan is the basis for valuation. Troubled debt restructurings that subsequently defaulted during the period are loans that were restructured and, subsequent to restructuring, were moved to nonaccrual status and failed to comply with the guidelines of the restructured note. Troubled debt restructurings that subsequently defaulted are presented for comparison purposes and are relevant only to the period in which the subsequent default occurred.

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

(Dollars in thousands)	*As of December 31, 2012* Recorded Investment	Unpaid Principal Balance	Related Allowance	*For the twelve months ended December 31, 2012* Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential real estate, including home equity	$ -	$ -	$ -	$ -	$ -
Commercial real estate, construction & land development, and other dwellings	591	591	-	652	3
Commercial participations purchased	6,378	11,047	-	5,080	-
Commercial business loans	727	1,000	-	992	32
With an allowance recorded:					
Residential real estate, including home equity	692	692	9	782	20
Commercial real estate, construction & land development, and other dwellings	10,187	10,271	1,783	10,207	349
Commercial participations purchased	-	-	-	1,394	-
Commercial business loans	1,305	1,305	209	874	51
Total:					
Residential real estate, including home equity	$ 692	$ 692	$ 9	$ 782	$ 20
Commercial real estate, construction & land development, and other dwellings	$ 10,778	$ 10,862	$ 1,783	$ 10,859	$ 352
Commercial participations purchased	$ 6,378	$ 11,047	$ -	$ 6,474	$ -
Commercial business loans	$ 2,032	$ 2,305	$ 209	$ 1,866	$ 83

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

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

(Dollars in thousands)

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investments Greater than 90 Days and Accruing
December 31, 2012							
Residential real estate, including home equity	$ 4,172	$ 1,145	$ 1,448	$ 6,765	$ 147,862	$ 154,627	$ -
Consumer loans	-	-	-	-	347	347	-
Commercial real estate, construction & land development, and other dwellings	4,044	390	1,993	6,427	169,342	175,769	229
Commercial participations purchased	5	-	5,442	5,447	22,593	28,040	-
Commercial business loans	689	116	1,525	2,330	66,999	69,329	-
Government loans	-	-	-	-	8,869	8,869	-
Total	$ 8,910	$ 1,651	$ 10,408	$ 20,969	$ 416,012	$ 436,981	$ 229
December 31, 2011							
Residential real estate, including home equity	$ 3,413	$ 874	$ 2,663	$ 6,950	$ 147,185	$ 154,135	$ 279
Consumer loans	7	-	-	7	465	472	-
Commercial real estate, construction & land development, and other dwellings	604	238	1,616	2,458	152,160	154,618	-
Commercial participations purchased	7	-	7,169	7,176	13,064	20,240	-
Commercial business loans	458	323	717	1,498	61,795	63,293	-
Government loans	-	-	-	-	8,643	8,643	-
Total	$ 4,489	$ 1,435	$ 12,165	$ 18,089	$ 383,312	$ 401,401	$ 279

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

	(Dollars in thousands) December 31, 2012	December 31, 2011
Residential real estate, including home equity	$ 1,846	$ 2,481
Consumer loans	10	-
Commercial real estate, construction & land development, and other dwellings	2,311	3,433
Commercial participations purchased	5,442	7,170
Commercial business loans	1,644	926
Government loans	-	-
Total	$ 11,253	$ 14,010

During the second quarter of 2012, the Bancorp conducted a $3.4 million sale of portfolio fixed rate mortgage loans, which the Bancorp's management considers an interest rate risk mitigation to reduce loan prepayment risk. The segment of loans that were sold had a higher premium value and were projected to prepay significantly faster than the mortgage portfolio's average repayment speed. The gain realized from the prepayment risk reduction strategy totaled $183 thousand and was recorded during the second quarter of 2012. The proceeds from the loan sale were used to fund loans with longer durations and similar yields to the loans that were included in the sales strategy.

Note 4 – *Premises and Equipment, Net*

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

	(Dollars in thousands) 2012	2011
Cost:		
Land	$ 4,540	$ 4,540
Buildings and improvements	19,277	19,171
Furniture and equipment	11,244	11,051
Total cost	35,061	34,762
Less accumulated depreciation	(17,383)	(16,520)
Premises and equipment, net	$ 17,678	$ 18,242

Depreciation expense was approximately $1,361,000 and $1,468,000 for 2012 and 2011, respectively.

Note 5 – *Foreclosed Real Estate*

At year end, foreclosed real estate is summarized below:

	(Dollars in thousands) 2012	2011
Residential real estate	$ 243	$ 554
Commercial real estate and other dwellings	151	569
Construction and land development	31	1,334
Total	$ 425	$ 2,457

Note 6 – *Income Taxes*

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

	(Dollars in thousands)	
	2012	*2011*
Federal:		
Current	$ 1,754	$ 735
Deferred	146	434
State:		
Current	35	126
Deferred, net of valuation allowance	6	(116)
Income tax expense	$ 1,941	$ 1,179

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

	(Dollars in thousands)	
	2012	*2011*
Federal statutory rate	34%	34%
Tax expense at statutory rate	$ 2,990	$ 2,232
State tax, net of federal effect	27	7
Tax exempt income	(806)	(874)
Bank owned life insurance	(329)	(135)
Tax credits	-	(67)
Other	59	16
Total income tax expense	$ 1,941	$ 1,179

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

	(Dollars in thousands)	
	2012	*2011*
Deferred tax assets:		
Bad debts	$ 3,318	$ 3,149
Deferred loan fees	99	104
Deferred compensation	486	660
Net operating loss	875	855
Tax credits	73	62
Nonaccrual loan interest income	12	22
Restricted stock awards	26	32
REO writedowns	11	16
Unqualified DCP	55	50
Post retirement benefit	55	58
Other-than-temporary impairment	92	90
Accrued vacation	125	63
Legal reserve	-	148
Impairment on land	75	75
Other	20	42
Total deferred tax assets	5,322	5,426
Deferred tax liabilities:		
Depreciation	(1,284)	(1,214)
Prepaids	(272)	(246)
Mortgage servicing rights	(133)	(122)
Deferred stock dividends	(115)	(115)
Unrealized appreciation on securities available-for-sale, net	(1,246)	(1,355)
Post retirement unrealized gain	(40)	(43)
Other	(16)	(91)
Total deferred tax liabilities	(3,106)	(3,186)
Valuation allowance	(474)	(458)
Net deferred tax assets	$ 1,742	$ 1,782

At December 31, 2012, the Bancorp has a state net operating loss carry forward of approximately $15.6 million which will begin to expire in 2022 if not used. The Bancorp also has a state tax credit carry forward of approximately $111,000 which will begin to expire in 2017 if not used. A valuation allowance of $474,000 and $458,000 was provided at December 31, 2012 and 2011 for the state net operating loss and state tax credit, which management does not believe will be fully utilized before statutory expiration.

The Bancorp qualified under provisions of the Internal Revenue Code, to deduct from taxable income a provision for bad debts in excess of the provision for such losses charged to income in the financial statements, if any. Accordingly, retained earnings at December 31, 2012 and 2011 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 rate. The unrecorded deferred income tax liability on the above amounts was approximately $2,034,000 at December 31, 2012 and 2011.

The Bancorp had no unrecognized tax benefits at any time during 2012 or 2011 and does not anticipate any significant increase or decrease in unrecognized tax benefits during 2013. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is the Bancorp's policy to record such accruals through income tax accounts. No such accruals existed at any time during 2012 or 2011.

The Bancorp and its subsidiaries are subject to United States Federal income tax as well as income tax of the states of Indiana and Illinois. The Bancorp is no longer subject to examination by taxing authorities for the years before 2009 for federal and 2008 for state.

Note 7 – *Deposits*

The aggregate amount of certificates of deposit with a balance of $250,000 or more was approximately $20,919,000 at December 31, 2012 and $21,108,000 at December

31, 2011.

At December 31, 2012, scheduled maturities of certificates of deposit were as follows:

	(Dollars in thousands)
2013	$ 132,028
2014	35,340
2015	4,216
2016	77
Thereafter	-
Total	$ 171,661

Note 8 – *Borrowed Funds*

At year end, borrowed funds are summarized below:

	(Dollars in thousands) 2012	2011
Fixed rate advances from the FHLB	28,000	31,000
Putable advances from the FHLB	5,000	5,000
Other	207	618
Total	$ 33,207	$ 36,618

At December 31, 2012, scheduled maturities of borrowed funds were as follows:

	(Dollars in thousands)
2013	$ 14,207
2014	8,000
2015	11,000
Total	$ 33,207

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) 2012	2011
Ending balance	$ 16,298	$ 15,395
Average balance during the year	20,561	20,767
Maximum month-end balance during the year	25,278	24,258
Securities underlying the agreements at year end:		
Carrying value	28,002	26,622
Fair value	28,002	26,622
Average interest rate during the year	0.38%	0.51%
Average interest rate at year end	0.31%	0.43%

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

	(Dollars in thousands) 2012	2011
Fixed rate advances, maturing January 2013 through December 2016 at rates from 0.49% to 2.65%; average rate: 2012 – 1.84%; 2011 – 1.95%	$ 28,000	$ 31,000
Putable advance, maturing February 2013 at a fixed rate of 2.62%	5,000	5,000

Fixed rate advances are payable at maturity, with a prepayment penalty. Putable advances are fixed for a period of one to three years and then may adjust quarterly to the three-month London Interbank Offered Rate until maturity. Once the putable advance interest rate adjusts, the Bancorp has the option to prepay the advance on specified quarterly interest rate reset dates. The advances were collateralized by mortgage loans totaling approximately $164,463,000 and $163,534,000 at December 31, 2012 and 2011, respectively. In addition to the fixed rate and putable advances, the Bancorp maintains a $10,000,000 line of credit with the Federal Home Loan Bank of Indianapolis. There was no outstanding balance on the line of credit at December 31, 2012 or 2011. Other borrowings at December 31, 2012 and 2011 are comprised of reclassified bank balances.

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 next January 1 or July 1 following the completion of one year of employment, age 18, and completion of 1,000 hours of service. The Employees' Savings Plan feature allows employees to make pre-tax contributions to the Employees' Savings Plan of 1% to 50% of Plan Salary, subject to limitations imposed by Internal Revenue Code section 401(k). The Profit Sharing Plan and Trust feature is non-contributory on the part of the employee. Contributions to the Employees' Profit Sharing Plan and Trust are made at the discretion of the Bancorp's Board of Directors. Contributions for the year ended December 31, 2012 and 2011 were based on 9% and 4%, respectively, of the participants' total compensation, excluding incentives. Participants in the plan become 100% vested upon completion of five years of service. The benefit plan expense amounted to approximately $677,000 for 2012 and $283,000 for 2011.

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, 2012 and 2011 was approximately $141,000 and $127,000, respectively. The Plan expense amounted to $14,000 for 2012 and $8,000 for 2011.

Directors have deferred some of their fees in consideration of future payments. Fee deferrals, including interest, totaled approximately $91,000 and $108,000 for 2012 and 2011, respectively. The deferred fee liability at December 31, 2012 and 2011 was approximately $1,234,000 and $1,678,000, respectively.

Note 10 – *Regulatory Capital*

The Bancorp and Bank are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet various capital requirements can initiate regulatory action. Prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2012 and 2011, the most recent regulatory notifications categorized the Bancorp and Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bancorp's or the Bank's category.

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

	Actual		*Minimum Required For Capital Adequacy Purposes*		*Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations*	
(Dollars in millions)	*Amount*	*Ratio*	*Amount*	*Ratio*	*Amount*	*Ratio*
2012						
Total capital to risk-weighted assets	$ 70.1	14.6%	$ 38.3	8.0%	$ 47.9	10.0%
Tier 1 capital to risk-weighted assets	$ 64.1	13.4%	$ 19.1	4.0%	$ 28.7	6.0%
Tier 1 capital to adjusted average assets	$ 64.1	9.4%	$ 20.5	3.0%	$ 34.2	5.0%
2011						
Total capital to risk-weighted assets	$ 64.9	14.3%	$ 36.2	8.0%	$ 45.2	10.0%
Tier 1 capital to risk-weighted assets	$ 59.2	13.1%	$ 18.1	4.0%	$ 27.1	6.0%
Tier 1 capital to adjusted average assets	$ 59.2	9.2%	$ 19.4	3.0%	$ 32.3	5.0%

The Bancorp's ability to pay dividends to its shareholders is entirely dependent upon the Bank's ability to pay dividends to the Bancorp. Under Indiana law, the Bank may pay dividends from its undivided profits (generally, earnings less losses, bad debts, taxes and other operating expenses) as is considered expedient by the Bank's Board of Directors. However, the Bank must obtain the approval of the Indiana Department of Financial Institutions (DFI) for the payment of a dividend if the total of all dividends declared by the Bank during the current year, including the proposed dividend, would exceed the sum of retained net income for the year to date plus its retained net income for the previous two years. For this purpose, "retained net income," means net income as calculated for call report purposes, less all dividends declared for the applicable period. The aggregate amount of dividends that may be declared by the Bank in 2013, without prior DFI approval is $8.7 million plus 2013 net profits. Moreover, the FDIC and the Federal Reserve Board may prohibit the payment of dividends if it determines that the payment of dividends would constitute an unsafe or unsound practice in light of the financial condition of the Bank. On November 30, 2012, the Board of Directors of the Bancorp declared a fourth quarter dividend of $0.19 per share. The Bancorp's fourth quarter dividend was paid to shareholders on January 4, 2013.

Note 11 – *Stock Based Compensation*

The Bancorp's 2004 Stock Option Plan (the Plan), which is stockholder-approved, permits the grant of share options to its employees for up to 250,000 shares of common stock. Awards granted under the Plan may be in the form of incentive stock options, non-incentive stock options, or restricted stock. The purposes of the Plan are to attract and retain the best available personnel, to provide additional incentives for all employees and to encourage their continued employment by facilitating employees' purchases of an equity interest in the Bancorp. Option awards are generally granted with an exercise price equal to the market price of the Bancorp's common stock at the date of grant; those option awards have five year vesting periods and have ten year contractual terms. Total compensation cost that has been charged against income for incentive stock options was approximately $1,000 for 2012 and 2011.

The fair value of each incentive stock option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model. Expected volatilities are based on historical volatilities of the Company's common stock. No incentive stock options were granted during 2012 or 2011. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

A summary of the Bancorp's stock option activity for 2012 and 2011 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2011	49,247	$ 24.27		
Granted	-	-		
Exercised	-	-		
Forfeited or expired	(8,747)	19.50		
Outstanding at end of year	40,500	$ 25.30	1.1	$ -
Vested or expected to vest	40,500	$ 25.30	1.1	$ -
Exercisable at December 31, 2011	39,500	$ 25.22	1.0	$ -
Granted	-	-		
Exercised	-	-		
Forfeited or expired	(14,550)	22.15		
Outstanding at end of year	25,950	$ 27.06	0.7	$ -
Vested or expected to vest	25,950	$ 27.06	0.7	$ -
Exercisable at December 31, 2012	24,950	$ 27.01	0.5	$ -

As of December 31, 2012, there were no unrecognized compensation costs related to non-vested incentive stock options granted under the Plan.

Restricted stock awards are generally granted with an award price equal to the market price of the Bancorp's common stock on the award date. Restricted stock awards have been issued with a five year vesting period. Forfeiture provisions exist for personnel that separate employment before the vesting period expires. Compensation expense related to restricted stock awards are recognized over the vesting period. Total compensation cost that has been charged against income for those plans was approximately $15,000 and $32,000 for 2012 and 2011, respectively.

A summary of changes in the Bancorp's non-vested restricted stock for 2012 and 2011 follows:

Non-vested Shares	*Shares*	*Weighted Average Grant Date Fair Value*
Non-vested at January 1, 2011	6,750	$ 25.72
Granted	-	-
Vested	(3,000)	31.57
Forefited	-	-
Non-vested at December 31, 2011	3,750	25.72
Granted	-	-
Vested	(350)	29.75
Forefited	-	-
Non-vested at December 31, 2012	3,400	$ 20.15

As of December 31, 2012, there was approximately $17,000 of total unrecognized compensation cost related to non-vested restricted shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1.4 years.

Note 12 – *Earnings per Common Share*

A reconciliation of the numerators and denominators of the basic earnings per common share and diluted earnings per common share computations for 2012 and 2011 is presented below.

	2012	*2011*
Basic earnings per common share:		
Net income available to common stockholders	$ 6,852,915	$ 5,384,982
Weighted-average common shares outstanding	2,839,719	2,832,161
Basic earnings per common share	$ 2.41	$ 1.90
Diluted earnings per common share:		
Net income available to common stockholders	$ 6,852,915	$ 5,384,982
Weighted-average common shares outstanding	2,839,719	2,832,161
Weighted-average common and dilutive potential common shares outstanding	2,839,719	2,832,161
Diluted earnings per common share	$ 2.41	$ 1.90

There were 25,950 and 40,500 anti-dilutive shares outstanding at December 31, 2012 and 2011, respectively.

Note 13 – *Related Party Transactions*

The Bancorp had aggregate loans outstanding to directors and executive officers (with individual balances exceeding $120,000) of approximately $4,036,000 at December 31, 2012 and approximately $6,907,000 at December 31, 2011. For the year ended December 31, 2012, the following activity occurred on these loans:

	(Dollars in thousands)
Aggregate balance at the beginning of the year	$ 6,907
New loans	1,174
Repayments	(4,045)
Aggregate balance at the end of the year	$ 4,036

Deposits from directors and executive officers totaled approximately $2,774,000 and $2,094,000 at December 31, 2012 and 2011, respectively.

Note 14 – *Commitments and Contingencies*

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

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

The Bancorp had outstanding commitments to originate loans as follows:

	(Dollars in thousands)		
	Fixed Rate	*Variable Rate*	*Total*
December 31, 2012:			
Commercial business	$ 2,334	$ 26,673	$ 29,007
Real estate	15,979	8,581	24,560
Consumer loans	-	-	-
Government loans	4,941	-	4,941
Unsecured consumer overdrafts	10,812	-	10,812
Total	$ 34,066	$ 35,254	$ 69,320
December 31, 2011:			
Commercial business	$ 2,524	$ 24,319	$ 26,843
Real estate	16,510	18,730	35,240
Consumer loans	-	4	4
Government loans	4,941	-	4,941
Unsecured consumer overdrafts	10,828	-	10,828
Total	$ 34,803	$ 43,053	$ 77,856

The approximately $34,066,000 in fixed rate commitments outstanding at December 31, 2012 and the approximately $34,803,000 in fixed rate commitments outstanding at December 31, 2011 had interest rates ranging from 2.30% to 10.00%, for a period not to exceed forty-five days. Mortgage interest rate locks with borrowers are a component of real estate commitments, were treated as derivative transactions, and valued accordingly at year-end.

Standby letters of credit are conditional commitments issued by the Bancorp to guarantee the performance of a customer to a third party. At December 31, 2012 and 2011, the Bancorp had standby letters of credit totaling approximately $9,251,000 and $8,696,000, respectively which are not included in the tables above. The Bancorp evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bancorp upon extension of credit, is based on management's credit evaluation of the borrower. Collateral obtained may include accounts receivable, inventory, property, land or other assets.

Note 15 – *Fair Values of Financial Instruments*

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

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

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

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

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

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

For the year ended December 31, 2012, the Bancorp's management utilized a specialist to perform an other-than-temporary impairment analysis for each of its four pooled trust preferred securities. The analysis utilizes analytical models used to project future cash flows for the pooled trust preferred securities based on current assumptions for prepayments, default and deferral rates, and recoveries. The projected cash flows are than tested for impairment consistent with the Investments – Other Topic and the Investments – Debt and Equity Securities Topic. The other-than-temporary impairment testing compares the present value of the cash flows from quarter to quarter to determine if there is a "favorable" or "adverse" change. Other-than-temporary impairment is recorded if the projected present value of cash flows is lower than the book value of the security. To perform the quarterly other-than-temporary impairment analysis, management utilizes current reports issued by the trustee, which contain principal and interest tests, waterfall distributions, note valuations, collection detail and credit ratings for each pooled trust preferred security. In addition, a detailed review of the performing collateral was performed. The review of the collateral began with a review of financial information provided by SNL Financial, a comprehensive database, widely used in the industry, which gathers financial data on banks and thrifts from U.S. GAAP financial statements for public companies (annual and quarterly reports on Forms 10-K and 10-Q), as well as regulatory reports for private companies, including consolidated financial statements for bank holding companies (FR Y-9C reports) and parent company-only financial statements for bank holding companies (FR Y-9LP reports) filed with the Federal Reserve and bank call reports filed with the FDIC and OCC. Using the information sources described above, for each bank and thrift examined, the following items were examined: nature of the issuer's business, years of operating history, corporate structure, loan composition and loan concentrations, deposit mix, asset growth rates, geographic footprint and local economic environment. The issuers' historical financial performance was reviewed and their financial ratios were compared to appropriate peer groups of regional banks or thrifts with similar asset sizes. The analysis focused on six broad categories: profitability (revenue streams and earnings quality, return on assets and shareholder's equity, net interest margin and interest rate sensitivity), credit quality (charge-offs and recoveries, non-current loans and total non-performing assets as a percentage of total loans, loan loss reserve coverage and the adequacy of the loan loss provision), operating efficiency (noninterest expense compared to total revenue), capital adequacy (Tier-1, total capital and leverage ratios and equity capital growth), leverage (tangible equity as a percentage of tangible assets, short-term and long-term borrowings and double leverage at the holding company) and liquidity (the nature and availability of funding sources, net non-core funding dependence and quality of deposits). In addition, for publicly traded companies, stock price movements were reviewed and the market price of publicly traded debt instruments was examined. The other-than-temporary impairment analysis indicated that the Bancorp's four pooled trust preferred securities had aggregate additional other-than-temporary impairment in the amount of $6,200, for the year ending December 31, 2012.

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

		(Dollars in thousands) Collateralized debt obligations other-than-temporarily impaired
Ending balance - December 31, 2011	$	265
Additions not previously recognized		6
Ending balance - December 31, 2012	$	271

Cusip		74043CAC1		74042TAJ0		01449TAB9		01450NAC6
Deal name		PreTSL XXIV		PreTSL XXVII		Alesco IX		Alesco XVII
Class		B-1		C-1		A-2A		B
Book value	$	1,256,972	$	1,296,077	$	1,302,536	$	1,351,903
Fair value		249,184		246,509		568,650		327,289
Unrealized gains/(losses)		(1,007,788)		(1,049,569)		(733,886)		(1,024,614)
Lowest credit rating assigned		Ca		C		Ba2		C
Number of performing banks		48		27		53		44
Number of performing insurance companies		13		7		10		n/a
Number of issuers in default		17		9		2		2
Number of issuers in deferral		15		6		11		10
Defaults & deferrals as a % of performing collateral		51.28%		36.26%		21.05%		39.86%
Subordination:								
As a % of performing collateral		-7.37%		-19.48%		33.21%		-12.77%
As a % of performing collateral - adjusted for projected future defaults		-14.22%		-27.93%		28.49%		-24.33%
Other-than-temporary impairment model assumptions:								
Defaults:								
Year 1 - issuer average		2.00%		2.20%		2.20%		3.10%
Year 2 - issuer average		2.00%		2.20%		2.20%		3.10%
Year 3 - issuer average		2.00%		2.20%		2.20%		3.10%
> 3 Years - issuer average		(1)		(1)		(1)		(1)
Discount rate - 3 month Libor, plus implicit yield spread at purchase		1.48%		1.23%		1.27%		1.44%
Recovery assumptions		(2)		(2)		(2)		(2)
Prepayments		0.00%		0.00%		0.00%		0.00%
Other-than-temporary impairment	$	41,100	$	132,000	$	36,600	$	61,950

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

In the table above, the Bancorp's subordination for each trust preferred security is calculated by taking the total performing collateral and subtracting the sum of the total collateral within the Bancorp's class and the total collateral within all senior classes, and then stating this result as a percentage of the total performing collateral. This measure is an indicator of the level of collateral that can default before potential cash flow disruptions may occur. In addition, management calculates subordination assuming future collateral defaults by utilizing the default/deferral assumptions in the Bancorp's other-than-temporary impairment analysis. Subordination assuming future default/deferral assumptions is calculated by deducting future defaults from the current performing collateral. At December 31, 2012, management reviewed the subordination levels for each security in context of the level of current collateral defaults and deferrals within each security; the potential for additional defaults and deferrals within each security; the length of time that the security has been in "payment in kind" status; and the Bancorp's class position within each security.

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

At December 31, 2012, three of the trust preferred securities with a cost basis of $3.9 million have been placed in "payment in kind" status. The Bancorp's securities that are classified as "payment in kind" are a result of not receiving the scheduled quarterly interest payments. For the securities in "payment in kind" status, management anticipates to receive the unpaid contractual interest payments from the issuer, because of the self correcting cash flow waterfall provisions within the structure of the securities. When a tranche senior to the Bancorp's position fails the coverage test, the Bancorp's interest cash flows are paid to the senior tranche and recorded as a reduction of principal. The coverage test represents an over collateralization target by stating the balance of the performing collateral as a percentage of the balance of the Bancorp's tranche, plus the balance of all senior tranches. The principal reduction in the senior tranche continues until the appropriate coverage test is passed. As a result of the principal reduction in the senior tranche, more cash is available for future payments to the Bancorp's tranche. Consistent with the Investments – Debt and Equity Securities Topic, management considered the failure of the issuer of the security to make scheduled interest payments in determining whether a credit loss existed. Management will not capitalize the "payment in kind" interest payments to the book value of the securities and will keep these securities in non-accrual status until the quarterly interest payments resume.

	(Dollars in thousands) Estimated Fair Value Measurements at December 31, 2012 Using							
		December 31, 2012		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)
Assets:								
Available-for-sale securities								
U.S. government sponsored entities	$	23,096	$	-	$	23,096	$	-
CMO and residential mortgage-backed securities		99,914		-		99,914		-
Municipal securities		63,073		-		63,073		-
Collateralized debt obligations		1,392		-		-		1,392
Total available-for-sale securities	$	187,475	$	-	$	186,083	$	1,392

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

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

	(Dollars in thousands) Estimated Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
	Available-for-sale securities
Total realized/unrealized (losses)/gains, January 1, 2011	1,379
Included in earnings	(1)
Included in other comprehensive income	(17)
Transfers in and/or (out) of Level 3	-
Ending balance, December 31, 2011	1,361
Total realized/unrealized (losses)/gains	
Included in earnings	(6)
Included in other comprehensive income	37
Transfers in and/or (out) of Level 3	-
Ending balance, December 31, 2012	$ 1,392

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

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

	(Dollars in thousands) Estimated Fair Value Measurements at December 31, 2012 Using			
	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans	$ 17,879	$ -	$ -	$ 17,879
Foreclosed real estate	425	-	-	425

	(Dollars in thousands) Estimated Fair Value Measurements at December 31, 2011 Using			
	December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans	$ 20,064	$ -	$ -	$ 20,064
Foreclosed real estate	2,457	-	-	2,457

The fair value of impaired loans with specific allocations of the allowance for loan losses or loans for which charge-offs have been taken is generally based on the present value of future cash flows or, for collateral dependent loans, based on recent real estate appraisals. Appraisals may utilize a single valuation approach or a combination of approaches, including comparable sales and the income approach. The unpaid principal balance of impaired loans was approximately $19.9 million and the related specific reserves totaled approximately $2.0 million, resulting in a fair value of impaired loans totaling approximately $17.9 million, at December 31, 2012. The unpaid principal balance of impaired loans was approximately $21.7 million and the related specific reserves totaled approximately $1.6 million, resulting in a fair value of impaired loans totaling approximately $20.1 million, at December 31, 2011. Fair value is determined, where possible, using market prices derived from an appraisal or evaluation, which are considered to be Level 2 inputs. However, certain assumptions and unobservable inputs are often used by the appraiser, therefore, qualifying the assets as Level 3 in the fair value hierarchy. The fair value of foreclosed real estate is similarly determined by using the results of recent real estate appraisals.

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

	(Dollars in thousands) December 31, 2012		*Estimated Fair Value Measurements at December 31, 2012 Using*		
	Carrying Value	*Estimated Fair Value*	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
Financial assets:					
Cash and cash equivalents	$ 33,751	$ 33,751	$ 33,751	$ -	$ -
Securities available-for-sale	187,475	187,475	-	186,083	1,392
Loans held-for-sale	323	332	332	-	-
Loans receivable, net	428,560	429,733	-	-	429,733
Federal Home Loan Bank stock	3,086	3,086	-	3,086	-
Accrued interest receivable	2,483	2,483	-	2,483	-
Financial liabilities:					
Non-interest bearing deposits	75,228	75,228	75,228	-	-
Interest bearing deposits	491,181	491,295	319,520	171,775	-
Repurchase agreements	16,298	16,310	10,131	6,179	-
Borrowed funds	33,207	33,658	207	33,451	-
Accrued interest payable	52	52	-	52	-

	(Dollars in thousands) December 31, 2011		*Estimated Fair Value Measurements at December 31, 2011 Using*		
	Carrying Value	*Estimated Fair Value*	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
Financial assets:					
Cash and cash equivalents	$ 26,367	$ 26,367	$ 26,367	$ -	$ -
Securities available-for-sale	186,962	186,962	-	185,601	1,361
Loans held-for-sale	-	-	-	-	-
Loans receivable, net	393,396	394,385	-	-	394,385
Federal Home Loan Bank stock	3,086	3,086	-	3,086	-
Accrued interest receivable	2,554	2,554	-	2,554	-
Financial liabilities:					
Non-interest bearing deposits	55,577	55,577	55,577	-	-
Interest bearing deposits	471,304	471,622	294,382	177,240	-
Repurchase agreements	15,395	15,407	8,722	6,685	-
Borrowed funds	36,618	37,270	617	36,653	-
Accrued interest payable	67	67	-	67	-

The following methods were used to estimate the fair value of financial instruments presented in the preceding table for the periods ended December 31, 2012 and 2011:

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

Non-interest and interest bearing deposits, which include checking, savings, and money market deposits, are estimated to have fair values based on the amount payable as of the reporting date (Level 1). The fair value of fixed-maturity certificates of deposit (included in interest bearing deposits) are based on estimates of the rate the Bancorp would pay on similar deposits, applied for the time period until maturity (Level 2). Estimated fair values for short-term repurchase agreements, which represent sweeps from demand deposits to accounts secured by pledged securities, are estimated based on the amount payable as of the reporting date (Level 1). Longer-term repurchase agreements, with contractual maturity dates of three months or more, are based on estimates of the rate the Bancorp would pay on similar deposits, applied for the time period until maturity (Level 2). Short-term borrowings are generally only held overnight, therefore, their carrying amount is a reasonable estimate of fair value (Level 1). The fair value of FHLB Advances are estimated by discounting the future cash flows using quoted rates from the FHLB similar advances with similar maturities. 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 16 – *Parent Company Only Statements*

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

	2012	2011
Assets		
Cash on deposit with Peoples Bank	$ 1	$ 1,191
Investment in Peoples Bank	67,321	62,601
Dividends receivable from Peoples Bank	539	425
Other assets	405	127
Total assets	$ 68,266	$ 64,344
Liabilities and stockholders' equity		
Dividends payable	$ 539	$ 425
Other liabilities	76	959
Total liabilities	615	1,384
Common stock	361	361
Additional paid in capital	5,189	5,173
Accumulated other comprehensive income	2,339	2,536
Retained earnings	60,817	56,032
Treasury stock	(1,055)	(1,142)
Total stockholders' equity	67,651	62,960
Total liabilities and stockholders' equity	$ 68,266	$ 64,344

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

	2012	*2011*
Dividends from Peoples Bank	$ 2,044	$ 1,699
Operating expenses	162	204
Income before income taxes and equity in undistributed income of Peoples Bank	1,882	1,495
Income tax benefit	(52)	(69)
Income before equity in undistributed income of Peoples Bank	1,934	1,564
Equity in undistributed income of Peoples Bank	4,919	3,821
Net income	$ 6,853	$ 5,385

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

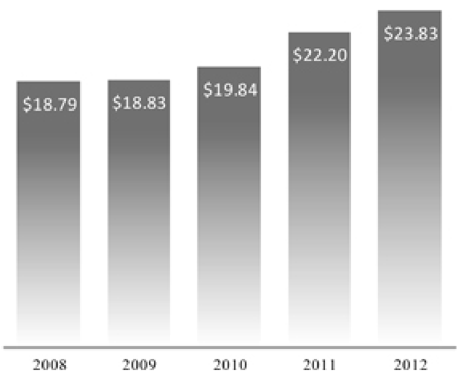
	2012	*2011*
Cash flows from operating activities:		
Net income	$ 6,853	$ 5,385
Adjustments to reconcile net income to net cash provided by operating activities		
Equity in undistributed net income of Peoples Bank	(5,071)	(4,139)
Deferred tax expense/(benefit)	152	318
Stock based compensation expense	16	33
Change in other assets	(392)	(23)
Change in other liabilities	(883)	99
Total adjustments	(6,178)	(3,712)
Net cash - operating activities	675	1,673
Cash flows from investing activities	-	-
Cash flows from financing activities:		
Dividends paid	(1,928)	(1,699)
Treasury stock purchased	(78)	-
Proceeds from sale of treasury stock	141	124
Net cash - financing activities	(1,865)	(1,575)
Net change in cash	(1,190)	98
Cash at beginning of year	1,191	1,093
Cash at end of year	$ 1	$ 1,191

Market Information

The Bancorp's Common Stock is traded in the over-the-counter market and quoted on the OTC Bulletin Board. The Bancorp's stock is not actively traded. As of January 31, 2013, the Bancorp had 2,837,396 shares of common stock outstanding and 405 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, 2012 and December 31, 2011. 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 10 to the Financial Statements describes regulatory limits on the Bancorp's ability to pay dividends.

	Per Share Prices		*Dividends Declared Per*
	High	*Low*	*Common Share*
Year Ended			
December 31, 2012 1st Quarter	$ 20.00	$ 13.25	$ 0.15
2nd Quarter	20.00	18.30	0.19
3rd Quarter	19.25	18.50	0.19
4th Quarter	21.00	17.58	0.19
Year Ended			
December 31, 2011 1st Quarter	$ 16.75	$ 14.00	$ 0.15
2nd Quarter	15.10	13.70	0.15
3rd Quarter	15.00	14.00	0.15
4th Quarter	15.50	14.00	0.15

Book Value per Share



Basic Earnings per Share

Dividends per Share

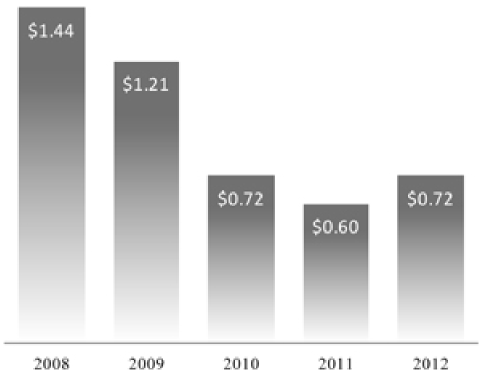


Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement No. 333-115666 on Form S-8 of NorthWest Indiana Bancorp of our report dated February , 2013 on the consolidated financial statements of NorthWest Indiana Bancorp, which report is included in Form 10-K for NorthWest Indiana Bancorp for the year ended December 31, 2011.

/s/ Plante & Moran, PLLC

Plante & Moran, PLLC

Chicago, Illinois
February , 2013

Exhibit 31.1

CERTIFICATION PURSUANT TO

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

I, David A. Bochnowski, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: February 15, 2013

/s/ David A. Bochnowski

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

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

I, Robert T. Lowry, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: February 15, 2013

/s/ Robert T. Lowry
Robert T. Lowry
Executive 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, 2012, 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, Executive Vice President, Chief Financial Officer and Treasurer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Dated: February 15, 2013

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

/s/ Robert T. Lowry

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

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