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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2005, 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	35-1927981
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
9204 Columbia Avenue Munster, Indiana	46321
(Address of principal executive offices)	(ZIP code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☑ No ☐

There were 2,787,398 shares of the registrant's Common Stock, without par value, outstanding at September 30, 2005.

NorthWest Indiana Bancorp

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NorthWest Indiana Bancorp

Consolidated Balance Sheets

(Dollars in thousands)	September 30, 2005 (unaudited)	December 31, 2004
ASSETS		
Cash and non-interest bearing balances in financial institutions	$ 15,151	$ 16,398
Interest bearing balances in financial institutions	530	—
Total cash and cash equivalents	15,681	16,398
Securities available-for-sale	76,114	69,161
Securities held-to-maturity; fair value: September 30, 2005 — $13,903 December 31, 2004 — $10,861	13,721	10,818
Loans held for sale	—	39
Loans receivable	450,776	433,790
Less: allowance for loan losses	(4,089)	(3,892)
Net loans receivable	446,687	429,898
Federal Home Loan Bank stock	2,965	2,904
Accrued interest receivable	2,590	2,459
Premises and equipment	14,499	14,169
Foreclosed real estate	—	280
Cash value of bank owned life insurance	8,380	8,147
Other assets	2,785	3,120
Total assets	$ 583,422	$ 557,393
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 43,947	$ 56,861
Interest bearing	435,407	394,712
Total	479,354	451,573
Borrowed funds	54,337	57,201
Accrued expenses and other liabilities	3,730	4,522
Total liabilities	537,421	513,296
Stockholders' Equity:		
Preferred stock, no par or stated value; 10,000,000 shares authorized, none outstanding	—	—
Common stock, no par or stated value; 10,000,000 shares authorized;		
shares issued: September 30, 2005 — 2,858,021		
December 31, 2004 — 2,840,979	357	355
shares outstanding: September 30, 2005 — 2,787,398,		
December 31, 2004 — 2,772,815		
Additional paid in capital	4,273	3,970
Accumulated other comprehensive (loss)	(606)	(180)
Retained earnings	43,499	41,392
Treasury stock, common shares at cost: September 30, 2005 — 70,623, December 31, 2004 — 68,164	(1,522)	(1,440)
Total stockholders' equity	46,001	44,097
Total liabilities and stockholders' equity	$ 583,422	$ 557,393

See accompanying notes to consolidated financial statements.

NorthWest Indiana Bancorp

Consolidated Statements of Income
(unaudited)

(Dollars in thousands, except per share data)	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Interest income:				
Loans receivable				
Real estate loans	$ 5,630	$ 5,198	$ 16,437	$ 15,748
Commercial loans	964	624	2,596	1,684
Consumer loans	64	87	199	253
Total loan interest	6,658	5,909	19,232	17,685
Securities	851	746	2,397	2,072
Other interest earning assets	48	27	346	56
Total interest income	7,557	6,682	21,975	19,813
Interest expense:				
Deposits	2,082	1,330	5,470	3,965
Borrowed funds	469	392	1,300	1,111
Total interest expense	2,551	1,722	6,770	5,076
Net interest income	5,006	4,960	15,205	14,737
Provision for loan losses	40	110	165	245
Net interest income after provision for loan losses	4,966	4,850	15,040	14,492
Noninterest income:				
Fees and service charges	621	628	1,738	1,595
Trust operations	129	116	432	385
Gain on sale of securities, net	34	—	63	226
Gain on sale of loans, net	21	154	82	196
Increase in cash value of bank owned life insurance	73	66	234	66
Gain on sale of foreclosed real estate	—	—	8	—
Other	5	4	32	21
Total noninterest income	883	968	2,589	2,489
Noninterest expense:				
Compensation and benefits	1,804	1,778	5,564	5,088
Occupancy and equipment	612	560	1,749	1,747
Data processing	198	184	578	544
Marketing	66	48	205	191
Other	822	798	2,384	2,339
Total noninterest expense	3,502	3,368	10,480	9,909
Income before income tax expenses	2,347	2,450	7,149	7,072
Income tax expenses	738	818	2,285	2,425
Net income	$ 1,609	$ 1,632	$ 4,864	$ 4,647
Earnings per common share:				
Basic	$ 0.58	$ 0.59	$ 1.75	$ 1.68
Diluted	$ 0.57	$ 0.58	$ 1.72	$ 1.66
Dividends declared per common share	$ 0.33	$ 0.31	$ 0.99	$ 0.93

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Changes in Stockholders' Equity
(unaudited)

(Dollars in thousands)	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Balance at beginning of period	$ 45,392	$ 41,997	$ 44,097	$ 41,554
Comprehensive income:				
Net income	1,609	1,632	4,864	4,647
Net unrealized gain/(loss) on securities available-for-sale, net of reclassifications and tax effects	(90)	707	(426)	(377)
Comprehensive income	1,519	2,339	4,438	4,270
Issuance of common stock, under stockbased compensation plan, net of tax effects	93	107	305	332
Cash dividends	(921)	(858)	(2,757)	(2,571)
Purchase of treasury stock	(82)	—	(82)	—
Balance at end of period	$ 46,001	$ 43,585	$ 46,001	$ 43,585

See accompanying notes to consolidated financial statements.

NorthWest Indiana Bancorp

Consolidated Statements of Cash Flows
(unaudited)

(Dollars in thousands)	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 4,864	$ 4,647
Adjustments to reconcile net income to net cash provided by operating activities:		
Origination of loans for sale	(3,813)	(1,973)
Sale of loans originated for sale	3,898	2,077
Depreciation and amortization, net of accretion	1,205	1,140
Amortization of mortgage servicing rights	68	44
Amortization of investment in real estate limited partnerships	45	37
Equity in (gain)/loss of investment in limited partnership, net of interest received	—	11
Change in equity of investment in limited liability corporation	16	20
Federal Home Loan Bank stock dividend	(61)	(98)
Net gains on sale of securities	(63)	(226)
Net gains on sale of loans	(82)	(196)
Net loss on sale of foreclosed real estate	(8)	—
Provision for loan losses	165	245
Net change in:		
Interest receivable	(131)	(33)
Cash value of bank owned life insurance	(233)	(66)
Other assets	475	683
Accrued expenses and other liabilities	(852)	(558)
Total adjustments	629	1,107
Net cash from operating activities	5,493	5,754
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and pay downs of securities available-for-sale	10,799	14,205
Proceeds from sales of securities available-for-sale	4,029	6,246
Purchase of securities available-for-sale	(22,457)	(33,878)
Purchase of securities held-to-maturity	(2,939)	(6,802)
Proceeds from maturities and pay downs of securities held-to-maturity	12	7
Proceeds from sale of loans transferred to held for sale	—	12,166
Loan participations purchased	(17,797)	(3,229)
Net change in loans receivable	845	(15,003)
Purchase of premises and equipment, net	(1,433)	(730)
Proceeds from sale of foreclosed real estate	288	—
Purchase of bank owned life insurance	—	(8,000)
Net cash from investing activities	(28,653)	(35,018)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in deposits	27,781	20,506
Proceeds from FHLB advances	4,000	13,000
Repayment of FHLB advances	(9,000)	(4,000)
Change in other borrowed funds	2,136	507
Proceeds from issuance of common stock	305	332
Dividends paid	(2,697)	(2,539)
Treasury stock purchased	(82)	—
Net cash from financing activities	22,443	27,806
Net change in cash and cash equivalents	(717)	(1,458)
Cash and cash equivalents at beginning of period	16,398	16,070
Cash and cash equivalents at end of period	$ 15,681	$ 14,612
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 6,698	$ 3,353
Income taxes	$ 2,025	$ 975
SUPPLEMENTAL NONCASH INFORMATION:		
Transfers from loans to foreclosed real estate	$ —	$ 101
Transfers from loans to loans held for sale	$ —	$ 12,202

See accompanying notes to consolidated financial statements.

NorthWest Indiana Bancorp

Notes to Consolidated Financial Statements

Note 1 — Basis of Presentation

The consolidated financial statements include the accounts of NorthWest Indiana Bancorp (the “Bancorp”), its wholly-owned subsidiary, Peoples Bank SB (the “Bank”), and the Bank’s wholly-owned subsidiaries, Peoples Service Corporation and NWIN, LLC. The Bancorp has no other business activity other than being a holding company for the Bank. The Bancorp’s earnings are dependent upon the earnings of the Bank. The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include all disclosures required by U.S. generally accepted accounting principles for complete presentation of financial statements. In the opinion of management, the consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the consolidated balance sheets of the Bancorp as of September 30, 2005 and December 31, 2004, and the consolidated statements of income and changes in stockholders’ equity for the three and nine months ended September 30, 2005 and 2004, and cash flows for the nine months ended September 30, 2005 and 2004. The income reported for the nine month period ended September 30, 2005 is not necessarily indicative of the results to be expected for the full year.

Note 2 — Use of Estimates

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

Note 3 — Concentrations of Credit Risk

The Bancorp grants residential, commercial real estate, commercial business and installment loans to customers in its primary market area of Lake County, in northwest Indiana. Substantially all loans are secured by specific items of collateral including residences, business assets and consumer assets.

Note 4 — Reclassifications

Certain amounts reported in the December 31, 2004 consolidated financial statements and the September 30, 2004 Form 10-Q have been reclassified to conform to the September 30, 2005 presentation.

Note 5 — Stock Compensation

The following proforma information presents net income and basic and diluted earnings per share had the fair value method been used to measure compensation for stock options granted. The exercise price of options granted is equivalent to the market price of the underlying stock at the grant date; therefore, no compensation expense has been recorded for stock options granted.

	(Dollars in thousands, except per share data)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income as reported	$ 1,609	$ 1,632	$ 4,864	$ 4,647
Proforma net income	$ 1,597	$ 1,619	4,830	4,609
Weighted average common shares outstanding:				
Basic	2,783,910	2,767,162	2,781,126	2,763,023
Diluted	2,822,431	2,814,040	2,821,959	2,805,771
Reported earnings per common share:				
Basic	0.58	0.59	1.75	1.68
Diluted	0.57	0.58	1.72	1.66
Proforma earnings per common share:				
Basic	0.57	0.59	1.74	1.67
Diluted	0.57	0.58	1.71	1.64

No stock options were issued during the nine months ended September 30, 2005. During 2004, 11,450 stock options were issued during the first quarter. The weighted average fair value of the grant for 2004 was $3.48. The fair value of options granted during 2004 were estimated using an option pricing model with the following weighted average information as of the grant date:

	2004
Risk free rate of interest	3.28%
Expected option life	6-7 years
Expected dividend yield	4.13%
Expected volatility	16.5%

Note 6 — Earnings Per Share

Earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding. A reconciliation of the numerators and denominators of the basic and diluted earnings per common share computation for the three and nine months ended September 30, 2005 and September 30, 2004 is presented below:

	(Dollars in thousands, except per share data)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Basic earnings per common share:				
Net income as reported	$ 1,609	$ 1,632	$ 4,864	$ 4,647
Weighted average common shares outstanding:	2,783,910	2,767,162	2,781,126	2,763,023
Basic earnings per common share:	$ 0.58	$ 0.59	$ 1.75	$ 1.68
Diluted earnings per common share:				
Net income as reported	$ 1,609	$ 1,632	$ 4,864	$ 4,647
Weighted average common shares outstanding:	2,783,910	2,767,162	2,781,126	2,763,023
Add: dilutive effect of assumed stock option exercises:	38,521	46,878	40,833	42,748
Weighted average common and dilutive potential common shares outstanding:	2,822,431	2,814,040	2,821,959	2,805,771
Diluted earnings per common share:	$ 0.57	$ 0.58	$ 1.72	$ 1.66

Note 7 — New Accounting Pronouncements

FAS 123, Revised, requires companies to record compensation cost for stock options provided to employees in return for employment service. The cost is measured at the fair value of the options when granted, and this cost is expensed over the employment service period, which is normally the vesting period of the options. This will apply to awards granted or modified in fiscal years beginning in 2006. Compensation cost will also be recorded for prior option grants that vest after the date of adoption. The effect on results of operations will depend on the level of future option grants and the calculation of the fair value of the options granted at such future date, as well as the vesting periods provided, and so cannot currently be predicted. Existing options that will vest after adoption date are expected to result in additional compensation expense of approximately $37,000 in 2006 and $22,000 in 2007.

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

Summary

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

At September 30, 2005, the Bancorp had total assets of $583.4 million, total loans of $450.8 million and total deposits of $479.4 million. Stockholders' equity totaled $46.0 million or 7.9% of total assets, with book value per share at $16.50. Net income for the quarter ended September 30, 2005, was $1.6 million, or $0.58 earnings per common share for basic and $0.57 for diluted calculations. The annualized return on average assets (ROA) was 1.11%, while the annualized return on average stockholders' equity (ROE) was 14.04%, for the three months ended September 30, 2005. Net income for the nine months ended September 30, 2005, was $4.9 million, or $1.75 earnings per common share for basic and $1.72 for diluted calculations. The annualized return on average assets (ROA) was 1.12%, while the annualized return on average stockholders' equity (ROE) was 14.34%, for the nine months ended September 30, 2005.

Financial Condition

During the nine months ended September 30, 2005, total assets increased by $26.0 million (4.7%), with interest-earning assets increasing by $27.4 million (5.3%). At September 30, 2005, interest-earning assets totaled $544.1 million and represented 93.3% of total assets.

Loans receivable totaled $450.8 million at September 30, 2005, compared to $433.8 million at December 31, 2004. At September 30, 2005, loans receivable represented 82.8% of interest-earning assets, 77.3% of total assets and 94.0% of total deposits. The loan portfolio, which is the Bancorp's largest asset, is a significant source of both interest and fee income. The Bancorp's lending strategy stresses quality loan growth, product diversification, and competitive and profitable pricing. The loan portfolio includes $42.9 million (9.5%) in construction and development loans, $229.5 million (50.9%) in residential mortgage loans, $9.2 million (2.0%) in multifamily loans, $96.6 million (21.4%) in commercial real estate loans, $4.3 million (0.9%) in consumer loans, $47.2 million (10.5%) in commercial business and $21.1 million (4.8%) in government and other loans. Adjustable rate loans comprised 54.1% of total loans at September 30, 2005. During the nine months ended September 30, 2005, loans increased by $17.0 million (3.9%), including $9.2 million in government loans, $4.3 million in construction and land development loans, $2.2 million in residential mortgage loans and $2.2 million in commercial real estate loans. During the nine months ended September 30, 2005, multifamily loans decreased by $535 thousand, consumer loans decreased by $416 thousand and commercial business loans decreased by $56 thousand. During the nine months ended September 30, 2005, loan growth was affected by strong loan growth in the government sector, which is included in commercial loans, while commercial business and commercial real estate loans were affected by lower than expected origination volume and an increase in loan payoffs.

The Bancorp is primarily a portfolio lender. Mortgage banking activities are generally limited to the sale of fixed rate mortgage loans with contractual maturities generally exceeding 15 years. These loans are identified as held for sale when originated and sold, on a case-by-case basis, in the secondary market as part of the Bancorp's efforts to manage interest rate risk. In addition, when appropriate the Bancorp utilizes forward commitments selling loans with servicing released. During the nine months ended September 30, 2005, the Bancorp sold $3.9 million in fixed rate mortgages originated for sale compared to $2.1 million during the nine months ended September 30, 2004. In addition, during the third quarter of 2004 the Bancorp sold $12.2 million in twenty and thirty year fixed rate loans as a part of a balance sheet restructuring strategy to reduce interest rate risk. The restructuring reduced price volatility in the mortgage portfolio, provided for the purchase of bank owned life insurance and funding shorter duration loans. Net gains realized from sales for the nine months ended September 30, 2005 totaled $82 thousand compared to $196 thousand for the nine months ended September 30, 2004. At September 30, 2005, the Bancorp had no loans that were classified as loans held for sale.

The primary objective of the Bancorp's investment portfolio is to provide for the liquidity needs of the Bancorp and to contribute to profitability by providing a stable flow of dependable earnings. Funds are generally invested in federal funds, interest bearing balances in financial institutions, U.S. government securities, federal agency obligations and obligations of state and local municipalities. Investments are generally for terms ranging from one day to seven years. The investment portfolio totaled $93.3 million at September 30, 2005, compared to $82.9 million at December 31, 2004, an increase of $10.4 million (12.6%). At September 30, 2005, the investment portfolio represented 17.2% of interest-earning assets and 16.0% of total assets. The securities portfolio was comprised of 49.9% in U.S. government agency debt securities, 31.5% in U.S. government agency mortgage-backed securities and collateralized mortgage obligations, and 18.6% in municipal securities. At September 30, 2005, securities available-for-sale ("AFS") totaled

$76.1 million or 84.7% of total securities. AFS securities are those the Bancorp may decide to sell if needed for liquidity, asset-liability management or other reasons. In addition, at September 30, 2005, the Bancorp had $530 thousand in interest bearing balances in financial institutions and $3.0 million in Federal Home Loan Bank (FHLB) stock. During the nine months ended September 30, 2005, the securities portfolio increased by $9.9 million, while interest bearing balances in financial institutions increased by $530 thousand. Securities growth was a result of planned portfolio growth.

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 less 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 collectibility as of the reporting date. The appropriateness of the current year provision and the overall adequacy of the ALL are determined through a disciplined and consistently applied quarterly process that combines a review of the current position with a risk assessment worksheet.

The risk assessment worksheet covers the residential, commercial real estate, commercial business, and consumer loan portfolios. Management uses a risk rating system to assist in determining the appropriate level for the ALL. Management assigns risk factors to non-performing loans; loans that management has internally classified as impaired; loans that management has internally classified as substandard, doubtful, loss, or watch; and, performing loans. Risk factors are based on an evaluation of the Bank's own historical information, industry trends, and subjective assessment and interpretation. While management evaluates the loan portfolio as a pool, judgment is applied to determine risk factors associated with impaired loans and large commercial loans.

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 $1.4 million at September 30, 2005 compared to $1.0 million at December 31, 2004, an increase of $330 thousand or 32%. The ratio of non-performing loans to total loans was 0.31% at September 30, 2005 compared to 0.24% at December 31, 2004. The ratio of non-performing loans to total assets was 0.24% at September 30, 2005, compared to 0.19% at December 31, 2004. The September 30, 2005 balance includes $1.2 million in loans accounted for on a non-accrual basis and $220 thousand in accruing loans which were contractually past due 90 days or more. Loans, internally classified as substandard totaled $3.4 million at September 30, 2005, an increase of $164 thousand from the $3.2 million reported at December 31, 2004. No loans were classified as doubtful or loss. Substandard loans include non-performing loans and potential problem loans, where information about possible credit issues or other conditions causes management to question the ability of such borrowers to comply with loan covenants or repayment terms. In addition to identifying and monitoring non-performing and other classified loans, management maintains a list of watch loans. Watch loans represent loans management is more closely monitoring due to one or more factors that may cause the loan to become classified. Watch loans totaled $8.3 million at September 30, 2005, compared to $7.7 million at December 31, 2004.

At September 30, 2005, four loans totaling $1.7 million have been classified as impaired, compared to one loan totaling $266 thousand at December 31, 2004. The increase in impaired loans is primarily due to one commercial borrower, with three loans totaling $1.4 million that are secured by commercial real estate and business assets, and are personally guaranteed by the owner of the business. During the third quarter of 2005 the loans were placed back into accrual status. Management has negotiated repayment and has been consistently receiving principal and interest payments. Management will continue to monitor the borrowers' compliance with the repayment schedule. In addition, one commercial real estate loan totaling $266 thousand continues to be classified as impaired. Impaired loans are loans where full payment under the loan terms is not expected. There were no other loans considered to be impaired loans as of, or for the quarter ended, September 30, 2005.

At September 30, 2005, management is of the opinion that there are no loans, except those discussed above, where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as non-accrual, past due or restructured loans. Also, at September 30, 2005, there were no other interest bearing assets that would be required to be disclosed as non-accrual, past due, restructured or potential problems if such assets were loans. Management does not presently anticipate that any of the non-performing loans or classified loans would materially impact future operations, liquidity or capital resources.

During the nine months ended September 30, 2005, additions to the ALL account totaled $165 thousand compared to $245 thousand for the nine months ended September 30, 2004. Recoveries, net of charge-offs, totaled $32 thousand for the current nine month period compared to charge-offs, net of recoveries of $265 thousand for the nine months ended September 30, 2004. Changes in the provision are consistent with the current level of non-performing and impaired loans, and take into consideration management's current judgments about the credit quality of the loan portfolio, loan portfolio growth, changes in the portfolio mix and local economic conditions. In determining the provision for loan loss for the current period, management has given additional consideration to increased risks associated within the local economy and changes in loan mix.

The ALL to total loans was 0.91% at September 30, 2005 compared to 0.90% at December 31, 2004, while the ALL to non-performing loans (coverage ratio) was 296.5% at the end of the current nine months, compared to 371.0% at December 31, 2004. A consistently strong coverage ratio is an indicator that sufficient provisions for loan losses have been established. The September 30, 2005 balance in the ALL account of $4.1 million is considered adequate by management after evaluation of the loan portfolio, past experience and current economic and market conditions. While management may periodically allocate portions of the allowance for specific problem loans, the whole allowance is available for any loan charge-offs that occur. The allocation of the ALL reflects performance and growth trends within the various loan categories, as well as consideration of the facts and circumstances that affect the repayment of individual loans, and loans which have been pooled as of the evaluation date, with particular attention given to non-performing loans and loans which have been classified as substandard, doubtful or loss. Management has allocated general reserves to both performing and non-performing loans based on current information available.

At September 30, 2005, the Bancorp had no properties in foreclosed real estate, compared to five properties totaling $280 thousand at December 31, 2004.

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 September 30, 2005, deposits totaled $479.4 million. During the nine months ended September 30, 2005, deposits increased by $27.8 million (6.2%). Money market deposit accounts (MMDA's) increased $33.2 million (45.1%) and certificates of deposit increased by $9.2 million (4.7%). The growth in MMDA's and certificates of deposit was a result of competitive product offerings and an effective marketing program. During the current period, checking accounts decreased by $10.5 million (9.3%). The checking account decrease was a result of reduced balances in several commercial business accounts and a reduction in escrows for real estate taxes. At September 30, 2005, the deposit base was comprised of 21.4% checking accounts, 22.3% MMDA's, 13.9% savings accounts and 42.4% certificates of deposit.

Borrowings are primarily used to fund asset growth not supported by deposit generation. At September 30, 2005, borrowed funds totaled $54.3 million compared to $57.2 million at December 31, 2004, a decrease of $2.9 million (5.0%). Retail repurchase agreements totaled $13.0 million at September 30, 2005, compared to $11.5 million at December 31, 2004, an increase of $1.5 million (13.4%). FHLB advances totaled $39.5 million at September 30, 2005 and December 31, 2004. In addition, other short-term borrowings totaled $1.8 million at September 30, 2005, compared to $6.2 million at December 31, 2004, a decrease of $4.4 million. The decrease in other short-term borrowings was a result of line of credit repayments. During the current quarter, the Bancorp utilized retail deposit growth to repay short-term borrowings.

Liquidity and Capital Resources

For the Bancorp, liquidity management refers to the ability to generate sufficient cash to fund current loan demand, meet deposit withdrawals, and pay dividends and operating expenses. Because the Bancorp is subject to legal reserve requirements under Federal Reserve Regulation D, liquidity is managed to ensure that the Bancorp maintains an adequate level of legal reserves. In addition, liquidity is managed to meet the cash demands of depositors and its loan customers. Because profitability and liquidity are often conflicting objectives, management attempts to maximize the Bancorp's net interest margin by making adequate, but not excessive, liquidity provisions.

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., retail repurchase agreements and advances from the FHLB) as a source of funds.

During the nine months ended September 30, 2005, cash and cash equivalents decreased by $717 thousand compared to a $1.5 million decrease nine months ended September 30, 2004. The primary sources of cash were proceeds from maturities and sales of securities, loan sales, deposit growth and cash provided by operating activities. The primary uses of cash were the purchase of loan participations, purchase of securities, repayment of FHLB advances and the payment of common stock dividends. Cash provided by operating activities totaled $5.5 million for the nine months ended September 30, 2005, compared to $5.8 million for the period ended September 30, 2004. Cash outflows from investing activities totaled $28.7 million for the current period, compared to $35.0 million for the nine months ended September 30, 2004. The change for the current period was primarily due to a reduction in security and loan investing activities. Net cash inflows from financing activities totaled $22.4 million during the current period compared to net cash inflows of $27.8 million for the nine months ended September 30, 2004. The decrease in net cash inflows from financing activities was primarily due to the change in cash flows from FHLB advances. The Bancorp paid dividends on common stock of $2.7 million during the current nine months compared to $2.5 million for the nine months ended September 30, 2004.

At September 30, 2005, outstanding commitments to fund loans totaled $79.3 million. Approximately 84% of the commitments were at variable rates. Management believes that the Bancorp has sufficient cash flow and borrowing capacity to fund all outstanding commitments and to maintain proper levels of liquidity.

Management strongly believes that maintaining a high level of capital enhances safety and soundness. During the nine months ended September 30, 2005, stockholders' equity increased by $1.9 million (4.3%). The increase resulted primarily from earnings of $4.9 million during the period. The Bancorp declared $2.8 million in cash dividends for the nine month period ended September 30, 2005. The net unrealized loss on available-for-sale securities, net of tax was $426 thousand for the current period. During the current nine month period, the Bancorp paid $82 thousand for the purchase of treasury stock. This repurchase was part of a Board approved stock repurchase authorization from April 2000.

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 identical. 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 September 30, 2005, and December 31, 2004, the Bancorp's capital exceeded all regulatory capital requirements. The Bancorp's and the Bank's regulatory capital ratios were substantially the same at both dates. The dollar amounts are in millions.

	Actual		Required for adequate capital		To be well capitalized	
At September 30, 2005	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets	$ 50.7	12.2%	$ 33.3	8.0%	$ 41.7	10.0%
Tier 1 capital to risk-weighted assets	$ 46.6	11.2%	$ 16.7	4.0%	$ 25.0	6.0%
Tier 1 capital to adjusted average assets	$ 46.6	8.0%	$ 17.4	3.0%	$ 29.0	5.0%

	Actual		Required for adequate capital		To be well capitalized	
At December 31, 2004	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets	$ 48.0	12.2%	$ 31.5	8.0%	$ 39.4	10.0%
Tier 1 capital to risk-weighted assets	$ 44.2	11.2%	$ 15.7	4.0%	$ 23.6	6.0%
Tier 1 capital to adjusted average assets	$ 44.2	8.0%	$ 16.6	3.0%	$ 27.6	5.0%

The Bancorp's ability to pay dividends to its shareholders is entirely dependent upon the Bank's ability to pay dividends to the Bancorp. Under Indiana law, the Bank may pay dividends from its undivided profits (generally, earnings less losses, bad debts, taxes and other operating expenses) as is considered expedient by the Bank's Board of Directors. However, the Bank must obtain the approval of the Indiana Department of Financial Institutions for the payment of a dividend if the total of all dividends declared by the Bank during the current year, including the proposed dividend, would exceed the sum of retained net income for the year to date plus its retained net income for the previous two years. For this purpose, "retained net income" means net income as calculated for call report purposes, less all dividends declared for the applicable period. Moreover, the FDIC and the Federal Reserve Board may prohibit the payment of dividends if it determines that the payment of dividends would constitute an unsafe or unsound practice in light of the financial condition of the Bank. The aggregate amount of dividends, which may be declared by the Bank in 2005, without prior regulatory approval, approximates $5,196,000 plus current 2005 net profits.

Results of Operations — Comparison of the Quarter Ended September 30, 2005 to the Quarter Ended September 30, 2004

Net income for the three months ended September 30, 2005 was $1.61 million compared to $1.63 million for the quarter ended September 30, 2004, a decrease of $23 thousand (1.4%). The change in earnings for the quarter ended September 30, 2005, as compared to the same quarter of 2004, was affected by a gain on the sale of loans in the third quarter of 2004. During the third quarter of 2004, the Bancorp implemented a balance sheet restructuring strategy to reduce interest rate risk, which resulted in the sale of $12.2 million of loans at a gain of $132,000. The earnings represent a ROA of 1.11% for the quarter ended September 30, 2005 compared to 1.19% for the quarter ended September 30, 2004. The ROE was 14.04% for the quarter ended September 30, 2005 compared to 15.18% for the quarter ended September 30, 2004.

Net interest income for the three months ended September 30, 2005 was $5.01 million, up $46 thousand (1%), compared to $4.96 million for the quarter ended September 30, 2004. The increase in net interest income was due to an increase in average loan and core deposit balances. The weighted-average yield on interest-earning assets was 5.60% for the three months ended September 30, 2005 compared to 5.26% for the three months ended September 30, 2004. The weighted-average cost of funds for the quarter ended September 30, 2005, was 1.93% compared to 1.37% for the quarter ended September 30, 2004. The impact of the 5.60% return on interest-earning assets and the 1.93% cost of funds resulted in an interest rate spread of 3.67% for the current quarter compared to 3.88% for the quarter ended September 30, 2004. During the current quarter, total interest income increased by $875 thousand (13.1%) while total interest expense increased by $829 thousand (48.1%). The net interest margin was 3.71% for the three months ended September 30, 2005 compared to 3.90% for the quarter ended September 30, 2004.

During the three months ended September 30, 2005, interest income from loans increased by $749 thousand (12.7%) compared to the three months ended September 30, 2004. The increase was due to higher average daily loan balances and an increase in the weighted-average yield. Average daily loan balances was affected by strong loan growth in the government sector, while commercial business and commercial real estate loans were affected by lower than expected origination volume and an increase in loan payoffs. The weighted-average yield on loans outstanding was 6.00% for the current quarter compared to 5.68% for the three months ended September 30, 2004. Loan balances averaged $443.7 million for the current quarter, up $27.9 million (6.7%) from $415.8 million for the three months ended September 30, 2004. During the three months ended September 30, 2005, interest income on investments and other deposits increased by $126 thousand (16.3%) compared to the quarter ended September 30, 2004. The increase was due to higher security portfolio average balances, an increase in portfolio yields and a significant increase in interest bearing balances in financial institutions. The weighted-average yield on securities and other deposits was 3.76% for the current quarter compared to 3.34% for the three months ended September 30, 2004. Securities and other deposits averaged $95.6 million for the current quarter, up $3.0 million (3.2%) from $92.6 million for the three months ended September 30, 2004.

Interest expense for deposits increased by $752 thousand (56.5%) during the current quarter compared to the three months ended September 30, 2004. The change was due to an increase in the weighted-average rate paid on deposits and increased average balances. The weighted-average rate paid on deposits for the three months ended September 30, 2005 was 1.76% compared to 1.18% for the quarter ended September 30, 2004. Total deposit balances averaged $474.0 million for the current quarter, up $24.0 million (5.3%) from $450.0 million for the quarter ended September 30, 2004. Interest expense on borrowed funds increased by $77 thousand (19.6%) during the current quarter due to an increase in the weighted-average rate paid and an increase in average daily balances. The weighted-average cost of borrowed funds was 3.36% for the current quarter compared to 3.05% for the three months ended September 30, 2004. Borrowed funds averaged $55.7 million during the quarter ended September 30, 2005, an increase of $4.3 million (8.4%) from $51.4 million for the quarter ended September 30, 2004.

Noninterest income for the quarter ended September 30, 2005 was $883 thousand, a decrease of $85 thousand (8.8%) from $968 thousand for the quarter ended September 30, 2004. During the current quarter fees and service charges totaled $621 thousand, a decrease of $7 thousand (1.1%) from $628 thousand for the quarter ended September 30, 2004. The change was primarily due to fees associated with loan prepayment penalties collected in 2004. Fees from Trust operations totaled $129 thousand for the quarter ended September 30, 2005, an increase of $13 thousand (11.2%) from $116 thousand for the quarter ended September 30, 2004. Income from increases in the cash value of bank owned life insurance totaled $73 thousand during the current quarter.

Gains from loan sales totaled $21 thousand for the current quarter, compared to $154 thousand for the quarter ended September 30, 2004. The decrease is a result of the third quarter 2004 balance sheet restructure, which included the sale of $12.2 million sale of twenty and thirty year fixed rate loans. No foreclosed real estate gains or losses were realized during the quarters ended September 30, 2005 and 2004. Current quarter noninterest income has also been impacted by gains from security sales of $34 thousand.

Noninterest expense for the quarter ended September 30, 2005 was $3.5 million, up $134 thousand (4.0%) from $3.4 million for the three months ended September 30, 2004. During the current quarter, compensation and benefits totaled $1.80 million, an increase of $26 thousand (1.5%) from $1.78 million for the quarter ended September 30, 2004. The increase was primarily due to increased compensation, due to annual salary increases and additional staffing for current banking operations. Occupancy and equipment totaled $612 thousand for the current quarter, an increase of $52 thousand (9.3%) compared to $560 thousand for the quarter ended September 30, 2004. The increase was a result of additional real estate tax and depreciation expense related to banking operations. Data processing expense totaled $198 thousand for the nine months ended September 30, 2005, an increase of $14 thousand (7.6%) from $184 thousand for the nine months ended September 30, 2004. The change was a result of increased transaction volume with the Bancorp’s core data processing system. Marketing expense related to banking products totaled $66 thousand for the current quarter, an increase of $18 thousand (37.5%) from $48 for the third quarter of 2004. Other expense totaled $822 thousand for the quarter ended September 30, 2005, an increase of $24 thousand (3.0%) from $798 thousand for the quarter ended September 30, 2004. The increase was due to expense associated with the imaging of customer checks and account statements. The Bancorp’s efficiency ratio was 59.5% for the quarter ended September 30, 2005 compared to 56.8% for the three months ended September 30, 2004. The ratio is determined by dividing total noninterest expense by the sum of net interest income and total noninterest income for the period.

Income tax expenses for the three months ended September 30, 2005 totaled $738 thousand compared to $818 thousand for the three months ended September 30, 2004, a decrease of $80 thousand (9.8%). The combined effective federal and state tax rates for the Bancorp was 31.4% for the three months ended September 30, 2005 compared to 33.4% for the three months ended September 30, 2004. The decrease was due to an increased investment in tax-exempt investments, loans and bank owned life insurance.

Results of Operations — Comparison of the Nine Months Ended September 30, 2005 to the Nine Months Ended September 30, 2004

Net income for the nine months ended September 30, 2005 was $4.9 million compared to $4.6 million for the nine months ended September 30, 2004, an increase of $217 thousand (4.7%), principally due to consistent core earnings, asset quality, increased noninterest income from banking activities and stable operating expenses. The earnings represent a ROA of 1.12% for the nine months ended September 30, 2005 compared to 1.17% for the nine months ended September 30, 2004. The ROE was 14.34% for the nine months ended September 30, 2005 compared to 14.55% for the nine months ended September 30, 2004.

Net interest income for the nine months ended September 30, 2005 was $15.2 million, up $468 thousand (3.2%), compared to $14.7 million for the nine months ended September 30, 2004. The increase in net interest income was due to an increase in average loan and core deposit balances. The weighted-average yield on interest-earning assets was 5.43% for the nine months ended September 30, 2005, compared to 5.31% for the nine months ended December 31, 2004. The weighted-average cost of funds for the nine months ended September 30, 2005, was 1.70% compared to 1.39% for the nine months ended September 30, 2004. The impact of the 5.43% return on interest-earning assets and the 1.70% cost of funds resulted in an interest rate spread of 3.73% for the current nine months compared to 3.92% for the nine months ended September 30, 2004. During the current nine months, total interest income increased by $2.2 million (10.9%) while total interest expense increased by $1.7 million (33.4%). The net interest margin was 3.76% for the nine months ended September 30, 2005 compared to 3.95% for the nine months ended September 30, 2004.

During the nine months ended September 30, 2005, interest income from loans increased by $1.5 million (8.8%) compared to the nine months ended September 30, 2004. The increase was due to higher average daily loan balances and an increase in the weighted average yield. Average daily loan balances was affected by strong loan growth in the government sector, while commercial business and commercial real estate loans were affected by lower than expected origination volume and an increase in loan payoffs. The weighted-average yield on loans outstanding was 5.86% for the current nine months compared to 5.72% for the nine months ended September 30, 2004. Loan balances averaged $437.9 million for the current nine months, up $25.3 million (6.1%) from $412.6 million for the nine months ended September 30, 2004. During the nine months ended September 30, 2005, interest income on investments and other deposits increased by $615 thousand (28.9%) compared to the nine months ended September 30, 2004. The increase was due to higher security portfolio average balances, an increase in portfolio yields and a significant increase in interest bearing balances in financial institutions. The increase in interest bearing balances in financial institutions was a result of increased short-term deposits received from a local government municipality. The weighted-average yield on securities and other deposits was 3.60% for the current nine months compared to 3.35% for the nine months ended September 30, 2004. Securities and other deposits averaged $101.7 million for the current nine months, up $16.9 million (19.9%) from $84.8 million for the nine months ended September 30, 2004.

Interest expense for deposits increased by $1.5 million (38.0%) during the current nine months compared to the nine months ended September 30, 2004. The change was due to an increase in the weighted-average rate paid on deposits and increased average balances. The weighted-average rate paid on deposits for the nine months ended September 30, 2005 was 1.53% compared to 1.21% for the nine months ended September 30, 2004. Total deposit balances averaged $478.2 million for the current nine months, up $40.9 million (9.4%) from $437.3 million for the nine months ended September 30, 2004. Interest expense on borrowed funds increased by $189 thousand (17.0%) during the current nine months due to an increase in the weighted-average rate paid and an increase in average daily balances. The weighted-average cost of borrowed funds was 3.25% for the current nine months compared to 2.98% for the nine months ended September 30, 2004. Borrowed funds averaged $53.2 million during the nine months ended September 30, 2005, an increase of $3.5 million (7.0%) from $49.7 million for the nine months ended September 30, 2004.

Noninterest income for the nine months ended September 30, 2005 was $2.6 million, an increase of $100 thousand (4.0%) from $2.5 million for the nine months ended September 30, 2004. During the current nine months fees and service charges totaled $1.7 million, an increase of $143 thousand (9.0%) from $1.6 million for the nine months ended September 30, 2004. The change was primarily due to fees associated with deposit account growth. Fees from Trust operations totaled $432 thousand for the nine months ended September 30, 2005, an increase of $47 thousand (12.2%) from $385 thousand for the nine months ended September 30, 2004. Income from increases in the cash value of bank owned life insurance totaled $168 thousand during the current nine months. Gains from loan sales totaled $82 thousand for the current nine months, compared to $196 thousand for the nine months ended September 30, 2004. The decrease is a result of the third quarter 2004 balance sheet restructure, which included the sale of $12.2 million sale of twenty and thirty year fixed rate loans. Gains from the sale of foreclosed real estate totaled $8 thousand for the nine months ended September 30, 2005, compared to $0 during the nine months ended September 30, 2004. Current nine months noninterest income has also been impacted by a decrease in gains from security sales of $163 thousand, compared to the nine months ended September 30, 2004.

Noninterest expense for the nine months ended September 30, 2005 was $10.5 million, up $571 thousand (5.8%) from $9.9 million for the nine months ended September 30, 2004. During the current nine months compensation and benefits totaled $5.6 million, an increase of $476 thousand (9.4%) from $5.1 million for the nine months ended September 30, 2004. The increase was primarily due to increased compensation, due to annual salary increases, and additional staffing for current banking operations. Occupancy and equipment totaled $1.7 million for both the nine months ended September 30, 2005 and 2004. Data processing expense totaled $578 thousand for the nine months ended September 30, 2005, an increase of $34 thousand (6.3%) from $544 thousand for the nine months ended September 30, 2004. The change was a result of increased transaction volume with the Bancorp’s core data processing system. Marketing expense related to banking products totaled $205 thousand for the current quarter, an increase of $14 thousand (7.3%) from $191 for the third quarter of 2004. Other expense totaled $2.4 million for the nine months ended September 30, 2005, an increase of $45 thousand (1.9%) from $2.3 million for the nine months ended September 30, 2004. The increase was due to expense associated with the imaging of customer checks and account statements. The Bancorp’s efficiency ratio was 58.9% for the nine months ended September 30, 2005 compared to 57.5% for the nine months ended September 30, 2004.

Income tax expenses for the nine months ended September 30, 2005 totaled $2.3 million compared to $2.4 million for the nine months ended September 30, 2004, a decrease of $140 thousand (5.8%). The combined effective federal and state tax rates for the Bancorp was 32.0% for the nine months ended September 30, 2005 compared to 34.3% for the nine months ended September 30, 2004. The decrease was due to an increased investment in tax-exempt investments, loans and bank owned life insurance.

Critical Accounting Policies

Critical accounting policies are those accounting policies that management believes are most important to the portrayal of the Bancorp’s financial condition and that require management’s most difficult, subjective or complex judgments. The Bancorp’s critical accounting policies from December 31, 2004 remain unchanged.

Forward-Looking Statements

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

Regulatory Risk. The banking industry is heavily regulated. These regulations are intended to protect depositors, not shareholders. The Bank and Bancorp are subject to regulation and supervision by the Indiana Department of Financial Institutions, Federal Deposit Insurance Corporation, and the Board of Governors of the Federal Reserve System. The burden imposed by federal and state regulations puts banks at a competitive disadvantage compared to less regulated competitors such as finance companies, mortgage banking companies and leasing companies. The banking industry continues to lose market share to competitors.

Legislation. Because of concerns relating to the competitiveness and the safety and soundness of the industry, Congress continues to consider a number of wide-ranging proposals for altering the structure, regulation, and competitive relationships of the nation's financial institutions. Management cannot predict whether or in what form any of these proposals will be adopted or the extent to which the business of the Bancorp or the Bank may be affected thereby.

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

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

Interest Rate Risk. The Bancorp's earnings depend to a great extent upon the level of net interest income, which is the difference between interest income earned on loans and investments and the interest expense paid on deposits and other borrowings. Interest rate risk (IRR) is the risk that the earnings and capital will be adversely affected by changes in interest rates. Further discussion of interest rate risk can be found in this report under Item 3., "Quantitative and Qualitative Disclosures About Market Risk".

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Performance from an interest rate risk perspective can be measured in many ways. Methodologies used by the Bancorp focus on net interest income and the net economic value of equity. Net interest income is defined as interest income less interest expense. Variability in net interest income arises because its components — interest income and interest expense — do not change equally as rates vary. This mismatch occurs because individual assets and liabilities reprice differently as rates change. Factors which affect net interest income include changes in the level of interest rates, changes in the relationship between Bancorp yield rates and interest costs, changes in the volume of assets and liabilities outstanding, and changes in the composition or mix of assets and liabilities. Management uses rate shock (i.e., instantaneous and sustained parallel shifts in the yield curve in 1% increments up and down 2% for stress testing the net interest income under several rate change levels. In order to simulate activity, maturing balances are replaced with new balances at the new rate level and repricing balances are adjusted to the new rate shock level. The results are compared to limits set by the Board of Directors and are monitored to identify unfavorable trends. Net economic value of equity is the net present value of the Bancorp's portfolio of assets and liabilities. By marking-to-market the components of the balance sheet, management can compute the net economic value of equity. As rates change over time, the market values of Bancorp assets and liabilities will change, with longer-term products fluctuating more than short-term products. In most cases, rate-sensitive assets and liabilities will not have the same maturity characteristics. Therefore, as rates vary, the market value of the rate-sensitive assets will not change equally with the market value of rate-sensitive liabilities. This will cause the net economic value of equity to vary. The focus of the net economic value of equity is to determine the percentage decline in the net economic value of equity caused by a 2% increase or decrease in interest rates, whichever produces the larger decline. A large value indicates a large percentage decline in the net economic value of equity due to changes in interest rates and, thus, high interest rate sensitivity. A low value indicates a small percentage decline in the net economic value of equity due to changes in interest rates and, thus, low interest rate sensitivity. As with net interest income, the results are compared to limits set by the Board of Directors and are monitored to identify unfavorable trends.

Presented in the following tables is forward-looking information about the Bancorp's sensitivity to changes in interest rates as of September 30, 2005 and December 31, 2004. The tables incorporate the Bancorp's internal system generated data as related to the maturity and repayment/withdrawal of interest-earning assets and interest-bearing liabilities. Prepayment assumptions are based on published data. Present value calculations use current published market interest rates. For core deposits that have no contractual maturity, the table presents principal cash flows and, as applicable, related weighted-average interest rates based on the Bancorp's historical experience, management's judgment, and statistical analysis, as applicable, concerning their most likely withdrawal behaviors, but not as to when they could be repriced.

September 30, 2005:

Change in rates	Net Interest Income Amount	% Chg.	Policy Limit %	Net Economic Value of Equity Amount	% Chg.	Policy Limit %
2%	$ 19,377	- 2.8	- 20.0	$ 53,458	- 14.8	- 35
1%	$ 19,681	- 1.2	- 7.5	$ 58,119	- 7.4	- 15
0%	$ 19,927	0.0		$ 62,758	0.0	
-1%	$ 19,797	- 0.7	- 7.5	$ 64,815	3.3	- 15
-2%	$ 19,106	- 4.1	- 20.0	$ 64,094	2.1	- 35

December 31, 2004:

Change in rates	Net Interest Income Amount	% Chg.	Policy Limit %	Net Economic Value of Equity Amount	% Chg.	Policy Limit %
2%	$ 21,356	- 3.9	- 20	$ 55,060	- 13.3	- 30
1%	$ 21,778	- 2.1	- 10	$ 58,980	- 7.2	- 15
0%	$ 22,233	0.0		$ 63,526	0.0	
-1%	$ 22,484	1.1	- 10	$ 65,412	3.0	- 15
-2%	$ 21,989	1.1	- 20	$ 65,662	3.4	- 30

The tables show that the Bancorp has managed interest rate risk within the policy limits set by the Board of Directors. At September 30, 2005, an increase in interest rates of 2% would have resulted in a 2.8% decrease in net interest income and a 14.8% decrease in the net economic value of equity compared to decreases of 3.9% and 13.3% at December 31, 2004. During the nine months ended September 30, 2005, the Bancorp has managed interest rate risk by generally selling fixed rate loans with contractual maturities exceeding 15 years, maintaining the short duration of the securities portfolio, and implementing deposit pricing strategies.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

The Bancorp maintains disclosure controls and procedures (as defined in Sections 13a — 15(e) and 15d — 15(e)) of regulations promulgated under the Securities Exchange Act of 1934 (the "Exchange Act") that are designed to ensure that information required to be disclosed by the Bancorp in the reports that it files or submits under the "Exchange Act" is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by the Bancorp in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Bancorp's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. The Bancorp's chief executive officer and chief financial officer evaluate the effectiveness of the Bancorp's disclosure controls and procedures as of the end of each quarter. Based on that evaluation as of September 30, 2005, the Bancorp's chief executive officer and chief financial officer have concluded that such disclosure controls and procedures were effective as of that date in ensuring that information required to be disclosed by the Bancorp under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

(b) Changes in Internal Control Over Financial Reporting

There was no significant change in the Bancorp's internal control over financial reporting identified in connection with the Bancorp's evaluation of controls that occurred during the three months ended September 30, 2005 that has materially affected, or is reasonably likely to materially affect, the Bancorp's internal control over financial reporting.

PART II — Other Information

Item 1. Legal Proceedings

The Bancorp is not party to any material legal proceedings. From time to time, the Bank is a party to ordinary routine litigation incidental to its business, including foreclosures.

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

Share repurchase information for the quarter ended September 30, 2005 is presented below.

	July 2005	August 2005	September 2005
Shares purchased	0	2,459	0
Average price paid per share	NA	$ 33.50	NA
Total shares purchased pursuant to the repurchase program (1)	18,164	20,623	20,623
Number of shares that may yet be purchased pursuant to the repurchase program	31,836	29,377	29,377

(1) The program to repurchase 50,000 shares was adopted by the Bancorp's Board of Directors on April 18, 2000 and has no expiration date.

Item 3. Defaults Upon Senior Securities

There are no matters reportable under this item.

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

There are no matters reportable under this item.

Item 5. Other Information

There are no matters reportable under this item.

Item 6. Exhibits

(a) Exhibits.

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NORTHWEST INDIANA BANCORP

Date: November 7, 2005

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

Date: November 7, 2005

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

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31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
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32.1	Section 1350 Certifications

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 quarterly report on Form 10-Q of NorthWest Indiana Bancorp;

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

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

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

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

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

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

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

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

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

Date: November 7, 2005

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

Exhibit 31.2

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

I, Robert T. Lowry, certify that:

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

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

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

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

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

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

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

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

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

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

Date: November 7, 2005

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

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of NorthWest Indiana Bancorp (the “Company”) for the quarterly period ended September 30, 2005, as filed with the Securities and Exchange Commission (the “Report”), each of David A. Bochnowski, Chairman of the Board and Chief Executive Officer of the Company, and Robert T. Lowry, Senior Vice President, Chief Financial Officer and Treasurer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Dated: November 7, 2005

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

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

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