

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 March 31, 2003, 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) 836-4400

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

There were 2,742,149 shares of the registrant's Common Stock, without par value, outstanding at March 31, 2003.

TABLE OF CONTENTS

PART I. Financial Information

Item 1. Consolidated Financial Statements of NorthWest Indiana Bancorp

Notes to Consolidated Financial Statements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

PART II — Other Information

Item 1. Legal Proceedings

Item 2. Changes in Securities and Use of Proceeds

Item 3. Defaults Upon Senior Securities

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

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

SIGNATURES

CERTIFICATIONS

INDEX TO EXHIBITS

EX-99.1 Certification of CEO

EX-99.2 Certification of CFO

**NorthWest Indiana Bancorp
Index**

	<u>Page Number</u>
PART I. Financial Information	
Item 1. Consolidated Financial Statements of NorthWest Indiana Bancorp Consolidated Balance Sheets, March 31, 2003 and December 31, 2002	1
Consolidated Statements of Income, Three Months Ended March 31, 2003 and 2002	2
Consolidated Statements of Changes in Stockholders' Equity, Three Months Ended March 31, 2003 and 2002	3
Consolidated Statements of Cash Flows, Three Months Ended March 31, 2003 and 2002	4
Notes to Consolidated Financial Statements	5-6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	7-14
Item 3. Quantitative and Qualitative Disclosures About Market	15-16
Item 4. Controls and Procedures	17
PART II. Other Information	18
SIGNATURES	19
CERTIFICATIONS	20-21
EXHIBITS	22-24

NorthWest Indiana Bancorp
Consolidated Statements of Income
(unaudited)

(Dollars in thousands, except per share data)	Three Months Ended March 31,	
	2003	2002
Interest income:		
Loans receivable		
Real estate loans	\$5,418	\$5,329
Commercial loans	499	545
Consumer loans	103	163
Total loan interest	6,020	6,037
Securities	598	810
Other interest earning assets	19	5
Total interest income	6,637	6,852
Interest expense:		
Deposits	1,717	2,281
Borrowed funds	317	377
Total interest expense	2,034	2,658
Net interest income	4,603	4,194
Provision for loan losses	120	130
Net interest income after provision for loan losses	4,483	4,064
Noninterest income:		
Fees and service charges	435	395
Gain on sale of loans, net	142	36
Trust operations	122	103
Gain on sale of securities, net	45	89
Gain/(loss) on sale of foreclosed real estate	(4)	9
Other	4	4
Total noninterest income	744	636
Noninterest expense:		
Compensation and benefits	1,574	1,452
Occupancy and equipment	508	418
Data processing	170	133
Marketing	53	43
Other	618	556
Total noninterest expense	2,923	2,602
Income before income tax expenses	2,304	2,098
Income tax expenses	861	792
Net income	\$1,443	\$1,306
Earnings per common share:		
Basic	\$ 0.53	\$ 0.48
Diluted	\$ 0.52	\$ 0.48
Dividends declared per common share	\$ 0.30	\$ 0.28

See accompanying notes to consolidated financial statements

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

(Dollars in thousands)	Three Months Ended March 31,	
	2003	2002
Balance at beginning of period	\$39,148	\$35,882
Comprehensive income:		
Net income	1,443	1,306
Net unrealized gain/(loss) on securities available-for-sale, net of reclassifications and tax effects	(149)	(264)
Comprehensive income	1,294	1,042
Issuance of shares of common stock	18	72
Cash dividends	(822)	(765)
Balance at end of period	\$39,638	\$36,231

See accompanying notes to consolidated financial statements

NorthWest Indiana Bancorp
Consolidated Statements of Cash Flows
(unaudited)

(Dollars in thousands)

Three Months Ended
March 31,
2003 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,443	\$ 1,306
Adjustments to reconcile net income to net cash provided by operating activities:		
Origination of loans for sale	(4,864)	(1,853)
Sale of loans originated for sale	4,904	2,673
Depreciation and amortization, net of accretion	440	302
Amortization of mortgage servicing rights	26	13
Amortization of investment in real estate limited partnerships	12	12
Equity in loss of investment in limited partnership, net of interest received	9	(4)
Equity in gain of investment in limited liability corporation	(7)	—
Net gains on sale of securities	(45)	(89)
Net gains on sale of loans	(142)	(36)
Net (gain)/loss on sale of foreclosed real estate	4	(9)
Provision for loan losses	120	130
Net change in:		
Interest receivable	7	(4)
Other assets	(855)	141
Accrued expenses and other liabilities	959	(83)
Total adjustments	568	1,193
Net cash from operating activities	2,011	2,499
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of securities available-for-sale	4,470	500
Proceeds from sales of securities available-for-sale	2,051	6,021
Purchase of securities available-for-sale	(11,542)	(500)
Proceeds from maturities and pay downs of securities held-to-maturity	3,599	1,567
Purchase of Federal Home Loan Bank Stock	—	(150)
Loan participations purchased	(220)	(5,211)
Net change in loans receivable	(6,400)	(14,031)
Purchase of premises and equipment, net	(1,247)	(482)
Proceeds from sale of foreclosed real estate	37	—
Net cash from investing activities	(9,252)	(12,286)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in deposits	(3,338)	15,746
Proceeds from FHLB advances	—	3,000
Change in other borrowed funds	792	(9,511)
Proceeds from issuance of common stock	18	72
Dividends paid	(767)	(708)
Net cash from financing activities	(3,295)	8,599
Net change in cash and cash equivalents	(10,536)	(1,188)
Cash and cash equivalents at beginning of period	35,200	16,936
Cash and cash equivalents at end of period	\$ 24,664	\$ 15,748
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 2,044	\$ 2,650
Income taxes	\$ —	\$ 335
SUPPLEMENTAL NONCASH INFORMATION:		
Transfers from loans to foreclosed real estate	\$ —	\$ 185

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 March 31, 2003 and December 31, 2002, and the statements of income and changes in stockholders' equity for the three months ended March 31, 2003 and 2002, and cash flows for the three months ended March 31, 2003 and 2002. The income reported for the three month period ended March 31, 2003 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, 2002 consolidated financial statements and the March 31, 2002 Form 10-Q have been reclassified to conform to the March 31, 2003 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 March 31, 2003 and December 31, 2002, commitments to make loans totaled \$58.5 million and \$52.0 million, and standby letters of credit totaled \$1.4 million and \$1.3 million. At March 31, 2003, \$46.9 million (80%) 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.

Note 6 – Stock Compensation

The following proforma information presents net income and basic and diluted earning 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.

	Three Months Ended March 31,	
	2003	2002
Net income as reported	\$1,443	\$1,306
Proforma net income	1,398	1,297
Reported earnings per common share		
Basic	0.53	0.48
Diluted	0.52	0.48
Proforma earnings per common share		
Basic	0.51	0.48
Diluted	0.51	0.47

The weighted average fair value of stock options granted during the three months ended March 31, 2003 and 2002 were \$1.42 and \$1.82. The fair value of options granted during the three months ended March 31, 2003 and 2002 were estimated using an option pricing model with the following weighted average information as of the grant dates:

	2003	2002
Risk free rate of interest	3.46%	4.69%
Expected option life	6-7 years	6-7 years
Expected dividend yield	4.40%	4.70%
Expected volatility	10.0%	10.9%

In future years, as additional options are granted, the proforma effect on net income and earnings per share may increase. Stock options are used to attract and retain the best available personnel, to provide additional incentives for employees and to encourage their continued employment by facilitating employees' purchases of an equity interest in the Bancorp. Options are issued for ten-year periods and have varying vesting schedules. Information about options available for grant and options granted follows:

	Available For Grant	Options Outstanding	Weighted- Average Exercise Price
Balance at December 31, 2002	70,217	116,818	\$19.71
Options exercised	—	(3,020)	22.98
Options issued	(23,025)	23,025	25.25
Balance at March 31, 2003	47,192	136,823	20.57

At March 31, 2003, options outstanding had a weighted average remaining life of approximately 6 to 7 years. There were 43,491 options exercisable March 31, 2003 with a weighted-average exercise price of \$17.67.

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 (the Bank), is a wholly owned subsidiary of the Bancorp. The Bancorp has no other business activity other than being the holding company for the Bank.

At March 31, 2003, the Bancorp had total assets of \$484.6 million and total deposits of \$403.3 million. Stockholders' equity totaled \$39.6 million or 8.2% of total assets, with book value per share at \$14.46. Net income for the three months ended March 31, 2003, was \$1.4 million, or \$0.53 per common share for basic and \$0.52 for diluted calculations. The annualized return on average assets (ROA) was 1.22%, while the annualized return on average stockholders' equity (ROE) was 14.57%, for the three months ended March 31, 2003.

Financial Condition

During the three months ended March 31, 2003, total assets decreased by \$3.4 million (0.7%), with interest-earning assets decreasing by \$362 thousand (0.1%). At March 31, 2003, interest-earning assets totaled \$457.1 million and represented 94.3% of total assets.

Loans receivable totaled \$387.1 million at March 31, 2003, compared to \$380.4 million at December 31, 2002. At March 31, 2003, loans receivable represented 84.8% of interest-earning assets, 80.0% of total assets and 96.0% of total deposits. The loan portfolio, which is the Bancorp's largest asset, is a significant source of both interest and fee income. The Bancorp's lending strategy stresses quality growth, product diversification, and competitive and profitable pricing. The loan portfolio includes \$15.2 million (3.9%) in construction and development loans, \$226.7 million (58.6%) in residential mortgage loans, \$11.2 million (2.9%) in multifamily loans, \$87.3 million (22.5%) in commercial real estate loans, \$5.9 million (1.5%) in consumer loans, and \$40.8 million (10.6%) in commercial business and other loans. Adjustable rate loans comprised 35.6% of total loans at March 31, 2003. During the three months ended March 31, 2003, loans increased by \$6.7 million (1.8%), including \$4.5 million in residential mortgage loans and \$1.8 million in construction and development loans. Management believes that, despite concerns about the pace of economic activity and uncertainty of world affairs, the positive trend in loan growth will continue during 2003 because of a 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 exceeding fifteen years. These loans are identified as held for sale when originated and sold, on a case-by-case basis, in the secondary market as part of the Bancorp's efforts to manage interest rate risk. The Bancorp retains the servicing on all loans sold in the secondary market. During the three months ended March 31, 2003, the Bancorp sold \$4.8 million in fixed rate mortgages compared to \$2.6 million during the three months ended March 31, 2002. Net gains realized from current year sales totaled \$142 thousand compared to \$36 thousand for the three months ended March 31, 2002. At March 31, 2003, the Bancorp had \$644 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 March 31, 2003, the investment portfolio totaled \$57.6 million and was invested as follows: 71.7% in U.S. government agency debt securities, 0.9% in U.S. government debt securities, 0.9% in municipal securities, and 26.5% in U.S. government agency mortgage-backed securities and collateralized mortgage obligations. At March 31, 2003, securities available-for-sale (AFS) totaled \$57.0 million or 99.0% of total securities. AFS securities are those the Bancorp may decide to sell if needed for liquidity, asset-liability management or other reasons. In addition, at March 31, 2003, the Bancorp had \$8.8 million in interest bearing balances in financial institutions, \$235 thousand in federal funds sold, and \$2.7 million in Federal Home Loan Bank (FHLB) stock. During the three months ended March 31, 2003, securities increased by \$1.0 million (1.8%), as cash equivalents were reinvested into higher yielding interest earning assets.

At March 31, 2003, 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 \$2.9 million, an increase of \$472 thousand from December 31, 2002. The ratio of non-performing loans to total assets was 0.59% at March 31, 2003, compared to 0.49% at December 31, 2002. The ratio of non-performing loans to total loans was 0.74% at March 31, 2003, compared to 0.63% at December 31, 2002. The March 31, 2003 balance includes \$2.4 million in loans accounted for on a non-accrual basis and \$488 thousand in accruing loans which were contractually past due 90 days or more. At March 31, 2003, \$3.0 million of the Bancorp's loans were internally classified as substandard compared to \$2.8 million at December 31, 2002. There were no loans classified as doubtful or loss. Substandard loans include non-performing loans and potential problem loans, where information about possible credit issues causes management to question the ability of such borrowers to comply with loan covenants or repayment terms.

At March 31, 2003, the balance for non-performing and substandard loans includes two loans totaling \$996 thousand to a commercial customer, which have been classified as impaired. Impaired loans are loans where full payment under the loan terms is not expected. At March 31, 2003, the Bancorp had four loans, including the aforementioned impaired loans, to three borrowers totaling \$1.3 million classified as impaired. There were no other loans considered to be impaired loans as of, or for the three months ended March 31, 2003. At March 31, 2002, the Bancorp had two loans totaling \$1.4 million classified as impaired.

At March 31, 2003, 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 March 31, 2003, 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. During the three months ended March 31, 2003, additions to the ALL account totaled \$120 thousand compared to \$130 thousand for the three months ended March 31, 2002. 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 three months ended March 31, 2003 were warranted because of increased average daily loan balances, apparent weaknesses in the local economy, the inherent risk associated with commercial real estate and commercial business loans, and loan charge-offs. Charge-offs, net of recoveries, totaled \$11 thousand for the current three months compared to \$1 thousand in net recoveries for the three months ended March 31, 2002. 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 March 31, 2003, the ALL to total loans was 0.97% compared to 0.96% at December 31, 2002, while the ALL to nonperforming loans (coverage ratio) was 131.0% compared to 152.4% at December 31, 2002. The March 31, 2003 balance in the ALL account of \$3.7 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 an allowance to all non-performing loans based on current information available. During the three months ended March 31, 2003, additions to the ALL were allocated to commercial business and consumer loans due to the increase in non-performing balances and charge-offs.

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 March 31, 2003, deposits totaled \$403.3 million. During the three months ended March 31, 2003, deposits decreased by \$3.3 million (0.8%). Savings accounts increased \$3.5 million (5.5%), and certificates of deposit increased \$5.7 million (3.0%). During the period, money market deposit accounts (MMDA's) decreased \$9.2 million (14.1%), and checking accounts decreased by \$3.4 million (3.9%). At March 31, 2003, the deposit base was comprised of 20.6% checking accounts, 14.0% MMDA's, 16.7% savings accounts and 48.7% certificates of deposit. The decrease in MMDA's was a result of expected withdrawals by a local municipality.

Borrowings are primarily used to fund asset growth not supported by deposit generation. At March 31, 2003, borrowed funds totaled \$36.9 million compared to \$36.1 million at December 31, 2002, an increase of \$792 thousand (2.2%). Retail repurchase agreements totaled \$11.9 million at March 31, 2003, compared to \$12.6 million at December 31, 2002, a decrease of \$695 thousand (5.5%). FHLB advances totaled \$21.5 million at March 31, 2003 and December 31, 2002. Other short-term borrowings totaled \$3.4 million at March 31, 2003, compared to \$1.9 million at December 31, 2002, an increase of \$1.5 million to meet short-term funding requirements.

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. 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 three months ended March 31, 2003, cash and cash equivalents decreased \$10.5 million compared to a \$1.2 million decrease for the three months ended March 31, 2002, principally due to growth in the loan and securities portfolio during the current three months. The primary sources of cash were proceeds from maturities and sales of securities, loan sales and cash provided by operating activities. The primary uses of cash were loan originations, purchase of securities, deposit withdrawals and the payment of common stock dividends. During the current three months cash provided by operating activities totaled \$2.0 million compared to \$2.5 million for the three months ended March 31, 2002. The decrease during the current three months was due primarily to mortgage banking activities. Cash outflows from investing activities totaled \$9.3 million compared to \$12.3 million for the three months ended March 31, 2002. The decrease for the current period reflects the change in loan growth. Net cash outflows from financing activities totaled \$3.3 million during the current period compared to net cash inflows of \$8.6 million for the three months ended March 31, 2002. The net cash outflows for the current three months was primarily due to planned deposit withdrawals by a local municipality. The Bancorp paid dividends on common stock of \$767 thousand during the current three months compared to \$708 thousand for the three months ended March 31, 2002.

At March 31, 2003, outstanding commitments to fund loans totaled \$58.5 million. Approximately 80% of the commitments were at variable rates. Management believes that the Bancorp has sufficient cash flow and borrowing capacity to fund all outstanding commitments and to maintain proper levels of liquidity. The following table presents the Bancorp's consolidated long term, non-deposit related, contractual obligations as well as commitments to extend credit to our borrowers, in aggregate and by payment due dates at March 31, 2003. Dollar amounts are in thousands.

	Less Than One Year	One Through Three Years	Four Through Five Years	After Five Years	Total
Long-term contractual obligations:					
FHLB advances	\$ 4,000	\$15,500	\$ —	\$2,000	\$21,500
Limited partnership obligation	62	123	122	—	307
Total long-term contractual obligations	4,062	15,623	122	2,000	21,807
Commitments to extend credit:					
Commitments to make loans & unused approved lines of credit	25,455	33,050	—	—	58,505
Performance standby letters of credit	1,218	227	—	—	1,445
Total commitments to extend credit	26,673	33,277	—	—	59,950
Total long-term contractual obligations and commitments to extend credit	\$30,735	\$48,900	\$122	\$2,000	\$81,757

During 2003, the Bancorp will complete the construction of a state-of-the-art corporate center in Munster, Indiana. The cost of the new facility is expected to be approximately \$5.3 million. During the current three months construction disbursements totaled \$1.1 million. Approximately \$2.7 million in additional construction disbursements will occur in 2003. For the quarter ended March 31, 2003, capitalized interest totaled \$11 thousand. The facility will not have a material impact on noninterest expense during 2003. The corporate center will afford the Bancorp the opportunity to continue offering superior customer service and to provide for future growth and operating efficiencies.

Management strongly believes that maintaining a high level of capital enhances safety and soundness. During the three months ended March 31, 2003, stockholders' equity increased by \$490 thousand (1.3%). The increase resulted primarily from earnings of \$1.4 million during the period. In addition, \$18 thousand represents proceeds from the exercise of 3,020 stock options. For the first three months of 2003, the Bancorp declared \$822 thousand in cash dividends. The net unrealized loss on available-for-sale securities, net of tax was \$149 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 March 31, 2003, and December 31, 2002, 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
At March 31, 2003						
Total capital to risk-weighted assets	\$42.5	13.2%	\$25.8	8.0%	\$32.3	10.0%
Tier 1 capital to risk-weighted assets	\$38.8	12.0%	\$12.9	4.0%	\$19.4	6.0%
Tier 1 capital to adjusted average assets	\$38.8	8.2%	\$14.2	3.0%	\$23.7	5.0%
	Actual		Required for adequate capital		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 2002						
Total capital to risk-weighted assets	\$41.8	13.1%	\$25.6	8.0%	\$32.0	10.0%
Tier 1 capital to risk-weighted assets	\$38.1	11.9%	\$12.8	4.0%	\$19.2	6.0%
Tier 1 capital to adjusted average assets	\$38.1	7.6%	\$15.0	3.0%	\$25.0	5.0%

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

Results of Operations — Comparison of the Quarter Ended March 31, 2003 to the Quarter Ended March 31, 2002

Net income for the three months ended March 31, 2003 was \$1.4 million compared to \$1.3 million for the quarter ended March 31, 2002, an increase of \$137 thousand (10.5%), principally due to decreases in interest expense and increases in noninterest income. The earnings represent a ROA of 1.22% for the quarter ended March 31, 2003 compared to 1.18% for the quarter ended March 31, 2002. The ROE was 14.57% for the current quarter compared to 14.39% for the quarter ended March 31, 2002.

Net interest income for the three months ended March 31, 2003 was \$4.6 million, up \$409 thousand (9.8%), compared to \$4.2 million for the quarter ended March 31, 2002. The increase was due to the cost of funds falling more rapidly than the yield on earning assets. The weighted-average yield on interest-earning assets was 5.88% for the three months ended March 31, 2003 compared to 6.52% for the three months ended March 31, 2002. The weighted-average cost of funds for the quarter ended March 31, 2003, was 1.89% compared to 2.65% for the quarter ended March 31, 2002. The impact of the 5.88% return on interest-earning assets and the 1.89% cost of funds resulted in an interest rate spread of 3.99% for the current quarter compared to 3.88% for the quarter ended March 31, 2002. During the current quarter, total interest income decreased by \$215 thousand (3.1%) while total interest expense decreased by \$624 thousand (23.5%). The net interest margin was 4.08% for the three months ended March 31, 2003 compared to 3.99% for the quarter ended March 31, 2002.

During the three months ended March 31, 2003, interest income from loans decreased by \$17 thousand (0.3%) compared to the three months ended March 31, 2002. The decrease was due to lower yields on loans outstanding, as the current interest rate environment resulted in new originations at low rates, and continued increases in prepayment and refinance activity. The weighted-average yield on loans outstanding was 6.30% for the current quarter compared to 6.85% for the three months ended March 31, 2002. Loan balances averaged \$382.0 million for the current quarter, up \$29.3 million (8.3%) from \$352.7 million for the three months ended March 31, 2002. During the three months ended March 31, 2003, interest income on investments and other deposits decreased by \$198 thousand (24.3%) compared to the quarter ended March 31, 2002. The decrease was due to lower yields as funds from security maturities and calls were reinvested at lower rates. The weighted-average yield on securities and other deposits was 3.55% for the current quarter compared to 4.84% for the three months ended March 31, 2002. Securities and other deposits averaged \$69.4 million for the current quarter, up \$2.0 million (3.0%) from \$67.4 million for the three months ended March 31, 2002.

Interest expense for deposits decreased by \$564 thousand (24.7%) during the current quarter compared to the three months ended March 31, 2002. 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 March 31, 2003 was 1.74% compared to 2.55% for the quarter ended March 31, 2002. Total deposit balances averaged \$395.6 million for the current quarter, up \$37.6 million (10.5%) from \$358.0 million for the quarter ended March 31, 2002. Interest expense on borrowed funds decreased by \$60 thousand (15.9%) during the current quarter due to a decrease in average daily balances. The weighted-average cost of borrowed funds was 3.57% for the current quarter compared to 3.44% for the three months ended March 31, 2002. Borrowed funds averaged \$35.5 million during the quarter ended March 31, 2003, a decrease of \$8.4 million (19.1%) from \$43.9 million for the quarter ended March 31, 2002.

Noninterest income for the quarter ended March 31, 2003 was \$744 thousand, up \$108 thousand (17.0%) from \$636 thousand for the quarter ended March 31, 2002. During the current quarter fees and service charges totaled \$435 thousand, an increase of \$40 thousand (10.1%) from \$395 thousand for the quarter ended March 31, 2002. The increase was due to account growth and increased activity. Gains on sales of loans totaled \$142

thousand for the three months ended March 31, 2003, compared to \$36 thousand during the three months ended March 31, 2002, due to increased sales volume. Loan sales for the three months ended March 31, 2003, totaled \$4.9 million compared to \$2.7 million for the three months ended March 31, 2002. Fees from Trust operations totaled \$122 thousand for the quarter ended March 31, 2003, an increase of \$19 thousand (18.4%) from \$103 thousand for the quarter ended March 31, 2002. During the three months ended March 31, 2003, the Bancorp reported \$45 thousand in gains on the sale of securities compared to \$89 thousand for the three months ended March 31, 2002, as the Bancorp continues to sell securities with expected calls. Securities sales for the three months ended March 31, 2003, totaled \$2.1 million compared to \$6.0 million for the three months ended March 31, 2002.

Noninterest expense for the quarter ended March 31, 2003 was \$2.9 million, up \$321 thousand (12.3%) from \$2.6 million for the three months ended March 31, 2002. Increases were due primarily to account growth, system usage and expansion of banking activities. 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 54.7% for the quarter ended March 31, 2003 compared to 53.9% for the three months ended March 31, 2002. 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 March 31, 2003 totaled \$861 thousand compared to \$792 thousand for the three months ended March 31, 2002, an increase of \$69 thousand (8.7%). 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 37.4% for the three months ended March 31, 2003 compared to 37.8% for the three months ended March 31, 2002.

Forward-Looking Statements

Statements contained in this filing 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. Among such bills are proposals to combine banks and thrifts under a unified charter, to combine regulatory agencies, and to further expand the powers of depository institutions, bank holding companies, and competitors of depository institutions. Management cannot predict whether or in what form any of these proposals will be adopted or the extent to which the business of the Bancorp or the Bank may be affected thereby.

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

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

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

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

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

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

Presented in the following tables is forward-looking information about the Bancorp's sensitivity to changes in interest rates as of March 31, 2003 and December 31, 2002. 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.

March 31, 2003		Net Interest Income			Net Economic Value of Equity		
Change in rates	Amount	% Chg.	Policy Limit %	Amount	% Chg.	Policy Limit %	
2%	\$18,045	-3.6	-20	\$52,380	-11.3	-30	
1%	\$18,534	-1.0	-10	\$57,199	-3.2	-15	
0%	\$18,712	0.0		\$59,073	0.0		
-1%	\$18,567	-0.8	-10	\$59,025	-0.8	-15	
-2%	\$17,916	-4.3	-20	\$59,305	0.4	-30	

December 31, 2002		Net Interest Income			Net Economic Value of Equity		
Change in rates	Amount	% Chg.	Policy Limit %	Amount	% Chg.	Policy Limit %	
2%	\$17,516	-2.2	-20	\$49,110	-10.7	-30	
1%	\$17,886	-0.1	-10	\$53,691	-2.3	-15	
0%	\$17,910	0.0		\$54,969	0.0		
-1%	\$17,796	-0.6	-10	\$54,515	-0.8	-15	
-2%	\$17,439	-2.6	-20	\$54,793	-0.3	-30	

The tables show that the Bancorp has managed interest rate risk within the policy limits set by the Board of Directors. At March 31, 2003, an increase in interest rates of 2% would have resulted in a 3.6% decrease in net interest income and an 11.3% decrease in the net economic value of equity compared to decreases of 2.2% and 10.7% at December 31, 2002. During the three months ended March 31, 2003, the Bancorp has managed interest rate risk by selling fixed rate loans with contractual maturities exceeding fifteen years, investing cash equivalents in higher yielding interest earning assets and implementing net interest income pricing strategies.

Item 4. Controls and Procedures

(a) Based on an evaluation of the Bancorp's disclosure controls and procedures (as defined in §§ 240.13a-14(c) and 240.15b-14(c)) as of April 8, 2003, the Bancorp's principal executive officer and principal financial officer have concluded that such disclosure controls and procedures were effective as of that date.

(b) There have been no significant changes in the Bancorp's internal controls and other factors that could significantly affect these controls subsequent to April 8, 2003, including any corrective actions with regard to significant deficiencies and material weaknesses.

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. Changes in Securities and Use of Proceeds

There are no matters reportable under this item.

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

No matters were submitted to a vote of security holders during the period covered by this report.

Item 5. Other Information

There are no matters reportable under this item.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
99.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.
99.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.

(b) Reports on Form 8-K.

There are no matters reportable under this item.

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: May 5, 2003

/s/ David A. Bochnowski

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

Date: May 5, 2003

/s/ Edward J. Furticella

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

CERTIFICATIONS

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 quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's boards of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 5, 2003

/s/ David A. Bochnowski

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

I, Edward J. Furticella, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NorthWest Indiana Bancorp;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's boards of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 5, 2003

/s/ Edward J. Furticella

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

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