

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15(d)  
of the Securities Exchange Act of 1934

(Mark One)

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  
For the quarterly period ended June 30, 2002, 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 office)

\_\_\_\_\_  
(ZIP code)

Registrant's telephone number, including area code: (219) 836-9690

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

There were 2,737,830 shares of the registrant's Common Stock, without par value, outstanding at June 30, 2002.

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**NorthWest Indiana Bancorp**  
**Consolidated Statements of Income**  
(unaudited)

(Dollars in thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
<b>Interest income:</b>				
Loans receivable				
Real estate loans	\$5,467	\$5,491	\$10,796	\$11,076
Commercial loans	566	668	1,111	1,384
Consumer loans	138	212	301	440
	<u>6,171</u>	<u>6,371</u>	<u>12,208</u>	<u>12,900</u>
Securities	758	610	1,568	1,139
Other interest earning assets	64	309	69	407
	<u>6,993</u>	<u>7,290</u>	<u>13,845</u>	<u>14,446</u>
<b>Interest expense:</b>				
Deposits	2,186	3,172	4,467	6,320
Borrowed funds	387	377	764	768
	<u>2,573</u>	<u>3,549</u>	<u>5,231</u>	<u>7,088</u>
Net interest income	4,420	3,741	8,614	7,358
Provision for loan losses	150	45	280	90
Net interest income after provision for loan losses	<u>4,270</u>	<u>3,696</u>	<u>8,334</u>	<u>7,268</u>
<b>Noninterest income:</b>				
Fees and service charges	442	432	837	843
Trust operations	173	115	276	205
Gain on securities, net	—	36	89	66
Gain on sale of loans, net	17	22	53	37
Gain on sale of foreclosed real estate	15	—	24	—
Other	10	2	14	5
	<u>657</u>	<u>607</u>	<u>1,293</u>	<u>1,156</u>
<b>Noninterest expense:</b>				
Compensation and benefits	1,484	1,328	2,936	2,641
Occupancy and equipment	443	407	861	795
Data processing	158	157	291	305
Marketing	45	39	88	73
Federal insurance premium	16	15	31	30
Other	582	487	1,123	997
	<u>2,728</u>	<u>2,433</u>	<u>5,330</u>	<u>4,841</u>
Income before income tax expenses	2,199	1,870	4,297	3,583
Income tax expenses	832	715	1,624	1,370
Net income	<u>\$1,367</u>	<u>\$1,155</u>	<u>\$ 2,673</u>	<u>\$ 2,213</u>
<b>Earnings per common share:</b>				
Basic	\$ 0.50	\$ 0.43	\$ 0.98	\$ 0.82
Diluted	\$ 0.49	\$ 0.42	\$ 0.97	\$ 0.81
Dividends declared per common share	\$ 0.28	\$ 0.26	\$ 0.56	\$ 0.52

See accompanying notes to consolidated financial statements.

**NorthWest Indiana Bancorp**  
**Consolidated Statements of Changes in Stockholders' Equity**  
**(unaudited)**

(Dollars in thousands, except per share data)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2002	2001	2002	2001
Balance at beginning of period	\$36,231	\$34,156	\$35,882	\$33,529
Comprehensive income:				
Net income	1,367	1,155	2,673	2,213
Net unrealized gain/(loss) on securities available-for-sale, net of reclassifications and tax effects	641	(89)	377	32
Comprehensive income	2,008	1,066	3,050	2,245
Issuance of shares of common stock	56	21	128	177
Cash dividends	(767)	(708)	(1,532)	(1,416)
Balance at end of period	<u>\$37,528</u>	<u>\$34,535</u>	<u>\$37,528</u>	<u>\$34,535</u>

See accompanying notes to consolidated financial statements.

**NorthWest Indiana Bancorp**  
**Consolidated Statements of Cash Flows**  
(unaudited)

(Dollars in thousands)	Six Months Ended June 30,	
	2002	2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 2,673	\$ 2,213
Adjustments to reconcile net income to net cash provided by operating activities:		
Origination of loans for sale	(2,432)	(2,917)
Sale of loans originated for sale	3,107	3,336
Depreciation and amortization, net of accretion	598	444
Amortization of mortgage servicing rights	20	5
Amortization of investment in real estate limited partnerships	25	25
Equity in loss of investment in limited partnership, net of interest received	(7)	—
Net gains on securities	(89)	(66)
Net gains on sale of loans	(53)	(37)
Net gains on sale of foreclosed real estate	(24)	—
Provision for loan losses	280	90
Net change in:		
Interest receivable	(33)	97
Other assets	(472)	61
Accrued expenses and other liabilities	237	(291)
Total adjustments	1,157	747
Net cash from operating activities	3,830	2,960
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from maturities of securities available-for-sale	2,000	7,000
Proceeds from sales of securities available-for-sale	6,021	2,543
Purchase of securities available-for-sale	(1,537)	(25,999)
Proceeds from maturities of securities held-to-maturity	1,000	13,250
Purchase of securities held-to-maturity	—	(6,001)
Principal collected on mortgage-backed securities	1,101	74
Purchase of CMO and mortgage-backed securities	(1,520)	(230)
Purchase of investment in real estate limited partnerships	—	(15)
Purchase of Federal Home Loan Bank stock	(350)	(100)
Loan participations purchased	(9,711)	—
Net change in loans receivable	(12,786)	1,588
Purchase of premises and equipment, net	(606)	(640)
Net cash from investing activities	(16,388)	(8,530)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Change in deposits	22,733	21,094
Proceeds from FHLB advances	7,000	2,500
Repayment of FHLB advances	(3,000)	—
Change in other borrowed funds	(8,268)	(1,663)
Proceeds from issuance of common stock	128	177
Dividends paid	(1,475)	(1,357)
Net cash from financing activities	17,118	20,751
Net change in cash and cash equivalents	4,560	15,181
Cash and cash equivalents at beginning of period	16,936	17,419
Cash and cash equivalents at end of period	\$ 21,496	\$ 32,600
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid during the period for:		
Interest	\$ 5,260	\$ 7,137
Income taxes	\$ 1,685	\$ 1,014
<b>SUPPLEMENTAL NONCASH INFORMATION:</b>		
Transfers from loans to foreclosed real estate	\$ 359	\$ 180

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 subsidiary, Peoples Service Corporation. The Bancorp has no other business activity other than being a holding company for the Bank. The Bancorp's earnings are dependent upon the earnings of the Bank. 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 accounting principles generally accepted in the United States of America 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 balance sheets of the Bancorp as of June 30, 2002 and December 31, 2001, and the statements of income and changes in stockholders' equity for the three and six months ended June 30, 2002 and 2001, and cash flows for the six months ended June 30, 2002 and 2001. The income reported for the six month period ended June 30, 2002 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period, as well as the disclosures provided. Actual results could differ from those estimates. Estimates associated with the allowance for loan losses, fair values of financial instruments and status of contingencies are particularly susceptible to material change in the near term.

**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, 2001 consolidated financial statements and the June 30, 2001 Form 10-Q have been reclassified to conform to the June 30, 2002 presentation.

**Note 5 - Commitments and Contingencies**

The Bancorp is a party to financial instruments in the normal course of business to meet financing needs of its customers and to reduce its own exposure to fluctuating interest rates. These financial instruments include commitments to make loans and standby letters of credit.

Exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to make loans and standby letters of credit is represented by the contractual amount of those instruments. The Bancorp uses the same credit policy to make such commitments as it uses for on-balance-sheet items.

At June 30, 2002 and December 31, 2001, commitments to make loans totaled \$50.5 million and \$63.0 million, and standby letters of credit totaled \$1.9 million and \$716 thousand. At June 30, 2002, \$41.5 million (82%) of the commitments were at variable rates.

Since commitments to make loans may expire without being used, this amount does not necessarily represent future cash commitments. Collateral obtained upon exercise of the commitment is determined using management's credit evaluation of the borrower and may include accounts receivable, inventory, property, land and other items.

## **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 (the Bank), an Indiana savings bank, is a wholly owned subsidiary of the Bancorp. The Bancorp has no other business activity other than being the holding company for Peoples Bank SB.

At June 30, 2002, the Bancorp had total assets of \$461.1 million and total deposits of \$377.9 million. Stockholders' equity totaled \$37.5 million or 8.1% of total assets, with book value per share at \$13.71. Net income for the six months ended June 30, 2002, was \$2.7 million, or \$0.98 per common share for basic and \$0.97 for diluted calculations. The annualized return on average assets (ROA) was 1.18%, while the annualized return on average stockholders' equity (ROE) was 14.54%, for the six months ended June 30, 2002.

### **Financial Condition**

During the six months ended June 30, 2002, total assets increased by \$20.4 million (4.6%), with interest-earning assets increasing by \$15.0 million (3.6%). At June 30, 2002, interest-earning assets totaled \$428.0 million and represented 92.8% of total assets.

Loans receivable totaled \$364.6 million at June 30, 2002, compared to \$342.6 million at December 31, 2001. At June 30, 2002, loans receivable represented 85.2% of interest-earning assets, 79.1% of total assets and 96.5% of total deposits. The loan portfolio, which is the Bancorp's largest asset, is a significant source of both interest and fee income. The Bancorp's lending strategy stresses quality growth, product diversification, and competitive and profitable pricing. The loan portfolio includes \$15.2 million (4.2%) in construction and development loans, \$208.3 million (57.1%) in residential mortgage loans, \$10.9 million (3.0%) in multifamily loans, \$85.8 million (23.5%) in commercial real estate loans, \$6.4 million (1.8%) in consumer loans, and \$38.0 million (10.4%) in commercial business and other loans. Adjustable rate loans comprised 42% of total loans at June 30, 2002. During the six months ended June 30, 2002, loans increased by \$21.9 million (6.4%), including \$9.7 million in commercial real estate and commercial business loan participations purchased. The most significant growth was in residential real estate, construction and development, and commercial real estate. Management believes that despite concerns about the pace of economic activity, loan growth will continue to improve during the remaining months of 2002 because of the low interest rate environment and an aggressive marketing and call program effort. Management expects to fund loan growth with a mix of deposits and borrowed funds.

The Bancorp is primarily a portfolio lender. Mortgage banking activities are limited to the sale of fixed rate mortgage loans with contractual maturities of twenty-five years or longer. These loans are sold, on a case-by-case basis, in the secondary market as part of the Bancorp's efforts to manage interest rate risk. The Bancorp retains the servicing on all loans sold in the secondary market. During the six months ended June 30, 2002, the Bancorp sold \$3.1 million in fixed rate mortgages compared to \$3.3 million during the six months ended June 30, 2001. Net gains realized from current year sales totaled \$53 thousand compared to \$37 thousand for the six months ended June 30, 2001. At June 30, 2002, the Bancorp had \$153 thousand 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 and federal agency obligations. Investments are generally for terms ranging from one day to seven years. At June 30, 2002, the investment portfolio totaled \$60.7 million and was invested as follows: 0.9% in U.S. government debt securities, 68.3% in U.S. government agency debt securities, and 30.8% in U.S. government agency mortgage-backed securities and collateralized mortgage obligations. At June 30, 2002, securities available-for-sale (AFS) totaled \$58.5 million or 96.2% 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 June 30, 2002, the Bancorp had \$2.6 million in FHLB stock. During the six months ended June 30, 2002, securities decreased by \$6.5 million (9.7%), as proceeds from maturing securities and the sale of securities with expected calls were used to pay off short-term borrowings and provide funding for loan growth.

At June 30, 2002, non-performing loans, which include those loans that are 90 days or more past due and those loans that have been placed on non-accrual status, totaled \$2.5 million, a decrease of \$425 thousand from December 31, 2001. The ratio of non-performing loans to total assets was 0.54% at June 30, 2002, compared to 0.66% at December 31, 2001. The ratio of non-performing loans to total loans was 0.68% at June 30, 2002, compared to 0.85% at December 31, 2001. The June 30, 2002 balance includes \$2.2 million in loans accounted for on a non-accrual basis and \$251 thousand in accruing loans which were contractually past due 90 days or more. At June 30, 2002, \$2.4 million of the Bancorp's loans were internally classified as substandard compared to \$2.9 million at December 31, 2001. There were no loans classified as doubtful or loss. Substandard loans include non-performing loans and potential problem loans, where information about possible credit problems causes management to question the ability of such borrowers to comply with loan repayment terms.

The balances for non-performing and substandard loans includes two loans totaling \$1.1 million to a company, and its guarantors, that specializes in heavy hauling, trucking and excavating. The two loans have been classified as impaired. Impaired loans are loans where full payment under the loan terms is not expected. No other loans were considered to be impaired loans as of, or for the six months ended June 30, 2002.

At June 30, 2002, management of the Bancorp is of the opinion that there are no loans, except those discussed above, where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as non-accrual, past due or restructured loans. Also, at June 30, 2002, there are no other interest bearing assets that would be required to be disclosed as non-accrual, past due, restructured or potential problem if such assets were loans. Management does not anticipate that any of the non-performing loans or classified loans would materially impact future operations, liquidity or capital resources.

Because some loans may not be repaid in accordance with contractual agreements an allowance for loan losses (ALL) has been maintained. While management may periodically allocate portions of the allowance for specific problem loans, the entire allowance is available to absorb all credit losses that arise from the loan portfolio and is not segregated for, or allocated to, any particular loan or group of loans. During the six months ended June 30, 2002, additions to the ALL account totaled \$280 thousand compared to \$90 thousand for the six months ended June 30, 2001. The provision is based on management's current judgments about the credit quality of the loan portfolio, loan portfolio growth, changes in the portfolio mix and local economic conditions. While the quality of the portfolio remains sound, provisions during the six months ended June 30, 2002 were warranted because of increased average daily loan balances, apparent weaknesses in the local economy, the inherent risk associated with growth in

commercial real estate and commercial business loans, and loan charge-offs. Charge-offs, net of recoveries, totaled \$304 thousand for the current six months compared to \$557 thousand for the six months ended June 30, 2001. The appropriateness of the current year provision and the overall adequacy of the ALL were determined through a disciplined and consistently applied quarterly process that combines a review of current activity with a risk assessment worksheet.

At June 30, 2002, the ALL to total loans was 0.86% compared to 0.92% at December 31, 2001, while the ALL to nonperforming loans (coverage ratio) was 126.3% compared to 108.6% for the same periods. A consistently strong coverage ratio is an indicator that sufficient provisions for loan losses have been made. The June 30, 2002 balance in the ALL account of \$3.1 million is considered adequate by management after evaluation of the loan portfolio, past experience and current economic and market conditions.

The allocation of the ALL reflects performance and growth trends within the various loan categories, as well as, consideration of the facts and circumstances that affect the repayment of individual loans, as well as, loans which have been pooled as of the evaluation date, with particular attention given to non-performing loans and loans which have been classified as substandard, doubtful or loss. Management has allocated general reserves to all non-performing loans based on current information available. During the six months ended June 30, 2002, additions to the ALL were allocated to commercial business loans due to the increase in non-performing balances resulting from two impaired loans.

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 June 30, 2002, deposits totaled \$377.9 million. During the six months ended June 30, 2002, deposit growth totaled \$22.7 million (6.4%). Checking accounts increased \$10.0 million (13.4%), money market deposit accounts (MMDA's) increased \$3.6 million (7.8%), savings accounts increased \$7.7 million (15.3%), and certificates of deposit increased \$1.4 million (0.7%). At June 30, 2002, the deposit base was comprised of 22.5% checking accounts, 13.1% MMDA's, 15.4% savings accounts and 49.0% certificates of deposit. The growth in deposits was a result of competitive product offerings, an aggressive marketing program, and volatility in the financial markets.

Borrowings are primarily used to fund asset growth not supported by deposit generation. At June 30, 2002, borrowed funds totaled \$40.7 million compared to \$45.0 million at December 31, 2001, a decrease of \$4.3 million (9.5%). Retail repurchase agreements totaled \$13.7 million at June 30, 2002, compared to \$15.6 million at December 31, 2001, a decrease of \$1.9 million (12.1%). FHLB advances totaled \$24 million at June 30, 2002, compared to \$17 million at December 31, 2001, an increase of \$7 million, as the Bancorp extended the maturity structure of interest-bearing liabilities at cost effective interest rates. Other short-term borrowings totaled \$3.0 million at June 30, 2002, compared to \$12.4 million at December 31, 2001, a decrease of \$9.4 million as the Bancorp paid off short-term funding.

#### **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 management committee (ALCO). The ALCO is

responsible for developing and implementing interest rate risk management strategies, establishing and maintaining a system of limits and controls, and establishing and utilizing an interest rate risk measurement system. The ALCO, which is made up of members of senior management, generally meets monthly with board presentations occurring quarterly.

Performance from an interest rate risk perspective can be measured in many ways. Methodologies used by the Bancorp focus on net interest income and the net economic value of equity. Net interest income is defined as interest income less interest expense. Variability in net interest income arises because its components — interest income and interest expense — do not change equally as rates vary. This mismatch occurs because individual assets and liabilities repriced 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 June 30, 2002 and December 31, 2001. The tables incorporate the Bancorp's internal system generated data as related to the maturity and repayment/withdrawal of interest-earning assets and interest-bearing liabilities. Prepayment assumptions are based on published data. Present value calculations use current published market interest rates. For core deposits that have no contractual maturity, the table presents principal cash flows and, as applicable, related weighted-average interest rates based on the Bancorp's historical experience, management's judgment, and statistical analysis, as applicable, concerning their most likely withdrawal behaviors, but not as to when they could be repriced.

June 30, 2002		Net Interest Income			Net Economic Value of Equity		
Change in rates	Amount	% Chg.	Policy Limit %	Amount	% Chg.	Policy Limit %	
2%	\$17,096	-7.1	- 20	\$49,332	-17.7	-30	
1%	\$17,815	-3.2	- 10	\$55,183	- 8.0	-15	
0%	\$18,402	0.0		\$59,953	0.0		
-1%	\$18,428	0.1	- 10	\$59,926	- 0.1	-15	
-2%	\$18,553	0.8	- 20	\$60,315	0.6	-30	

December 31, 2001		Net Interest Income			Net Economic Value of Equity		
Change in rates	Amount	% Chg.	Policy Limit %	Amount	% Chg.	Policy Limit %	
2%	\$16,147	-7.8	- 20	\$44,377	-19.5	-30	
1%	\$16,850	-3.7	- 10	\$49,815	- 9.6	-15	
0%	\$17,505	0.0		\$55,116	0.0		
-1%	\$17,763	1.5	- 10	\$56,896	3.2	-15	
-2%	\$18,046	3.1	- 20	\$57,513	4.4	-30	

The tables show that the Bancorp has managed interest rate risk within the policy limits set by the Board of Directors. At June 30, 2002, an increase in interest rates of 2% would have resulted in a 7.1% decrease in net interest income and a 17.7% decrease in the net economic value of equity compared to decreases of 7.8% and 19.5% at December 31, 2001. During the six months ended June 30, 2002, the Bancorp has managed interest rate risk by selling fixed rate loans, restructuring security investments, and reducing short-term borrowings.

### Liquidity and Capital Resources

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

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

During the six months ended June 30, 2002, cash and cash equivalents increased \$4.6 million compared to a \$15.2 million increase for the six months ended June 30, 2001. The primary sources of cash were deposit growth, proceeds from maturities and sales of securities and cash provided by operating activities. The primary uses of cash were loan originations, loan participations purchased, the repayment of short-term borrowings and the payment of common stock dividends. During the current six months cash provided by operating activities totaled \$3.8 million compared to \$3.0 million for the six months ended June 30, 2001. The primary source of the increase during the current six months was the increase in net income. Cash outflows from investing activities totaled \$16.4 million compared to \$8.5 million for the six months ended June 30, 2001. The current period reflects loan growth. Cash flows from financing activities totaled \$17.1 million during the current period compared to \$20.8 million for the six months ended June 30, 2001. These amounts are primarily a result of deposit growth. The Bancorp paid dividends on common stock of \$1.5 million during the current six months compared to \$1.4 million for the six months ended June 30, 2001.

At June 30, 2002, outstanding commitments to fund loans totaled \$50.5 million. Approximately 82% of the commitments were at variable rates. Management believes that the Bancorp has sufficient cash flow and borrowing capacity to fund all outstanding commitments and to maintain proper levels of liquidity.

Management strongly believes that maintaining a high level of capital enhances safety and soundness. During the six months ended June 30, 2002, stockholders' equity increased by \$1.6 million (4.6%). The increase resulted primarily from earnings of \$2.7 million during the period. In addition, \$128 thousand represents proceeds from the exercise of 9,558 stock options. The Bancorp declared \$1.5 million in cash dividends. The net unrealized gain on available-for-sale securities, net of tax was \$377 thousand for the period.

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 June 30, 2002, and December 31, 2001, 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	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>At June 30, 2002</b>						
Total capital to risk-weighted assets	\$40.0	13.4%	\$23.9	8.0%	\$29.8	10.0%
Tier 1 capital to risk-weighted assets	\$36.9	12.4%	\$11.9	4.0%	\$17.9	6.0%
Tier 1 capital to adjusted average assets	\$36.9	7.9%	\$14.0	3.0%	\$23.4	5.0%
<b>At December 31, 2001</b>						
Total capital to risk-weighted assets	\$38.8	13.6%	\$22.8	8.0%	\$28.5	10.0%
Tier 1 capital to risk-weighted assets	\$35.6	12.5%	\$11.4	4.0%	\$17.1	6.0%
Tier 1 capital to adjusted average assets	\$35.6	8.3%	\$12.8	3.0%	\$21.3	5.0%

### Results of Operations — Comparison of the Quarter Ended June 30, 2002 to the Quarter Ended June 30, 2001

Net income for the three months ended June 30, 2002 was \$1.4 million compared to \$1.2 million for the quarter ended June 30, 2001, an increase of \$212 thousand (18.4%). The earnings represent a ROA of 1.17% for the quarter ended June 30, 2002 compared to 1.11% for the quarter ended June 30, 2001. The ROE was 14.75% for the current quarter compared to 13.37% for the quarter ended June 30, 2001.

Net interest income for the three months ended June 30, 2002 was \$4.4 million, up \$679 thousand (18.2%), compared to \$3.7 million for the quarter ended June 30, 2001. The weighted-average yield on interest-earning assets was 6.32% for the three months ended June 30, 2002 compared to 7.38% for the three months ended June 30, 2001. The weighted-average cost of funds for the quarter ended June 30, 2002, was 2.42% compared to 3.75% for the quarter ended June 30, 2001. The impact of the 6.32% return on interest-earning assets and the 2.42% cost of funds resulted in an interest rate spread of 3.90% for the current quarter compared to 3.63% for the quarter ended June 30, 2001. During the current quarter, total interest income decreased by \$297 thousand (4.1%) while total interest expense decreased by \$976 thousand (27.5%). The net interest margin was 3.79% for the three months ended June 30, 2002 compared to 3.59% for the quarter ended June 30, 2001.

During the three months ended June 30, 2002, interest income from loans decreased by \$200 thousand (3.1%) compared to the three months ended June 30, 2001. The decrease was due to lower yields on loans outstanding. The weighted-average yield on loans outstanding was 6.76% for the current quarter compared to 7.88% for the three months ended June 30, 2001. Loan balances averaged \$365.3 million for the current quarter, up \$41.9 million (13.0%) from \$323.4 million for the three months ended June 30, 2001. During the

three months ended June 30, 2002, interest income on investments and other deposits decreased by \$97 thousand (10.6%) compared to the quarter ended June 30, 2001. The decrease was due to lower yields. The weighted-average yield on securities and other deposits was 4.24% for the current quarter compared to 5.12% for the three months ended June 30, 2001. Securities and other deposits averaged \$77.6 million for the current quarter, up \$5.8 million (8.1%) from \$71.8 million for the three months ended June 30, 2001.

Interest expense for deposits decreased by \$986 thousand (31.1%) during the current quarter compared to the three months ended June 30, 2001. The decrease was due to a reduction in the weighted-average rate paid on deposits. The weighted-average rate paid on deposits for the three months ended June 30, 2002 was 2.28% compared to 3.65% for the quarter ended June 30, 2001. Total deposit balances averaged \$383.0 million for the current quarter, up \$35.0 million (10.1%) from \$348.0 million for the quarter ended June 30, 2001. Interest expense on borrowed funds increased by \$10 thousand (2.7%) during the current quarter due to an increase in average daily balances. The weighted-average cost of borrowed funds was 3.64% for the current quarter compared to 4.88% for the three months ended June 30, 2001. Borrowed funds averaged \$42.5 million during the quarter ended June 30, 2002, up \$11.5 million (37.1%) from \$31.0 million for the quarter ended June 30, 2001.

Noninterest income for the quarter ended June 30, 2002 was \$657 thousand, up \$50 thousand (8.2%) from \$607 thousand for the three months ended June 30, 2001. During the period income from Trust operations totaled \$173 thousand, an increase of \$58 thousand (50.4%) from \$115 thousand for the quarter ended June 30, 2001. In addition, the Bancorp reported \$15 thousand in gains on the sale of foreclosed real estate, while no gains were reported during the quarter ended June 30, 2001.

Noninterest expense for the quarter ended June 30, 2002 was \$2.7 million, up \$295 thousand (12.1%) from \$2.4 million for the three months ended June 30, 2001. The increase in compensation and benefits was due to additional staffing for current operations. Other expense changes were due to standard increases in operations. The Bancorp's efficiency ratio was 53.7% for the quarter ended June 30, 2002 compared to 56.0% for the three months ended June 30, 2001. The ratio is determined by dividing total noninterest expense by the sum of net interest income and total noninterest income for the period.

Income tax expenses for the three months ended June 30, 2002 totaled \$832 thousand compared to \$715 thousand for the three months ended June 30, 2001, an increase of \$117 thousand (16.4%). The increase was due to an increase in pretax earnings during the current quarter. The combined effective federal and state tax rates for the Bancorp was 37.8% for the three months ended June 30, 2002 compared to 38.2% for the three months ended June 30, 2001. The reduction during the current period is a result of investments in low-income housing tax credits.

#### **Results of Operations — Comparison of the Six Months Ended June 30, 2002 to the Six Months Ended June 30, 2001**

Net income for the six months ended June 30, 2002 was \$2.7 million compared to \$2.2 million for the six months ended June 30, 2001, an increase of \$460 thousand (20.8%). The earnings represent a ROA of 1.18% for the six months ended June 30, 2002 compared to 1.10% for the six months ended June 30, 2001. The ROE was 14.54% for the current six months compared to 12.92% for the six months ended June 30, 2001.

Net interest income for the six months ended June 30, 2002 was \$8.6 million, up \$1.3 million (17.1%), compared to \$7.4 million for the six months ended June 30, 2001. The weighted-average yield on interest-earning assets was 6.42% for the six months ended June 30, 2002 compared to 7.57% for the six months ended June 30, 2001. The weighted-average cost of funds for the six months ended June 30, 2002, was 2.53% compared to 3.88% for the six months ended June 30, 2001. The impact of the 6.42% return on interest-earning assets and the 2.53% cost of funds resulted in an interest rate spread of 3.89% for the current six months compared to 3.68% for the six months ended June 30, 2001. During the current six months, total interest income decreased by \$601 thousand (4.2%) while total interest expense decreased by \$1.9 million (26.2%). The net interest margin was 3.79% for the six months ended June 30, 2002 compared to 3.65% for the six months ended June 30, 2001.

During the six months ended June 30, 2002, interest income from loans decreased by \$692 thousand (5.4%) compared to the six months ended June 30, 2001. The decrease was due to lower yields on loans outstanding. The weighted-average yield on loans outstanding was 6.80% for the current six months compared to 7.96% for the six months ended June 30, 2001. Loan balances averaged \$359.0 million for the current six months, up \$34.8 million (10.7%) from \$324.2 million for the six months ended June 30, 2001. During the six months ended June 30, 2002, interest income on investments and other deposits increased by \$91 thousand (5.9%) compared to the six months ended June 30, 2001. The increase was due to higher average daily balances. The weighted-average yield on securities and other deposits was 4.51% for the current six months compared to 5.36% for the six months ended June 30, 2001. Securities and other deposits averaged \$72.5 million for the current six months, up \$14.9 million (25.9%) from \$57.6 million for the six months ended June 30, 2001.

Interest expense for deposits decreased by \$1.9 million (29.3%) during the current six months compared to the six months ended June 30, 2001. The decrease was due to a reduction in the weighted-average rate paid on deposits. The weighted-average rate paid on deposits for the six months ended June 30, 2002 was 2.41% compared to 3.78% for the six months ended June 30, 2001. Total deposit balances averaged \$370.6 million for the current six months, up \$35.9 million (10.7%) from \$334.7 million for the six months ended June 30, 2001. Interest expense on borrowed funds decreased by \$4 thousand (0.5%) during the current six months due to a reduction in the weighted-average rate paid on borrowed funds for the six months ended June 30, 2002. The weighted-average cost of borrowed funds was 3.54% for the current six months compared to 5.07% for the six months ended June 30, 2001. Borrowed funds averaged \$43.2 million during the six months ended June 30, 2002, up \$12.9 million (42.6%) from \$30.3 million for the six months ended June 30, 2001.

Noninterest income for the six months ended June 30, 2002 was \$1.3 million, up \$137 thousand (11.9%) from \$1.2 million for the six months ended June 30, 2001. During the current six months income from Trust operations totaled \$276 thousand, an increase of \$71 thousand (34.6%) from \$205 thousand for the six months ended June 30, 2001. During the current six months the Bancorp reported \$53 thousand in gains on sale of loans compared to gains of \$37 thousand during the six months ended June 30, 2001. In addition, the Bancorp reported \$89 thousand in gains on securities compared to \$66 thousand during the six months ended June 30, 2001, and \$24 thousand in gains on the sale of foreclosed real estate, while no gains were reported during the six months ended June 30, 2001.

Noninterest expense for the six months ended June 30, 2002 was \$5.3 million, up \$489 thousand (10.1%) from \$4.8 million for the six months ended June 30, 2001. The increase in compensation and benefits was due to annual salary increases and additional staffing for current operations. Other expense changes were due to

standard increases in operations. The Bancorp's efficiency ratio was 53.8% for the six months ended June 30, 2002 compared to 56.9% for the six months ended June 30, 2001.

Income tax expenses for the six months ended June 30, 2002 totaled \$1.6 million compared to \$1.4 million for the six months ended June 30, 2001, an increase of \$254 thousand (18.5%). The increase was due to an increase in pretax earnings during the current six months. The combined effective federal and state tax rates for the Bancorp was 37.8% for the six months ended June 30, 2002 compared to 38.2% for the six months ended June 30, 2001. The reduction during the current six months is a result of investments in low-income housing tax credits.

### **Forward-Looking Statements**

When used in this report and in other filings by the Bancorp with the Securities and Exchange Commission, in the Bancorp's press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, 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 intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties, including but not limited to changes in economic conditions in the Bancorp's market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Bancorp's market area and competition, all or some of which could cause actual results to differ materially from historical earnings and those presently anticipated or projected.

The Bancorp wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and advise readers that various factors, including regional and national economic conditions, substantial changes in levels of market interest rates, credit and other risks of lending and investment activities and competitive and regulatory factors, could affect the Bancorp's financial performance and could cause the Bancorp's actual results for future periods to differ materially from those anticipated or projected.

**PART II — Other Information**

Item 1. Legal Proceedings

The registrant is not party to any material legal proceedings. No significant changes in legal proceedings of the Bancorp occurred during the quarter.

Item 2. Changes in Securities

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

NorthWest Indiana Bancorp held its annual meeting of shareholders on April 17, 2002. At this meeting the security holders:

1. Elected the following directors for the registrant, whose term of office continued after the meeting:

	Number of Votes		
	For	Withheld	Against
Frank J. Bochnowski	1,853,999	19,184	2,134
Lourdes M. Dennison	1,855,291	19,184	842
Joel Gorelick	1,853,733	21,584	—
Gloria C. Gray	1,855,173	19,034	1,110

Other directors whose term of office as a director continued after the meeting include:

David A. Bochnowski	Leroy F. Cataldi
Edward J. Furticella	Jerome F. Vrabel
James L. Wieser	Stanley E. Mize

2. Ratified the appointment of Crowe, Chizek and Company LLP as the auditors for the registrant for the year ending December 31, 2002.

	For	Against	Abstain
Number of Votes	1,865,449	-	9,868

Item 5. Other Information

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

(a) Reports on Form 8-K. None.

## Signatures

Pursuant to the requirement 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: July 31, 2002

/s/ David A. Bochnowski

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

Date: July 31, 2002

/s/ Edward J. Furticella

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