



# SECURITIES AND EXCHANGE COMMISSION

100 F Street NE  
Washington, D.C. 20549

## FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2009

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 No. 001-33733

# LaPorte Bancorp, Inc.

(Exact name of registrant as specified in its charter)

**Federal**  
(State or other jurisdiction of  
incorporation or organization)

**710 Indiana Avenue, LaPorte, Indiana**  
(Address of Principal Executive Offices)

**26-1231235**  
(I.R.S. Employer  
Identification Number)

**46350**  
Zip Code

**(219) 362-7511**  
(Registrant's telephone number)

### Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value	The NASDAQ Stock Market, LLC

### Securities Registered Pursuant to Section 12(g) of the Act: None

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such requirements for the past 90 days. YES  NO

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



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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

As of March 19, 2010, there were issued and outstanding 4,588,963 shares of the Registrant's Common Stock.

As of June 30, 2009, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant was \$23,456,455.

**DOCUMENTS INCORPORATED BY REFERENCE**

- Annual Report to Stockholders of the Registrant for the Fiscal Year Ended December 31, 2009 (Part II).
- Proxy Statement for the 2010 Annual Meeting of Stockholders of the Registrant (Part III).





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**PART I**

**Item 1. Business**

**Forward Looking Statements**

This Annual Report (including information incorporated by reference) contains, and future oral and written statements of LaPorte Bancorp, Inc. (“LaPorte Bancorp” or the “Company”) and its management may contain, forward-looking statements as such term is defined in the Private Securities Litigation Reform Act of 1995, with respect to the financial condition, results of operations, plans, objectives, future performance and business of LaPorte Bancorp. Forward-looking statements, which may be based upon beliefs, expectations and assumptions of LaPorte Bancorp’s management and on information currently available to management, are generally identifiable by the use of words such as “believe,” “expect,” “anticipate,” “plan,” “intend,” “estimate,” “may,” “will,” “would,” “could,” “should” or other similar expressions. Additionally, all statements in this document, including forward-looking statements, speak only as of the date they are made, and LaPorte Bancorp undertakes no obligation to update any statement in light of new information or future events. By identifying these forward-looking statements for you in this manner, we are alerting you to the possibility that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause our actual results and financial condition to differ from those indicated in the forward-looking statements include those discussed under “Risk Factors” in Part I, Item 1A of this Annual Report on Form 10-K. In addition to these risk factors, there are other factors that may impact any public company, including ours, which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries. These additional factors include, but are not limited to: (1) changes in consumer spending, borrowing and savings habits; (2) the financial health of certain entities, including government sponsored enterprises, the securities of which are owned or acquired by the Company; (3) adverse changes in the securities market; and (4) the costs, effects and outcomes of existing or future litigation. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

**LaPorte Savings Bank, MHC**

LaPorte Savings Bank, MHC is our federally-chartered mutual holding company parent. As a mutual holding company, LaPorte Savings Bank, MHC is a non-stock company. As of December 31, 2009, LaPorte Savings Bank, MHC owned 54.73% of LaPorte Bancorp’s common stock. As long as LaPorte Savings Bank, MHC exists, it is required to own a majority of the voting stock of LaPorte Bancorp and, through its board of directors, will be able to exercise voting control over most matters put to a vote of shareholders. LaPorte Savings Bank, MHC does not engage in any business activity other than owning a majority of the common stock of LaPorte Bancorp.

**LaPorte Bancorp, Inc.**

LaPorte Bancorp, Inc. is the federally-chartered mid-tier stock holding company formed by The LaPorte Savings Bank to be its holding company as part of its mutual holding company reorganization and initial public offering. LaPorte Bancorp owns all of The LaPorte Savings Bank’s capital stock. LaPorte Bancorp’s primary business activities, apart from owning the shares of The LaPorte Savings Bank, currently consists of loaning funds to the LaPorte Savings Bank’s ESOP and investing in checking and money market accounts at The LaPorte Savings Bank. For parent only financial statements, see Note 19 of the Notes to Consolidated Financial Statements.

LaPorte Bancorp, as the holding company of The LaPorte Savings Bank, is authorized to pursue other business activities permitted by applicable laws and regulations, which may include the acquisition of banking and financial services companies. See “Supervision and Regulation—Holding Company Regulation” for a discussion of the activities that are permitted for savings and loan holding companies. We currently have no specific arrangements or understandings regarding any such other activities.

LaPorte Bancorp’s cash flow depends on dividends received from The LaPorte Savings Bank. LaPorte Bancorp neither owns nor leases significant infrastructure, but instead pays a fee to The LaPorte Savings Bank for the use of its premises, equipment and furniture of The LaPorte Savings Bank. At the present time, we employ only



persons who are officers of The LaPorte Savings Bank to serve as officers of LaPorte Bancorp. We, however, use the support staff of The LaPorte Savings Bank from time to time. We pay a fee to The LaPorte Savings Bank for the time devoted to LaPorte Bancorp by employees of The LaPorte Savings Bank. However, these persons are not separately compensated by LaPorte Bancorp. LaPorte Bancorp may hire additional employees, as appropriate, to the extent it expands its business in the future.

### The LaPorte Savings Bank

The LaPorte Savings Bank (the “Bank”) is an Indiana-chartered savings bank that operates from eight full-service locations in LaPorte and Porter Counties, Indiana. We offer a variety of deposit and loan products to individuals and small businesses, most of which are located in our primary market of LaPorte County, Indiana.

Our website address is [www.laportesavingsbank.com](http://www.laportesavingsbank.com). Information on our website is not and should not be considered a part of this Annual Report.

The LaPorte Savings Bank’s business consists primarily of accepting deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in residential loans, commercial real estate loans, mortgage warehouse loans, construction loans, home equity loans and lines of credit, commercial loans, automobile and other consumer loans as well as agency securities and mortgage-backed securities. In addition, we offer trust services through a referral agreement with a third party.

### Mutual Holding Company Reorganization, Initial Public Offering and City Savings Bank Merger

On March 8, 2007, The LaPorte Savings Bank entered into an agreement to acquire City Savings Financial Corporation and its subsidiary City Savings Bank (“City Savings Bank Merger”) for \$34.00 per share with 50% to be paid in stock and 50% to be paid in cash. To support this acquisition, The LaPorte Savings Bank reorganized into the mutual holding company form of organization and completed an initial public offering of its common stock. The mutual holding company reorganization, initial public offering and City Savings Bank Merger were completed on October 12, 2007.

The consideration paid in the City Savings Bank Merger consisted of 961,931 shares of LaPorte Bancorp’s common stock and \$9.6 million in cash. The Company sold 1,299,219 shares of common stock at \$10.00 per share in a subscription and community offering which resulted in gross proceeds of \$12,992,190.

As of March 19, 2010, LaPorte Savings Bank, MHC held 2,522,013 shares, or 54.96%, of LaPorte Bancorp’s outstanding common stock. LaPorte Bancorp’s common stock trades on the NASDAQ Capital Market under the ticker symbol “LPSB.”

### Market Area

Our primary market for both loans and deposits is currently concentrated around the areas where our full-service banking offices are located in LaPorte and Porter Counties, Indiana. The City Savings Bank Merger increased our market presence in LaPorte and Porter Counties, particularly in Michigan City, Rolling Prairie and Chesterton, Indiana.

We further increased our market presence in LaPorte County with the opening of our Westville, Indiana full-service banking office in July 2008. As of December 31, 2009, the Westville office had total deposits of \$4.9 million.

Because of its location at the southern tip of Lake Michigan, LaPorte County is a major access point to the Chicago market for both rail and highway. LaPorte County is the second largest county in Indiana. The southern part of the county is rural and agricultural in nature. The northern part of the county is where LaPorte and Michigan City are located and the majority of the population is centered. The economy of LaPorte and Michigan City were once built around large manufacturing, however both have made the transition to light industry and service industry. Michigan City because of its location on Lake Michigan has seen a growth in tourism. As of June 30, 2009, The LaPorte Savings Bank had a deposit market share of approximately 18.4% in LaPorte County, which represented the second largest share in LaPorte County of any FDIC insured financial institution.



Both land and labor costs in LaPorte County have remained below the surrounding market areas, while the population has remained stable and historically property values have not experienced large increases. We have experienced declining property values in certain areas of LaPorte County in 2008 and 2009, in particular near Lake Michigan.

Porter County to the west has seen much higher growth because of its proximity to the Chicago market. As a result of the acquisition of City Savings Financial we acquired a branch in Chesterton in Porter County. We have also acquired a site in the city of Valparaiso for a possible new branch office. As of June 30, 2009, the LaPorte Savings Bank had a deposit market share of approximately 0.5% in Porter County. We have experienced declining property values in certain areas of Porter County in 2009.

**Lending Activities**

Historically, our principal lending activity has been the origination of first mortgage loans for the purchase or refinancing of one- to four-family residential real property. During the past several years, we have increased our originations of commercial real estate loans in an effort to increase interest income and reduce our one- to four-family residential loan portfolio as a percentage of our total loans. In addition, in May 2009 we introduced a new mortgage warehouse lending line of business, headed up by an individual whom we hired with an extensive background in this field.

In the future, we intend to continue to originate fixed rate one- to four-family residential loans for sale into the market, and to originate adjustable rate mortgages for our portfolio, subject to market demand. We also intend to maintain and potentially increase our mortgage warehouse lending line of business. Finally, we expect to maintain our commercial real estate lending and do not expect to experience a significant increase in the near future due to current economic conditions.

Except as noted herein, we do not intend any other dramatic change in our loan composition except that we will continue to decrease our indirect automobile loans, due to declining profitability and pricing factors.

The volume of and risk associated with our loans are affected by general economic conditions, including the current economic recession and weakness in real estate values.

**Loan Approval Procedures and Authority.** Our loan approval process is intended to assess the borrower’s ability to repay the loan, the viability of the loan, and the adequacy of the value of the property that will secure the loan. To assess the borrower’s ability to repay, we review each borrower’s employment and credit history and information on the historical and projected income and expenses of mortgagors. All residential mortgage loans in excess of the individual officer’s loan authority but less than an amount requiring board approval must be approved by the Management Loan Committee. The Management Loan Committee consists of the President, Executive Vice President – Credit, Vice President – Mortgage Warehousing, Senior Vice President Commercial Lending, and Executive Vice President/Chief Financial Officer. Committee approval is required for all real estate loans above Freddie Mac eligible guidelines but less than an aggregate of \$750,000. Other non Freddie Mac loans require Committee approval if they exceed individual authorities but have an aggregate of less than \$750,000. Board approval is required for all real estate loans above Freddie Mac guidelines or for loans for which the customer has an aggregate balance of \$750,000 or more.

Our mortgage warehouse loan approval process is intended to minimize potential risk by establishing desirable relationships with experienced and well managed Mortgage Companies (participants). The LaPorte Savings Bank is relying primarily upon the mortgagor to repay the loan or extension of credit, but the Mortgage Participant and their principal owners are guaranteeing the performance of those loans or extension of credits they have originated. All residential mortgage loans in excess of an individual warehouse staff member’s loan authority must be approved by three members of the Management Loan Committee. The Management Loan Committee consists of the President, Executive Vice President – Credit, Vice President – Mortgage Warehousing, Senior Vice



President Commercial Lending and Executive Vice President/Chief Financial Officer. Committee approval is required for all real estate loans above \$750,000. We have also established limits on outstanding lines to each participant. A maximum limit of \$15.0 million has been established for a single participant and a \$20.0 million combined limit has been established for participants with common ownership. The Management Loan Committee has the authority to increase these limits up to 20%.



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Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio, by type of loan at the dates indicated.

	December 31,									
	2009		2008		2007		2006		2005	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Real estate:										
One- to four-family	\$ 70,126	27.08%	\$ 84,706	38.10%	\$ 93,439	42.05%	\$ 63,973	46.72%	\$ 69,596	49.21%
Five or more family	6,743	2.60	5,200	2.34	712	0.32	204	0.15	—	—
Commercial	75,506	29.16	65,078	29.27	59,332	26.70	35,578	25.98	33,076	23.39
Construction	5,420	2.09	7,736	3.48	11,268	5.07	2,578	1.88	2,132	1.51
Land	11,753	4.54	11,016	4.95	4,829	2.17	74	0.06	299	0.21
Total real estate	169,548	65.48	173,736	78.14	169,580	76.32	102,407	74.79	105,103	74.32
Mortgage warehouse	43,765	16.90	—	—	—	—	—	—	—	—
Consumer and other loans:										
Home equity	15,704	6.06	15,579	7.01	16,996	7.65	7,303	5.33	7,844	5.55
Commercial	18,122	7.00	19,390	8.72	17,356	7.81	9,569	6.99	5,753	4.07
Automobile and other loans <sup>(1)</sup>	11,790	4.55	13,622	6.13	18,276	8.22	17,650	12.89	22,713	16.06
Total consumer and other loans	45,616	17.62	48,591	21.86	52,628	23.68	34,522	25.21	36,310	25.68
Total loans	\$258,929	100.00%	\$222,327	100.00%	\$222,208	100.00%	\$136,929	100.00%	\$141,413	100.00%
Net deferred loan costs	122		111		86		189		228	
Allowance for loan losses	(2,776)		(2,512)		(1,797)		(1,041)		(1,064)	
Total loans, net	\$256,275		\$219,926		\$220,497		\$136,077		\$140,577	

<sup>(1)</sup> Includes \$4,780 of indirect automobile and \$7,010 of direct automobile and other loans at December 31, 2009, \$6,041 of indirect automobile and \$7,581 of direct automobile and other loans at December 31, 2008, \$9,604 and \$8,672 at December 31, 2007, \$14,091 and \$3,559 at December 31, 2006, AND \$18,900 and \$3,813 at December 31, 2005.



*Loan Portfolio Maturities and Yields.* The following table summarizes the scheduled repayments of our loan portfolio at December 31, 2009. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less.

Due During the Years Ending December 31,	One-to-Four-Family		Five or More Family		Commercial Real Estate		Mortgage Warehouse	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)							
2010	\$ 864	7.04%	\$1,469	4.58%	\$10,787	5.26%	\$43,765	7.18%
2011	1,747	6.81	—	0.00	3,073	5.86	—	0.00
2012	1,224	6.18	22	5.00	2,168	5.99	—	0.00
2013 to 2014	5,257	5.77	4,905	5.71	34,045	6.09	—	0.00
2015 to 2019	13,351	5.72	176	5.72	14,706	5.70	—	0.00
2020 to 2024	9,647	5.82	—	0.00	4,437	6.37	—	0.00
2025 and beyond	38,036	6.05	171	6.63	6,290	6.73	—	0.00
<b>Total</b>	<b>\$70,126</b>	<b>5.97%</b>	<b>\$6,743</b>	<b>5.49%</b>	<b>\$75,506</b>	<b>5.95%</b>	<b>\$43,765</b>	<b>7.18%</b>

  

Due During the Years Ending December 31,	Commercial Non-Real Estate		Construction and Land		Consumer, Automobile and Other		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)							
2010	\$ 6,666	5.09%	\$ 11,183	5.44%	\$ 2,731	4.81%	\$ 77,465	6.35%
2011	1,878	5.40	1,705	5.24	2,448	6.04	10,851	5.88
2012	2,253	6.10	443	5.35	3,446	6.34	9,556	6.13
2013 to 2014	3,900	6.38	2,810	6.55	9,286	5.70	60,203	6.01
2015 to 2019	3,186	6.56	736	5.11	6,942	6.08	39,097	5.83
2020 to 2024	239	7.00	296	6.99	2,370	6.66	16,989	6.12
2025 and beyond	—	0.00	—	0.00	271	9.09	44,768	6.17
<b>Total</b>	<b>\$18,122</b>	<b>5.81%</b>	<b>\$ 17,173</b>	<b>5.61%</b>	<b>\$ 27,494</b>	<b>5.93%</b>	<b>\$258,929</b>	<b>6.12%</b>



The following table sets forth the contractual maturities of fixed- and adjustable-rate loans at December 31, 2009 that are due after December 31, 2010.

	Due After December 31, 2010		
	Fixed	Adjustable	Total
	(In thousands)		
<b>Real Estate:</b>			
One- to four-family	\$ 54,833	\$ 14,429	\$ 69,262
Five or more family	4,562	712	5,274
Commercial	28,206	36,513	64,719
Construction	—	—	—
Land	2,883	3,107	5,990
<b>Total real estate loans</b>	<b>90,484</b>	<b>54,761</b>	<b>145,245</b>
Mortgage warehouse	—	—	—
<b>Consumer and other loans:</b>			
Home equity	2,884	11,006	13,890
Commercial	7,900	3,556	11,456
Automobile and other	10,672	201	10,873
<b>Total consumer and other loans</b>	<b>21,456</b>	<b>14,763</b>	<b>36,219</b>
<b>Total loans</b>	<b>\$111,940</b>	<b>\$ 69,524</b>	<b>\$181,464</b>

**One- to Four-Family Residential Loans.** Historically, our primary lending activity has consisted of the origination of one- to four-family residential mortgage loans secured primarily by local properties. At December 31, 2009, approximately \$70.1 million, or 27.08% of our loan portfolio, consisted of one- to four-family residential loans. The majority of the one- to four-family residential mortgage loans we originate are conventional, but we also offer FHA and VA loans. The Bank does not, nor has it ever engaged in subprime lending, defined as mortgage loans to borrowers who do not qualify for market interest rates because of problems with their credit history. Our one- to four-family residential mortgage loans are currently originated in amounts up to 80% of the lesser of the appraised value or purchase price of the property, although loans may be made with higher loan-to-value ratios at a higher interest rate to compensate for the increased credit risk. Private mortgage insurance is generally required on loans with a loan-to-value ratio in excess of 80%. Fixed-rate loans are originated for terms of 10 to 40 years. Depending on market conditions, we generally sell a majority of our fixed rate one- to four-family loans as part of our asset/liability management strategy. At December 31, 2009, our largest loan secured by one- to four-family real estate had a principal balance of approximately \$914,000 and was secured by a single family residence. This loan was performing in accordance with its repayment terms at December 31, 2009.

We also offer, to a lesser extent, adjustable rate mortgage loans with fixed terms of one, three, five, seven or ten years before converting to an annual adjustment schedule based on changes in a designated United States Treasury index. We originated \$0 of adjustable rate one- to four-family residential loans during the year ended December 31, 2009 and \$35,000 during the year ended December 31, 2008. The adjustable rate mortgage loans that we originate provide for maximum rate adjustments of 200 basis points per adjustment, with a lifetime maximum adjustment of 600 basis points, and amortize over terms of up to 30 years.

Adjustable rate mortgage loans help decrease the risk associated with changes in market interest rates by periodically repricing. However, adjustable rate mortgage loans involve other risks because, as interest rates increase, the interest payments on the loan increase, which increases the potential for default by the borrower. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates. Upward adjustment of the contractual interest rate is also limited by the maximum periodic and lifetime interest rate adjustments permitted by our loan documents, and therefore, is potentially limited in effectiveness during periods of rapidly rising interest rates. At December 31, 2009, \$14.4 million, or 20.83%, of our one- to four-family residential loans contractually due after December 31, 2010 had adjustable rates of interest.

We acquired a substantial amount of our adjustable rate one- to four-family residential mortgage loans in connection with our acquisition of City Savings Bank in 2007. At December 31, 2009, \$20.5 million of our one- to four-family residential loans were acquired from City Savings Bank, of which \$12.2 million were adjustable rate



loans. Most of City Savings Bank's adjustable rate loans were originated with rates that were fixed for an initial term of five years and then adjust on an annual basis thereafter, pegged to the one-year United States Treasury index. These loans also provide for a maximum interest rate adjustment of 200 basis points over a one-year period and a maximum adjustment of 600 basis points over the life of the loan, and are amortized over terms up to 30 years.

At December 31, 2009, \$1.1 million of our one- to four-family residential mortgage loans were classified as non-performing. \$446,000, or 42.12%, of these nonperforming loans were acquired in connection with the City Savings Bank Merger, and all are adjustable rate loans.

All one- to four-family residential mortgage loans that we originate include "due-on-sale" clauses, which give us the right to declare a loan immediately due and payable in the event that, among other things, the borrower sells or otherwise disposes of the real property subject to the mortgage and the loan is not repaid.

Regulations guide the amount that a savings bank may lend relative to the appraised value of the real estate securing the loan, as determined by an appraisal of the property at the time the loan is originated. For all loans, we utilize outside independent appraisers approved by the board. All borrowers are required to obtain title insurance. We also require fire and casualty insurance and, where circumstances warrant, flood insurance.

**Mortgage Warehouse Lending.** In May of 2009, we introduced a new mortgage warehousing lending line of business, headed up by an individual brought into the organization with an extensive background in this field. Under this program, we provide financing to approved mortgage companies for the origination and sale of residential mortgage loans. Each individual mortgage is assigned to us until the loan is sold to the secondary market by the mortgage company. We take possession of each original note and forward such note to the end investor once the mortgage company has sold the loan. These individual loans are typically sold by the mortgage company within 30 days and are seldom held more than 90 days. Interest income is accrued during this period and fee income for each loan sold is collected when the loan is sold. Agency eligible, governmental (FHA insured or VA guaranteed) and jumbo residential mortgage loans that are secured by mortgages placed on existing one-to four-family dwellings may be purchased and placed in the warehouse line.

As of December 31, 2009, the Bank had repurchase agreements with 10 mortgage companies and held \$43.8 million of warehoused loans. Since beginning the warehousing business in May 2009, the approved mortgage companies have originated \$604.8 million in mortgage loans and sold \$561.0 million in mortgage loans. We recorded interest income of \$1.5 million, mortgage warehouse loan fees of \$272,000 and wire transfer fees of \$71,000.

**Commercial Real Estate Loans.** At December 31, 2009, \$75.5 million, or 29.16% of our total loan portfolio consisted of commercial real estate loans. Our commercial real estate loans are secured by retail, industrial, warehouse, service, medical and other commercial properties. Because, on average, our commercial real estate loans have a shorter term to repricing and a higher yield than our residential loans, such loans can be a helpful asset/liability management tool.

We originate both fixed- and adjustable-rate commercial real estate loans. Our originated fixed-rate commercial real estate loans generally have initial terms of up to five years, with a balloon payment at the end of the term. Our originated adjustable-rate commercial real estate loans generally have an initial term of three- to five-years and a repricing option. Our originated commercial real estate loans generally amortize over 15 to 20 years. The maximum loan-to-value ratio of our commercial real estate loans is generally 80%. At December 31, 2009, our largest commercial real estate loan balance was \$2.5 million. At December 31, 2009, this loan was performing in accordance with its repayment terms.

We consider a number of factors in originating commercial real estate loans. We evaluate the qualifications and financial condition of the borrower, including credit history, profitability and expertise, as well as the value and condition of the mortgaged property securing the loan. When evaluating the qualifications of the borrower, we consider the financial resources of the borrower, the borrower's experience in owning or managing similar property and the borrower's payment history with us and other financial institutions. In evaluating the property securing the loan, the factors we consider include the net operating income of the mortgaged property before debt service and depreciation, the ratio of the loan amount to the appraised value of the mortgaged property



and the debt service coverage ratio (the ratio of net operating income to debt service) to ensure that it is at least 120% of the monthly debt service. Personal guarantees are obtained from commercial real estate borrowers although we will consider waiving this requirement based upon the loan-to-value ratio and the debt coverage ratio of the proposed loan. All purchase money and asset refinance borrowers are required to obtain title insurance. We also require fire and casualty insurance and, where circumstances warrant, flood insurance.

We acquired a number of commercial real estate loans as a result of the acquisition of City Savings Bank. The majority of these loans were adjustable-rate commercial real estate loans generally having terms no greater than 20 years. Acquired loans that showed evidence of credit deterioration on the date of the City Savings Bank acquisition were recorded at an allocated fair value. Since the date of acquisition we have not recorded any specific reserves related to these loans. At December 31, 2009, the balance of these loans acquired with City Savings Bank was \$1.0 million. For further information about the accounting treatment of purchased loans, see Note 3 to Consolidated Financial Statements included in Part IV hereof.

Loans secured by commercial real estate generally are considered to present greater risk than one- to four-family residential loans. Commercial real estate loans often involve large loan balances to single borrowers or groups of related borrowers. Repayment of these loans depends to a large degree on the results of operations and management of the properties securing the loans or the businesses conducted on such property, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general, including today's economic crisis and declining real estate values. Accordingly, the nature of these loans makes them more difficult for management to monitor and evaluate and more vulnerable to adverse economic conditions.

Set forth below is information regarding our commercial real estate loans at December 31, 2009.

<u>Industry Type</u>	<u>Number of Loans</u>	<u>Balance</u> (Dollars in thousands)
Real estate development and rental	151	\$ 20,793
Health care and social	14	3,430
Retail trade	38	7,065
Accommodation and food	35	12,916
Other services	44	5,890
Manufacturing	32	6,435
Construction	51	9,205
Other miscellaneous	58	9,772
	<u>423</u>	<u>\$ 75,506</u>

At December 31, 2009, \$3.9 million of our commercial real estate loans were classified as non-performing. \$2.9 million, or 74.23%, of these loans were acquired from City Savings Bank.

During recent years, we have increased our emphasis on commercial real estate lending, however, we do not expect to experience a significant increase in the near future due to current economic conditions.

**Construction and Land Loans.** At December 31, 2009, \$17.2 million, or 6.63%, of our total loan portfolio consisted of construction and land loans. A majority of our mortgage construction loans are for the construction of residential properties and carry fixed rates. Most of our current residential construction loan originations are structured for permanent mortgage financing once the construction is completed. At December 31, 2009, our largest residential construction loan balance was \$319,000. At December 31, 2009 this loan was performing in accordance with its terms.

The majority of our current construction loans are subject to our normal underwriting procedures prior to being converted to permanent financing. Most of our current construction loans, once converted to permanent financing, repay over a thirty-year period. In addition, most of our current construction loans require only the payment of interest during the construction period. Most of our current construction loans are made in amounts of up to 80% of the lesser of the appraised value of the completed property or contract price plus value of the land improvements. Funds are disbursed based on our inspections in accordance with a schedule reflecting the completion of portions of the project.



For all construction and land loans, we utilize outside independent appraisers approved by the board. All borrowers are required to obtain title insurance. We also require fire and casualty insurance on construction loans and, where circumstances warrant, flood insurance on properties.

We also occasionally make loans to builders and developers “on speculation” to finance the construction of residential property where justified by an independent appraisal. Whether we are willing to provide permanent takeout financing to the purchaser of the home is determined independently of the construction loan by a separate underwriting process. At December 31, 2009, we had construction loans with outstanding aggregate balances of \$43,000 secured by one- to four-family residential property built on speculation. Given the current state of the economy and overall concerns with the construction development industry, we have significantly reduced our exposure in this type of lending and do not anticipate a change in this strategy in the near future.

We also make commercial land development and residential land loans. The growth in this area has been primarily from loans to real estate developers for the acquisition and development of one- to four-family residential developments. These loans generally have an interest-only phase during construction then convert to permanent financing. The maximum loan-to-value ratio applicable to these loans is generally 80%. At December 31, 2009, our total balance of commercial land development and residential land loans was \$11.8 million, and the balance of such loans acquired with City Savings Bank was \$3.5 million. At December 31, 2009, our largest commercial real estate development loan balance was \$1.2 million. At December 31, 2009, this loan was performing in accordance with its terms.

We also make construction loans for commercial development projects such as multi-family, apartment and small retail and office buildings. These loans generally have an interest-only phase during construction then convert to permanent financing. Disbursements of construction loan funds are at our discretion based on the progress of construction. The maximum loan-to-value ratio limit applicable to these loans is generally 80%. At December 31, 2009, we had construction loans with an outstanding aggregate balance of \$3.9 million and \$2.9 million of undrawn commitments which were secured by multi-family residential or commercial property, \$1.2 million of such loans were acquired with City Savings Bank. At December 31, 2009, our largest commercial construction loan balance was \$1.8 million. At December 31, 2009, this loan was performing in accordance with its terms.

We also occasionally make loans to builders and developers for the development of one- to four-family lots in our market area. We acquired a number of such loans in the City Savings Bank merger. Land loans are generally made in amounts up to a maximum loan-to-value ratio of 75% based upon an independent appraisal. When feasible, we obtain personal guarantees for our land loans.

The table below sets forth, by type of collateral property, the number and amount of our construction and land loans at December 31, 2009, all of which are secured by properties located in our market area. Loans acquired with City Savings Bank represent \$964,000 or 47.56% of the non-performing construction and land loans.

	<u>Net Principal Balance</u>	<u>Non- Performing</u>
	(Dollars in thousands)	
One- to four-family construction	\$ 1,490	\$ —
Multi-family construction	—	—
Commercial construction	3,930	858
Land	<u>11,753</u>	<u>1,169</u>
<b>Total construction and land loans</b>	<u><u>\$ 17,173</u></u>	<u><u>\$ 2,027</u></u>

Construction and land lending generally affords us an opportunity to receive higher origination and other loan fees. In addition, such loans are generally made for relatively short terms. Nevertheless, construction and land lending to persons other than owner-occupants generally involve a higher level of credit risk than permanent one- to four-family residential lending due to the concentration of principal in a limited number of loans and borrowers and the effects of general economic conditions on construction projects (including the current economic slowdown), real estate developers and managers. In particular, today’s very slow real estate market will likely have a very significant impact on the ability of the borrower to sell the newly constructed units. In addition, the nature of these



loans is such that they are more difficult to evaluate and monitor. Our risk of loss on a construction or land loan is dependent largely upon the accuracy of the initial estimate of the property's value upon completion of the project (which may fluctuate based on market demand) and the estimated cost (including interest) of the project. If the estimate of value proves to be inaccurate, we may be confronted, at or prior to the maturity of the loan, with a project with a value which is insufficient to assure full repayment and/or the possibility of having to make substantial investments to complete and sell the project. Because defaults in repayment may not occur during the construction period, it may be difficult to identify problem loans at an early stage. When loan payments become due, the cash flow from the property may not be adequate to service the debt. In such cases, we may be required to modify the terms of the loan.

During 2009, we had a significant increase in our nonperforming land loans. One of the land loans, in the amount of \$600,000, which was in nonperforming status as of December 31, 2009, was subsequently brought current in January 2010 and remains current as of the filing date. Based on current economic conditions, we expect to monitor the volume of new construction and land loan originations.

**Commercial Loans.** At December 31, 2009, \$18.1 million, or 7.00% of our total loan portfolio consisted of commercial loans, of which \$710,000 of such commercial loans were acquired in the City Savings Bank merger. Purchased loans that showed evidence as of the date of acquisition of credit deterioration since their origination were recorded at an allocated fair value.

Commercial credit is offered primarily to small business customers, usually for asset acquisition, business expansion or working capital purposes. Current term loan originations generally have a three- to five-year term with a balloon payment. Current term loan originations will not exceed 15 years without approval from the board. The maximum loan-to-value ratio of our current commercial loan originations is generally 80%. The extension of a commercial credit is based on the ability and stability of management, whether cash flows support the proposed debt repayment, earnings projections and the assumptions for such projections and the volume and marketability of any underlying collateral. At December 31, 2009, our largest commercial loan balance was \$2.4 million, and secured by a trust security portfolio. At December 31, 2009, this loan was performing in accordance with its terms.

Set forth below is information regarding The LaPorte Savings Bank's commercial business (non-real estate) loans at December 31, 2009.

<u>Industry Type</u>	<u>Number of Loans</u>	<u>Balance</u> <u>(Dollars in thousands)</u>
Real estate development and rental	56	\$ 4,397
Health care and social	8	498
Retail trade	33	456
Accommodation and food	9	2,474
Other services	10	796
Manufacturing	25	3,400
Construction	38	1,329
Other miscellaneous	52	4,772
	<u>231</u>	<u>\$ 18,122</u>

Commercial loans generally have a greater credit risk than residential mortgage loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself which may be highly vulnerable to changes in general economic conditions (including the current recession). Further, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. We seek to minimize these risks through our underwriting standards. At December 31, 2009, \$381,000 of our commercial loans were classified as nonperforming. \$381,000 or 100% of these nonperforming loans were acquired from City Savings Bank.



**Home Equity Loans and Lines of Credit.** We originate fixed and variable rate home equity loans and variable rate home equity lines of credit secured by a lien on the borrower's residence. The home equity products we originate generally are limited to 80% of the property value less any other mortgages. During 2009, we lowered the maximum loan to value ratio to 70% from 80% for the interest only home equity loans we originate. The variable interest rates for home equity loans and lines of credit are determined by the *Wall Street Journal* prime rate and may not exceed a designated maximum over the life of the loan. We currently offer home equity loans with terms of up to 10 years with principal and interest paid monthly from the closing date. Our home equity lines of credit provide for an initial draw period of up to 10 years, and payments include principal and interest calculated based on 2% of the outstanding principal balance. We offer interest-only home equity loans up to a five year term with payments of monthly interest. At the end of the initial term, the line must be paid in full or renewed.

Home equity loans acquired in connection with the City Savings Bank merger were \$4.4 million at December 31, 2009, of which \$3.1 million of these loans were interest only home equity loans with principal to be repaid at maturity.

At December 31, 2009, \$15.7 million or 6.06% of our total loan portfolio consisted of home equity loans and lines of credit. At December 31, 2009, our largest home equity loan balance was \$374,000. This loan was secured by a single family residence and was considered a nonperforming loan. This loan was acquired in connection with the City Savings merger and is an interest only loan.

Home equity lending is subject to the same risks as one-to four-family residential lending except that, since home equity loans tend to carry higher loan to value ratios and more household debt than one-to four-family loans, there is often a somewhat higher degree of credit risk, particularly in a period of economic difficulties such as is currently occurring.

At December 31, 2009, \$392,000 of our home equity loans were classified as non-performing. All of these loans were acquired with City Savings Bank.

**Consumer and Other Loans.** We offer a variety of loans that are either unsecured or secured by property other than real estate. These loans include loans secured by deposits, recreational vehicles or boats, personal and bond loans and indirect and direct automobile loans. At December 31, 2009, these consumer and other loans totaled \$11.8 million, or 4.55% of the total loan portfolio. We acquired a significant portfolio of these loans in connection with the City Savings Bank merger. At December 31, 2009, we had \$2.9 million of such loans acquired with the City Savings Bank merger. At December 31, 2009, \$4.8 million or 1.85% of our total loan portfolio consisted of indirect automobile loans, down from \$6.0 million of such loans at December 31, 2008.

The terms of our consumer and other loans vary according to the type of collateral, length of contract, and creditworthiness of the borrower. We generally will write indirect and direct automobile loans for up to 100% of the retail value for a new automobile and up to 100% of the wholesale value for a used automobile. The repayment schedule of loans covering both new and used vehicles is consistent with the expected life and normal depreciation of the vehicle. The majority of the loans for recreational vehicles and boats were originated by City Savings Bank prior to the City Savings Bank merger and were written for no more than 80% of the estimated sales price of the collateral, for a term that is consistent with its expected life and normal depreciation.

Consumer loans may entail greater credit risk than residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are likely to be affected by adverse personal circumstances and the overall economy, including the current economic downturn. Furthermore, the application of various state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans. In view of the possible increase in the amount and scope of our consumer lending activities, there can be no assurance that charge offs and delinquencies in our consumer loan portfolio will not increase in the future.

**Loan Originations, Purchases and Sales.** Our loan origination activities have been primarily concentrated in our local market area. New loans are generated primarily from local realtors, walk-in customers, customer referrals, and other parties with whom we do business, and from the efforts of employees and advertising. Loan applications are underwritten and processed at our main office.



From time to time, we purchase loans from third parties to supplement loan production. In particular, we may purchase loans of a type that are not available, or that are not available with as favorable terms, in our own market area. We generally use the same underwriting standards in evaluating loan purchases as we do in originating loans. During 2009, we did not purchase any additional loans from third parties. At December 31, 2009, \$1.9 million, or less than 1% of our portfolio consisted of purchased loans. At December 31, 2009, all of our purchased loan portfolio was serviced by others.

We often sell some of our originated loans in the secondary market. We generally make decisions regarding the amount of loans we wish to sell based on interest rate and/or credit risk management considerations. For instance, during 2009, we sold a significant portion of our fixed rate residential loan production as the low rate environment made such loans attractive to consumers but unattractive to us as long-term investment. In addition, we occasionally sell participation interests in our large, multi-family and commercial real estate loans in order to diversify our risk. At December 31, 2009, we serviced \$64.5 million of loans for others, the majority of which were mortgage loans serviced for Freddie Mac.



The following table shows our loan origination, sale and principal repayment activities during the periods indicated.

	Years Ended December 31,		
	2009	2008 (In thousands)	2007
Total loans at beginning of period	\$ 222,327	\$222,208	\$136,929
<b>Loans originated:</b>			
Real estate:			
One- to four-family	58,815	29,310	24,488
Five or more family	5,033	5,873	—
Commercial	25,527	31,444	21,632
Construction	3,916	10,273	8,011
Land	4,369	6,825	449
Mortgage warehouse	607,755	—	—
Consumer and other loans:			
Home equity	3,825	5,876	3,478
Commercial	9,074	14,550	11,840
Automobile and other	3,911	3,252	4,592
Total loans originated	722,225	107,403	74,490
<b>Loans acquired through merger:</b>			
Real estate:			
One- to four-family	—	—	38,540
Five or more family	—	—	518
Commercial	—	—	27,790
Construction	—	—	3,096
Land	—	—	4,508
Consumer and other loans:			
Home equity	—	—	11,079
Commercial	—	—	5,701
Automobile and other	—	—	5,858
Total loans acquired	—	—	97,090
<b>Loans purchased:</b>			
Real estate:			
One- to four-family	—	—	—
Five or more family	—	—	—
Commercial	—	—	2,018
Construction	—	—	—
Land	—	—	—
Consumer and other loans:			
Home equity	—	—	—
Commercial	—	—	—
Automobile and other	—	—	—
Total loans purchased	—	—	2,018
<b>Loans sold:</b>			
Real estate:			
One- to four-family	(53,254)	(21,883)	(13,189)
Five or more family	—	—	—
Commercial	—	—	—
Construction	—	—	—
Land	—	—	—
Consumer and other loans:			
Home equity	—	—	—
Commercial	—	—	—
Automobile and other	—	—	—
Total loans sold	(53,254)	(21,883)	(13,189)
<b>Deduct:</b>			
Principal repayments	(632,369)	(85,401)	(75,130)
Net loan activity	36,602	119	85,279



Total loans at end of period (excluding net deferred loan fees and costs)	<u>\$ 258,929</u>	<u>\$222,327</u>	<u>\$222,208</u>
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**Nonperforming Assets.** The table below sets forth the amounts and categories of our nonperforming assets at the dates indicated.

	At December 31,				
	2009	2008	2007	2006	2005
(Dollars in thousands)					
<b>Nonaccrual loans:</b>					
<b>Real estate:</b>					
One- to four- family(1)	\$1,059	\$ 449	\$ 186	\$ 241	\$ 215
Five or more family	—	—	—	—	—
Commercial(2)	3,854	3,036	1,061	74	157
Construction	858	1,588	—	—	—
Land	1,169	—	—	—	—
Total real estate	\$6,940	\$5,073	\$1,247	\$ 315	\$ 372
<b>Consumer and other loans:</b>					
Home equity(3)	392	121	299	—	10
Commercial(4)	381	1,535	50	—	—
Automobile and other	3	21	28	5	45
Total consumer and other loans	776	1,677	377	5	55
Total nonaccrual loans	\$7,716	\$6,750	\$1,624	\$ 320	\$ 427
Troubled debt restructured commercial real estate	—	—	\$ 462	\$ 517	\$ 546
Total troubled debt restructured	—	—	\$ 462	\$ 517	\$ 546
<b>Loans greater than 90 days delinquent and still accruing:</b>					
<b>Real estate:</b>					
One- to four- family	\$ —	\$ —	\$ —	\$ —	\$ —
Five or more family	—	—	—	—	—
Commercial	—	—	—	—	—
Construction	—	—	—	—	—
Land	—	—	—	—	—
Total real estate	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Consumer and other loans:</b>					
Home equity	—	—	—	—	—
Commercial	—	—	—	—	—
Automobile and other	—	—	—	—	—
Total consumer and other loans	\$ —	\$ —	\$ —	\$ —	\$ —
Total nonperforming loans	\$7,716	\$6,750	\$2,086	\$ 837	\$ 973
<b>Foreclosed assets:</b>					
One- to four- family	\$ 399	\$ 917	\$ —	\$ —	\$ 111
Five or more family	—	—	—	—	—
Commercial	155	—	268	453	465
Construction	—	—	150	—	—
Land	—	4	36	—	—
Consumer	—	—	—	—	—
Business assets	—	—	—	—	—
Total foreclosed assets	\$ 554	\$ 921	\$ 454	\$ 453	\$ 576
Total nonperforming assets	\$8,270	\$7,671	\$2,540	\$1,290	\$1,549
<b>Ratios:</b>					
Nonperforming loans to total loans	2.98%	3.04%	0.94%	0.61%	0.69%
Nonperforming assets to total assets	2.04%	2.08%	0.69%	0.48%	0.60%

- (1) \$120, \$135 and \$134 of the nonaccrual one- to four-family loans at December 31, 2009, 2008 and 2007 were loans acquired with credit deterioration from the acquisition of City Savings Bank.
- (2) \$0, \$191 and \$523 of the nonaccrual commercial real estate loans at December 31, 2009, 2008 and 2007 were loans acquired with credit deterioration from the acquisition of City Savings Bank.
- (3) \$16, \$21 and \$0 of the nonaccrual home equity loans at December 31, 2009, 2008 and 2007 were loans acquired with credit deterioration from the acquisition of City Savings Bank.



- (4) \$0, \$0 and \$50 of the nonaccrual commercial loans at December 31, 2009, 2008 and 2007 were loans acquired with credit deterioration from the acquisition of City Savings Bank.



Total nonperforming loans increased \$966,000 from \$6.8 million at December 31, 2008 to \$7.7 million at December 31, 2009. This increase is primarily attributable to a deterioration of general economic conditions. At December 31, 2009, \$5.4 million of our nonperforming loans were originated by City Savings Financial prior to the acquisition in the fourth quarter of 2007.

For the years ended December 31, 2009 and 2008, contractual gross interest income of \$252,000, \$148,000 and \$56,000, would have been recorded on non-performing loans if those loans had been current

**Troubled Debt Restructurings:** Our troubled debt restructurings at December 31, 2008 consisted of one commercial loan relationship. In 2005 the loan was classified as doubtful when the borrower sold the company and the loan was renegotiated at a significantly reduced interest rate with a new borrower. As a result of the interest rate restructure the loan was discounted and reported as a troubled debt restructuring guidance as of December 31, 2005. This loan was a loan participation involving three other local financial institutions. City Savings Bank also held a portion of this same commercial loan in its portfolio at the time of the acquisition, however they did not classify the loan as troubled debt restructured status and instead charged down a portion of the loan in 2005. The loan had paid as agreed since the restructuring with the new borrower until November 2008. At December 31, 2008, this loan was placed in non-accrual status and was included in non-accrual commercial loans in the previous table. In January 2009 the loan balance of \$684,000 was renegotiated once again with the borrower to be paid during the third quarter of 2009. The borrower made the payments as agreed to in January and the remaining balance was charged-off during the third quarter of 2009. For the years ended December 31, 2009 and 2008, gross interest income that would have been recorded had our troubled debt restructurings been current in accordance with their original terms was \$46,000 and \$58,000, respectively. For the year ended December 31, 2009 and 2008, gross interest income that was recorded related to our troubled debt restructurings totaled \$0 and \$16,000, respectively.

**Accounting for Acquired Loans:** The Company acquired a group of loans through the acquisition of City Savings Bank on October 12, 2007. Acquired loans that showed evidence of credit deterioration since their origination were recorded at an allocated fair value, in light of the fact that there is no carryover of the seller's specific reserve for loan losses. After acquisition, incurred losses are recognized by an increase in the allowance for loan losses.

Acquired loans are accounted for individually or aggregated into pools of loans based on common risk characteristics (e.g., credit score, loan type, and date of origination). The Company estimates the amount and timing of expected cash flows for each purchased loan or pool, and the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan or pool (accretable yield). The excess of the loan's or pool's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference).

Over the life of the loan or pool, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

For further information about the accounting treatment of acquired loans, see Note 3 of the Notes to Consolidated Financial Statements included in Part IV hereof.



**Delinquencies.** The following table sets forth certain information with respect to our loan portfolio delinquencies by type and amount at December 31, 2009.

	Loans Delinquent For						Total	
	30-59 Days		60-89 Days		90 Days and Over			
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
(Dollars in thousands)								
Real estate:								
One- to four-family	14	\$ 850	2	\$ 53	9	\$ 878	25	\$ 1,781
Five or more family	—	—	—	—	—	—	—	—
Commercial	6	1,374	—	—	11	3,855	17	5,229
Construction	—	—	—	—	1	858	1	858
Land	1	699	—	—	4	1,169	5	1,868
Total real estate	21	2,923	2	53	25	6,760	48	9,736
Consumer and other loans:								
Home equity	7	419	—	—	2	376	9	795
Commercial	—	—	1	45	3	381	4	426
Automobile and other	13	113	1	6	3	3	17	122
Total consumer and other loans	20	532	2	51	8	760	30	1,343
<b>Total</b>	<b>41</b>	<b>\$3,455</b>	<b>4</b>	<b>\$ 104</b>	<b>33</b>	<b>\$7,520</b>	<b>78</b>	<b>\$11,079</b>

After a real estate secured loan becomes 15 days late (10 days for consumer and commercial loans), we deliver a computer generated late charge notice to the borrower and will attempt to contact the borrower by telephone. When a loan becomes 25 days delinquent, we contact the borrower to make arrangements for payment. We attempt to make satisfactory arrangements to bring the account current, including interviewing the borrower, until the mortgage is brought current or a determination is made to recommend foreclosure, deed-in-lieu of foreclosure or other appropriate action. After a loan becomes delinquent 90 days or more, we will generally refer the matter to the Management Collections Committee, which may authorize legal counsel to commence foreclosure proceedings.

Mortgage loans are reviewed on a regular basis and such loans are placed on nonaccrual status when they become more than 90 days delinquent. When loans are placed on nonaccrual status, unpaid accrued interest for the current year is fully charged off against interest income, any prior year unpaid accrued interest is charged-off against allowance for loan losses, and further income is recognized only to the extent received, if there is no risk of loss of principal, in which case all payments are applied to principal.

**Classified Assets.** Banking regulations and our Asset Classification Policy provide that loans and other assets considered to be of lesser quality should be classified as “substandard,” “doubtful” or “loss” assets. An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the institution will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard,” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions, and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. We classify an asset as “special mention” if the asset has a potential weakness that warrants management’s close attention. While such assets are not impaired, management has concluded that if the potential weakness in the asset is not addressed, the value of the asset may deteriorate, thereby adversely affecting the repayment of the asset.

An institution is required to establish general allowances for loan losses in an amount deemed prudent by management for loans classified substandard or doubtful, as well as for other problem loans. General allowances represent loss allowances which have been established to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When an institution classifies problem assets as “loss,” it is required either to establish a specific allowance for losses equal to 100% of the amount of the asset so classified or to charge off such amount. Our determination as to the classification of our assets and the amount of our valuation allowances are subject to review by the Indiana Department of Financial Institutions and the Federal Deposit Insurance Corporation which can order the establishment of additional general or specific loss allowances.



On the basis of management’s review of its assets, at December 31, 2009, we classified approximately \$9.0 million of our assets as special mention, of which \$2.1 million were originated by City Savings Bank, \$13.6 million as substandard, of which \$8.3 million were originated by City Savings Bank. At December 31, 2009, none of our assets were classified as doubtful or loss.

The loan portfolio is reviewed on a regular basis to determine whether any loans require classification in accordance with applicable regulations. Not all classified assets constitute nonperforming assets.

On the basis of this review of our assets, we had classified or held as special mention the following assets as of the date indicated:

	At December 31,		
	2009	2008	2007
	(In thousands)		
Special mention	\$ 9,092	\$ 5,164	\$ 7,125
Substandard	13,590	13,023	9,929
Doubtful	—	250	168
Loss	—	—	—
<b>Total classified and special mention assets</b>	<b>\$22,682</b>	<b>\$18,437</b>	<b>\$17,222</b>

**Allowance for Loan Losses**

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

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when full payment under the loan terms is not expected. All individually classified commercial loans are evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan’s existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

The Bank is subject to periodic examinations by its federal and state regulatory examiners and may be required by such regulators to recognize additions to the allowance for loan losses based on their assessment of credit information available to them at the time of their examinations. The process of assessing the adequacy of the allowance for loan losses is necessarily subjective. Further, and particularly in times of economic downturns, it is reasonably possible that future credit losses may exceed historical loss levels and may also exceed management’s current estimates of incurred credit losses inherent within the loan portfolio. As such, there can be no assurance that future charge-offs will not exceed management’s current estimate of what constitutes a reasonable allowance for loan losses.

The Company acquired a group of loans through the acquisition of City Savings Bank on October 12, 2007. Acquired loans that showed evidence of credit deterioration since their origination were recorded at an allocated fair value, such that there is no carryover of the seller’s allowance for loan losses. After acquisition, incurred losses are recognized by an increase in the allowance for loan losses. For further information about the accounting treatment of purchased loans, see Note 3 of the Notes to Consolidated Financial Statements included in Part IV hereof.



While management uses available information to recognize probable and reasonably estimable loan losses, future loss provisions may be necessary based on changing economic conditions. Payments received on impaired loans that are on nonaccrual are applied first to principal until there is no risk of loss of the principal. The allowance for loan losses is maintained at a level that represents management's best estimate of losses inherent in the loan portfolio, and such losses were both probable and reasonably estimable.

The following table sets forth activity in our allowance for loan losses for the periods indicated.

	At or For the Years Ended December 31,				
	2009	2008	2007	2006	2005
	(Dollars in thousands)				
Balance at beginning of period	\$2,512	\$1,797	\$1,041	\$ 1,064	\$ 965
Charge-offs:					
Real estate:					
One- to four- family	(213)	(130)	—	(11)	—
Five or more family	—	—	—	—	—
Commercial	(1)	—	(8)	—	(12)
Construction	(30)	—	—	—	—
Land	—	—	—	—	—
Total real estate	(244)	(130)	(8)	(11)	(12)
Consumer and other loans:					
Home equity	(28)	(35)	—	—	—
Commercial	(268)	(222)	—	(97)	(13)
Automobile and other	(100)	(96)	(157)	(134)	(184)
Total consumer and other loans	(396)	(353)	(157)	(231)	(197)
Total charge-offs	(640)	(483)	(165)	(242)	(209)
Recoveries:					
Real estate:					
One- to four- family	—	1	6	—	—
Five or more family	—	—	—	—	—
Commercial	—	—	—	—	—
Construction	—	—	—	—	—
Land	—	—	—	—	—
Total real estate	—	1	6	—	—
Consumer and other loans:					
Home equity	1	2	1	—	—
Commercial	9	5	15	—	1
Automobile and other	43	65	59	76	92
Total consumer and other loans	53	72	75	76	93
Total recoveries	53	73	81	76	93
Net (charge-offs) recoveries	(587)	(410)	(84)	(166)	(116)
Provision for loan losses	851	1,125	64	143	215
Allowance acquired through merger (general reserve only)	—	—	776	—	—
Balance at end of year	\$2,776	\$2,512	\$1,797	\$ 1,041	\$ 1,064
Ratios:					
Net charge-offs to average loans outstanding	0.25%	0.19%	0.05%	0.12%	0.08%
Allowance for loan losses to nonperforming loans at end of period	35.98%	37.21%	86.15%	124.37%	109.35%
Allowance for loan losses to total loans at end of period	1.07%	1.13%	0.81%	0.76%	0.75%



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*Allocation of Allowance for Loan Losses.* The following table sets forth the allowance for loan losses allocated by loan category, the total loan balances by category, and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

At December 31,

	2009		2008		2007		2006	
	Allowance for Loan Losses	Loan Balances by Category	Allowance for Loan Losses	Loan Balances by Category	Allowance for Loan Losses	Loan Balances by Category	Allowance for Loan Losses	Loan Balances by Category
	Percent of Loans in Each Category to Total Loans		Percent of Loans in Each Category to Total Loans		Percent of Loans in Each Category to Total Loans		Percent of Loans in Each Category to Total Loans	
<b>Real estate:</b>								
One- to four- family	\$ 378	\$ 70,126	\$ 372	\$ 84,706	\$ 124	\$ 93,439	\$ 141	\$ 63,973
Five or more family	77	6,743	55	5,200	—	712	—	204
Commercial	1,300	75,506	933	65,078	886	59,332	373	35,578
Construction	46	5,420	52	7,736	80	11,268	9	2,578
Land	221	11,753	138	11,016	—	4,829	—	74
Total real estate	2,022	169,548	1,550	173,736	1,090	169,580	523	102,407
Mortgage warehouse	176	43,765	—	—	—	—	—	—
<b>Consumer and other:</b>								
Home equity	215	15,704	86	15,579	15	16,996	9	7,303
Commercial	238	18,122	747	19,390	357	17,356	283	9,569
Automobile and other	125	11,790	129	13,622	335	18,276	226	17,650
Total consumer and other	578	45,616	962	48,591	707	52,628	518	34,522
Total loans (excluding net deferred loan fees and costs)	\$ 2,776	\$ 258,929	\$ 2,512	\$ 222,327	\$ 1,797	\$ 222,208	\$ 1,041	\$ 136,929
	100.00%		100.00%		100.00%		100.00%	



	At December 31,		
	2005		
	Allowance for Loan Losses	Loan Balances by Category	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)		
<b>Real estate:</b>			
One- to four- family	\$ 129	\$ 69,596	49.21 %
Five or more family	—	—	—
Commercial	366	33,076	23.39
Construction	8	2,132	1.51
Land	—	299	0.21
Total real estate	503	105,103	74.32
<b>Consumer and other:</b>			
Home equity	25	7,844	5.55
Commercial	125	5,753	4.07
Automobile and other	411	22,713	16.06
Total consumer and other	561	36,310	25.68
<b>Total loans</b>	<b>\$ 1,064</b>	<b>\$ 141,413</b>	<b>100.00%</b>

We use the accrual method of accounting for all performing loans. The accrual of interest income is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility of principal or interest, even though the loan is currently performing. When a loan is placed on nonaccrual status, unpaid interest previously credited to income is reversed. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management’s judgment as to the collectibility of principal. Generally, loans are restored to accrual status when the obligation is brought in accordance with the contractual terms for a reasonable period of time and ultimate collectibility of total contractual principal and interest is no longer in doubt.

In our collection efforts, we will first attempt to cure any delinquent loan. If a real estate secured loan is placed on nonaccrual status, it will be subject to transfer to the other real estate owned (“OREO”) portfolio (properties acquired by or in lieu of foreclosure), upon which our loan servicing department will pursue the sale of the real estate. Prior to this transfer, the loan balance will be reduced, with a charge-off against the allowance for loan losses if necessary, to reflect its current market value less estimated costs to sell. Write downs of OREO that occur after the initial transfer from the loan portfolio and costs of holding the property are recorded as other operating expenses, except for significant improvements which are capitalized to the extent that the carrying value does not exceed estimated net realizable value.

Fair values for determining the value of collateral are estimated from various sources, such as real estate appraisals, financial statements and from any other reliable sources of available information. For those loans deemed to be impaired, collateral value is reduced for the estimated costs to sell. Reductions of collateral value are based on historical loss experience, current market data, and any other source of reliable information specific to the collateral.

This analysis process is inherently subjective, as it requires us to make estimates that are susceptible to revisions as more information becomes available. Although we believe that we have established the allowance for loan losses at levels to absorb probable incurred losses, future additions may be necessary if economic or other conditions in the future differ from the current environment.

**Securities Activities**

Our securities investment policy is established by our board. This policy dictates that investment decisions be made based on the safety of the investment, liquidity requirements, potential returns, cash flow targets, and consistency with our interest rate risk management strategy.



Our investment policy is reviewed annually by our board and all policy changes recommended by management must be approved by the board. Authority to make investments under the approved guidelines are delegated to appropriate officers. While general investment strategies are developed and authorized by the board, the execution of specific actions with respect to securities held by The LaPorte Savings Bank rests with the Chief Executive Officer and Chief Financial Officer. The Chief Executive Officer and Chief Financial Officer are authorized to execute investment transactions with respect to securities held by The LaPorte Savings Bank within the scope of the established investment policy.

We have retained an independent financial institution to provide us with portfolio accounting services, including a monthly portfolio performance analysis of our securities portfolio. These reports, together with another third party review provided quarterly, are reviewed by management in making investment decisions. The Asset/Liability Management Committee and the Board review a summary of these reports on a monthly basis. It should be noted that we use this financial institution along with other third party brokers to effect security purchases and sales.

Until July 30, 2008, a significant portion of our investment securities were held by our subsidiary LPSB Investments Ltd., Cayman ("LPSB Ltd."). LPSB Ltd., a wholly-owned subsidiary of The LaPorte Savings Bank, began operations in 2002 when The LaPorte Savings Bank received approval from the Federal Deposit Insurance Corporation to form the subsidiary in the Cayman Islands. Because LPSB Ltd. was located in the Grand Cayman Islands, the earnings attributable on such securities were not taxable to us for Indiana state income tax purposes. Investment decisions with respect to LPSB Ltd. were made by the members of its Board of Directors which consisted of three members of our Board, as well as a dual-employee of LPSB Ltd. and Wilmington Trust. In general, the directors of LPSB Ltd. utilized investment guidelines similar to ours. On July 30, 2008 the securities held and managed by LPSB Ltd. were transferred to the Bank. Due to the substantial state income tax net operating loss carry forward brought over from City Savings Bank, in addition to the operating costs of maintaining the subsidiary, management made the decision to dissolve LPSB Ltd. LPSB Ltd. was deemed to be dissolved on March 17, 2009.

Our current investment policy generally permits security investments in debt securities issued by the U.S. government and U.S. agencies, municipal bonds, and corporate debt obligations, as well as investments in preferred and common stock of government sponsored enterprises such as Fannie Mae, Freddie Mac, Ginnie Mae and the Federal Home Loan Bank of Indianapolis (federal agency securities). Securities in these categories are generally classified as "securities available-for-sale" for financial reporting purposes. The policy also permits investments in mortgage-backed securities, including pass-through securities issued and guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae. The aggregate of all mortgage-backed securities may not exceed 75% of the overall investment portfolio, and the aggregate total of any one mortgage-backed issuer is limited to 75% of the aggregate mortgage-backed securities portfolio. We may also invest in Collateralized Mortgage Obligations ("CMOs"), Real Estate Mortgage Investment Conduits ("REMICs") and other mortgage-related products, although such products are limited to 75% of the overall investment portfolio. In addition, we may invest in commercial paper, corporate debt, asset-backed securities and municipal securities. We acquired various investment securities from City Savings Bank, all of which complied with our investment policy.

At the time of purchase, we designate a security as held-to-maturity, available-for-sale, or trading, depending on our ability and intent. Securities available-for-sale are reported at fair value, while securities held-to-maturity are reported at amortized cost. Some of our securities are callable by the issuer or contain other features of financial engineering. Although these securities may have a yield somewhat higher than the yield of similar securities without such features, these securities are subject to the risk that they may be redeemed by the issuer prior to maturing in the event general interest rates decline. At December 31, 2009, we had \$33.0 million of securities which were subject to redemption by the issuer prior to their stated maturity.

In part as a result of their attractive after tax yields, we recently increased our acquisitions of state and municipal securities. We generally apply the following procedures and standards in making investment decisions with respect to such securities. Permissible municipal investments include both general obligation and revenue issues which are rated in one of the four highest rating categories by a nationally recognized statistical rating organization. Investment in local non-rated municipal securities shall be considered only after the creditworthiness of the issuer has been analyzed. We also invest in taxable municipal securities. At December 31, 2009, we held \$500,000 in taxable municipal securities.



We purchase mortgage-backed securities in order to generate positive interest rate spreads with limited administrative expense, limited credit risk and significant liquidity. We also use mortgage-backed securities to supplement our lending activities. Mortgage-backed securities are created by pooling mortgages and issuing a security collateralized by the pool of mortgages with an interest rate that is less than the interest rate on the underlying mortgages. Mortgage-backed securities typically represent a participation interest in a pool of single-family or multi-family mortgages, although most of our mortgage-backed securities are collateralized by single-family mortgages. The issuers of such securities (generally U.S. government agencies and U.S. government sponsored enterprises, including Fannie Mae, Freddie Mac and Ginnie Mae) pool and resell the participation interests in the form of securities to investors, such as The LaPorte Savings Bank, and guarantee the payment of principal and interest to these investors. Mortgage-backed securities generally yield less than the loans that underlie such securities because of the cost of payment guarantees and credit enhancements. However, mortgage-backed securities are usually more liquid than individual mortgage loans and may be used to collateralize borrowings and other liabilities.

Investments in mortgage-backed securities involve a risk that actual prepayments will be greater or less than the prepayment rate estimated at the time of purchase, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments, thereby affecting the net yield on such securities. We review prepayment estimates for our mortgage-backed securities at the time of purchase to ensure that prepayment assumptions are reasonable considering the underlying collateral for the securities at issue and current interest rates, and to determine the yield and estimated maturity of the mortgage-backed securities portfolio. Periodic reviews of current prepayment speeds are performed in order to ascertain whether prepayment estimates require modification that would cause amortization or accretion adjustments.

Collateralized mortgage obligations are also backed by mortgages; however, they differ from mortgage-backed securities because the principal and interest payments of the underlying mortgages are financially engineered to be paid to the security holders of pre-determined classes or tranches of these securities at a faster or slower pace. The receipt of these principal and interest payments, which depends on the proposed average life for each class, is contingent on a prepayment speed assumption assigned to the underlying mortgages. Variances between the assumed payment speed and actual payments can significantly alter the average lives of such securities. To quantify and mitigate this risk, we undertake a high level of payment analysis before purchasing these securities. We invest in CMO classes or tranches in which the payments on the underlying mortgages are passed along at a pace fast enough to provide an average life of two to four years with no change in market interest rates. At December 31, 2009, our CMO portfolio had a fair value of \$27.6 million.

We hold Federal Home Loan Bank of Indianapolis common stock to qualify for membership in the Federal Home Loan Bank System and to be eligible to borrow funds under the Federal Home Loan Bank of Indianapolis advance program. There is no trading market for the Federal Home Loan Bank of Indianapolis stock. The aggregate carrying value of our Federal Home Loan Bank of Indianapolis stock as of December 31, 2009 was \$4.2 million based on its par value. No unrealized gains or losses have been recorded because we have determined that the par value of the Federal Home Loan Bank of Indianapolis stock represents its carrying value. However, in light of the current economic downturn, there can be no assurance that the value of such securities will not decline in the future. We owned shares of Federal Home Loan Bank of Indianapolis stock at December 31, 2009 with a par value that was more than we were required to own to maintain our membership in the Federal Home Loan Bank System and to be eligible to obtain advances. We are required to purchase additional stock if our outstanding advances increase.

We review equity and debt securities with significant declines in fair value on a periodic basis to determine whether they should be considered temporarily or other than temporarily impaired. In making these determinations, management considers: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) our intent not to sell the security and whether it is more likely than not that we will be required to sell the debt security before its anticipated recovery. For fixed maturity investments with unrealized losses due to interest rates where we have the intent it is more likely than not that we will be required to sell the debt security



before its anticipated recovery, declines in value below cost are not assumed to be other than temporary. If a decline in the fair value of a security is determined to be other than temporary, we are required to reduce the carrying value of the security to its fair value and record a non-cash impairment charge for the amount of the decline, net of tax effect, against our current income.

All of our securities are classified as available for sale. The following table sets forth the composition of our investment securities portfolio at the dates indicated.

	December 31,					
	2009		2008		2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
<b>Securities available-for-sale:</b>						
U.S. Treasury and federal agency	\$ 13,112	\$ 12,972	\$ 10,855	\$ 11,035	\$ 29,633	\$ 30,001
State and municipal	24,761	25,264	6,293	6,200	9,361	9,272
Mortgage-backed securities - residential	29,732	31,082	51,928	52,958	37,482	37,529
Government agency sponsored collateralized mortgage obligations	17,718	18,148	17,718	17,711	16,921	16,288
Privately held collateralized mortgage obligations	9,114	9,494	8,024	7,888	1,748	1,716
Corporate debt securities	4,993	5,135	6,042	5,649	—	—
Fannie Mae and Freddie Mac preferred stock	—	—	10	10	1,242	1,242
Total securities available-for-sale	<u>\$ 99,430</u>	<u>\$ 102,095</u>	<u>\$ 100,870</u>	<u>\$ 101,451</u>	<u>\$ 96,387</u>	<u>\$ 96,048</u>

At December 31, 2009, we had no investments in a single entity (other than United States government or agency sponsored securities) that had an aggregate book value in excess of 10% of our shareholders' equity.



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The composition and contractual maturities of the investment securities portfolio at December 31, 2009 are summarized in the following table. Mortgage-backed securities are anticipated to be repaid in advance of their contractual maturities as a result of projected mortgage loan prepayments. In addition, under the structure of some of our CMOs, the short- and intermediate-tranche interests have repayment priority over the longer term tranches of the same underlying mortgage pool. Finally, some of our U.S. Treasury and other securities are callable at the option of the issuer.

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total Securities		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
<b>Securities available-for-sale:</b>											
U.S. Treasury and federal agency	\$ —	—%	\$ 2,064	2.14%	\$ 6,243	3.78%	\$ 4,805	4.24%	\$ 13,112	\$ 12,972	3.69%
State and municipal	—	—	1,352	2.93	3,686	4.05	19,723	4.31	24,761	25,264	4.20
Mortgage-backed securities - residential	—	—	313	4.71	1,657	4.82	27,762	5.03	29,732	31,082	5.01
Government agency sponsored collateralized mortgage obligations	—	—	—	—	2,798	3.96	14,920	4.16	17,718	18,148	4.13
Privately held collateralized mortgage obligations	—	—	—	—	2,433	4.30	6,681	5.18	9,114	9,494	4.95
Corporate debt securities	—	—	500	5.50	4,493	4.90	—	—	4,993	5,135	4.96
Total securities available-for-sale	\$ —	—%	\$ 4,229	2.98%	\$ 21,310	4.23%	\$ 73,891	4.62%	\$ 99,430	\$ 102,095	4.47%

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The following table shows our mortgage-backed securities and collateralized mortgage obligations purchase, sale and repayment activity during the periods indicated:

	For the years ended December 31,		
	2009	2008	2007
	(In thousands)		
Total at beginning of period	\$ 77,670	\$ 56,151	\$32,616
Purchases of:			
Mortgage-backed securities - residential	6,202	24,374	28,383
Government agency sponsored collateralized mortgage obligations	7,660	3,531	1,472
Privately held collateralized mortgage obligations	2,740	6,755	—
Deduct:			
Principal repayments	(18,470)	(10,544)	(6,320)
Sales of:			
Mortgage-backed securities - residential	(17,554)	(2,597)	—
Government agency sponsored collateralized mortgage obligations	(1,580)	—	—
Collateralized mortgage obligations	(104)	—	—
Net activity	<u>(21,106)</u>	<u>21,519</u>	<u>23,535</u>
Total at end of period	<u>\$ 56,564</u>	<u>\$ 77,670</u>	<u>\$56,151</u>

### Sources of Funds

**General.** Deposits, borrowings, repayments and prepayments of loans and securities, proceeds from maturing securities and cash flows from operations are the primary sources of our funds for use in lending, investing and for other general purposes.

**Deposits.** We offer a variety of deposit accounts with a range of interest rates and terms. Our deposit accounts consist of savings accounts, health savings accounts, NOW accounts, checking accounts, money market accounts, certificates of deposit and IRAs. We also provide commercial checking accounts for businesses.

At December 31, 2009, our deposits totaled \$273.4 million. Interest-bearing NOW, regular and other savings and money market deposits totaled \$94.9 million at December 31, 2009. At December 31, 2009, we had a total of \$144.4 million in certificates of deposit and individual retirement accounts. Non-interest bearing demand deposits totaled \$34.1 million. Although we have a significant portion of our deposits in shorter-term certificates of deposit, we monitor activity on these accounts and, based on historical experience and our current pricing strategy, we believe we will retain a large portion of these accounts upon maturity.

Our deposits are obtained predominantly from the areas in which our branch offices are located. We rely on our favorable locations, customer service and competitive pricing to attract and retain these deposits. While we accept certificates of deposit in excess of \$100,000 for which we may provide preferential rates, we generally do not solicit such deposits as they are more difficult to retain than core deposits. At December 31, 2009, we held \$10.9 million in brokered certificates of deposits through the Certificate of Deposit Registry Service (CDARS) program. During the fourth quarter of 2009, we acquired \$10.8 million in floating rate CDARS funds and took out a \$10.3 million fixed rate interest rate swap for five years in order to address the potential for rising interest rates. Brokered certificates of deposits are purchased only through CDARS and pre-approved brokers.



The following table sets forth the distribution of total deposit accounts, by account type, at the dates indicated.

	At December 31,								
	2009			2008			2007		
	Balance	Percent	Weighted Average Rate	Balance	Percent	Weighted Average Rate	Balance	Percent	Weighted Average Rate
	(Dollars in thousands)								
Noninterest-bearing demand	\$ 34,066	12.46%	— %	\$ 27,584	11.75%	— %	\$ 28,148	11.43%	— %
Money market/NOW accounts	51,099	18.69	0.84	36,812	15.68	0.79	37,089	15.06	2.15
Regular savings	43,832	16.03	0.11	42,775	18.21	0.15	43,754	17.77	0.51
Total transaction accounts	128,997	47.18	0.37	107,171	45.64	0.33	108,991	44.26	0.94
CDs and IRAs	144,411	52.82	2.92	127,643	54.36	3.62	137,280	55.74	4.63
Total deposits	<u>\$273,408</u>	<u>100.00%</u>	<u>1.72%</u>	<u>\$234,814</u>	<u>100.00%</u>	<u>2.12%</u>	<u>\$246,271</u>	<u>100.00%</u>	<u>3.00%</u>

The following table sets forth the amount and maturities of time certificates and IRA deposits at December 31, 2009.

	Less Than One Year	Over One Year to Two Years	Over Two Years to Three Years	Over Three Years	Total	Percentage of Total Certificate Accounts
(Dollars in thousands)						
<b>INTEREST RATE:</b>						
Less than 2.00%	\$ 35,041	\$ 4,234	\$ 8,548	\$ —	\$ 47,823	33.12%
2.00% - 2.99%	2,817	4,537	6,541	2,313	16,208	11.22
3.00% - 3.99%	7,506	22,843	2,251	8,859	41,459	28.71
4.00% - 4.99%	25,284	2,579	74	695	28,632	19.83
5.00% - 5.99%	7,014	344	979	1,851	10,188	7.06
6.00% - 6.99%	18	61	2	—	81	0.05
7.00% - 7.99%	—	3	—	—	3	0.00
8.00% and over	—	14	3	—	17	0.01
Total	<u>\$77,680</u>	<u>\$ 34,615</u>	<u>\$ 18,398</u>	<u>\$ 13,718</u>	<u>\$144,411</u>	<u>100.00%</u>



As of December 31, 2009, the aggregate amount of our outstanding time certificates and IRA deposits in amounts greater than or equal to \$100,000 was approximately \$43.8 million. The following table sets forth the maturity of these certificates as of December 31, 2009.

	<u>At December 31, 2009</u> (In thousands)
Three months or less	\$ 17,136
Over three months through six months	2,089
Over six months through one year	9,036
Over one year	<u>15,512</u>
<b>Total</b>	<b>\$ <u>43,773</u></b>

The following table sets forth our deposit activities for the periods indicated.

	<u>Years Ended December 31,</u>		
	<u>2009</u>	<u>2008</u> (In thousands)	<u>2007</u>
Beginning balance	\$234,814	\$246,271	\$201,859
Deposits acquired through merger	—	—	84,080
Net deposits (withdrawals) before interest credited	34,555	(16,495)	(46,410)
Interest credited	4,039	5,038	6,742
Net increase (decrease) in deposits	<u>38,594</u>	<u>(11,457)</u>	<u>44,412</u>
Ending balance	<u>\$273,408</u>	<u>\$234,814</u>	<u>\$246,271</u>

The following table sets forth the time certificates and IRA deposits in The LaPorte Savings Bank classified by interest rate as of the dates indicated.

<b>Interest Rate</b>	<u>At December 31,</u>		
	<u>2009</u>	<u>2008</u> (In thousands)	<u>2007</u>
Less than 2.00%	\$ 47,823	\$ 6,292	\$ —
2.00% - 2.99%	16,208	29,400	120
3.00% - 3.99%	41,459	35,823	20,712
4.00% - 4.99%	28,632	39,508	58,955
5.00% - 5.99%	10,188	16,524	56,921
6.00% - 6.99%	81	76	90
7.00% - 7.99%	3	3	3
8.00% and over	17	17	479
<b>Total</b>	<u>\$144,411</u>	<u>\$127,643</u>	<u>\$137,280</u>

### Borrowings

From time to time during recent years, we have utilized short-term borrowings to fund loan demand. We have also used borrowings where market conditions permit us to purchase securities of a similar duration in order to increase our net interest income by the amount of the spread between the asset yield and the borrowing cost. Finally, from time to time, we have obtained advances with terms of three years or more to extend the term of our liabilities.

We may obtain advances from the Federal Home Loan Bank of Indianapolis collateralized by our capital stock in the Federal Home Loan Bank of Indianapolis and certain of our mortgage loans and mortgage-backed securities. Such advances may be made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. To the extent such borrowings have different maturities or repricing terms than our deposits, they can change our interest rate risk profile. We also acquired additional Federal Home Loan Bank of Indianapolis advances through the acquisition of City Savings Financial in 2007.



Our borrowings at December 31, 2009 consisted of advances and overnight borrowings from the Federal Home Loan Bank of Indianapolis and overnight borrowings from the Federal Reserve Bank discount window. At December 31, 2009, we had access to additional Federal Home Loan Bank advances of up to \$24.9 million and access to additional overnight borrowings of up to \$32.3 million at the Federal Reserve Bank discount window. The following table sets forth information concerning balances and interest rates on our borrowings at the dates and for the periods indicated. For additional information, see Note 5 of the notes to our consolidated financial statements.

	At or For the Years Ended December 31,		
	2009	2008	2007
	(Dollars in thousands)		
<b>FHLB Advances:</b>			
Balance at end of period	\$52,773	\$78,728	\$66,516
Average balance during period	62,111	67,153	43,866
Maximum outstanding at any month end	70,429	78,728	66,516
Weighted average interest rate at end of period	4.47%	4.08%	4.74%
Average interest rate during period	4.56%	4.80%	5.41%
<b>FRB Discount Window:</b>			
Balance at end of period	\$16,675	\$ 650	—
Average balance during period	3,252	2	—
Maximum outstanding at any month end	17,740	650	—
Weighted average interest rate at end of period	0.50%	0.50%	—
Average interest rate during period	0.49%	0.50%	—

In 2007, LaPorte Bancorp, Inc. assumed subordinated debentures as a result of the City Savings Financial acquisition. In 2003, City Savings Financial formed the City Savings Bank Statutory Trust I (the "Trust") and the trust issued 5,000 floating Trust Preferred Securities with a liquidation amount of \$1,000 per preferred Security in a private placement to an offshore entity for an aggregate offering price of \$5,000,000. The proceeds of the \$5,000,000 were used by the Trust to purchase \$5,155,000 in Floating Rate Subordinated Debentures from City Savings Financial Corporation. The Debentures and Securities have a term of 30 years and carry an interest rate adjusted quarterly of three month LIBOR plus 3.10%. At December 31, 2009, this rate was 3.35%.

On April 15, 2009 the Company executed an interest rate swap against the \$5.0 million floating rate debentures for five years at an effective fixed rate of 5.54%.

In addition, during February 2009, the Bank issued a \$5 million note due February 15, 2012 under the FDIC Temporary Debt Guarantee Program. The note bears an interest rate of 2.74% in addition to the 100 basis point FDIC guarantee fee paid by the Bank. All legal and placement fees associated with this transaction were capitalized as debt issuance costs and will be amortized to interest expense over the repayment period.

**Competition**

We face significant competition in both originating loans and attracting deposits. LaPorte County, Indiana has a significant concentration of financial institutions, many of which are significantly larger than us and have greater financial resources than we do. Our competition for loans comes principally from commercial banks, savings banks, mortgage banking companies, credit unions, leasing companies, insurance companies and other financial service companies. Our most direct competition for deposits has historically come from commercial banks, savings banks and credit unions. We face additional competition for deposits from nondepository competitors such as the mutual fund industry, securities and brokerage firms and insurance companies.

We seek to meet this competition by the convenience of our branch locations, emphasizing personalized banking and the advantage of local decision-making in our banking business. Specifically, we promote and maintain relationships and build customer loyalty within local communities by focusing our marketing and community



involvement on the specific needs of our local communities. As of June 30, 2009, The LaPorte Savings Bank had the 2nd largest deposit market share in LaPorte County, Indiana. As of June 30, 2009, The LaPorte Savings Bank had the 12th largest deposit market share in Porter County, Indiana. We do not rely on any individual, group, or entity for a material portion of our deposits.

### Employees

As of December 31, 2009, we had 101 full-time employees and 8 part-time employees. The employees are not represented by a collective bargaining unit and we consider our relationship with our employees to be good.

### Subsidiary Activities

The Company has one subsidiary, The LaPorte Savings Bank. The LaPorte Savings Bank has no subsidiaries.

## SUPERVISION AND REGULATION

### General

The LaPorte Savings Bank is examined and supervised by the Indiana Department of Financial Institutions and the Federal Deposit Insurance Corporation. This regulation and supervision establishes a comprehensive framework of activities in which an institution may engage and is intended primarily for the protection of the Federal Deposit Insurance Corporation's deposit insurance funds and depositors. These regulators are not, however, generally charged with protecting the interests of shareholders of LaPorte Bancorp. Under this system of state and federal regulation, financial institutions are periodically examined to ensure that they satisfy applicable standards with respect to their capital adequacy, assets, management, earnings, liquidity and sensitivity to market interest rates. The LaPorte Savings Bank also is a member of and owns stock in the Federal Home Loan Bank of Indianapolis, which is one of the twelve regional banks in the Federal Home Loan Bank System. The LaPorte Savings Bank's relationship with its depositors and borrowers also is regulated to a great extent by both federal and state laws, especially in matters concerning the ownership of deposit accounts and the form and content of The LaPorte Savings Bank's mortgage documents.

Certain regulatory requirements applicable to The LaPorte Savings Bank and LaPorte Bancorp are referred to below or appear elsewhere in this Form 10-K. The regulatory discussion, however, does not purport to be an exhaustive treatment of applicable laws and regulations and is qualified in its entirety by reference to the actual statutes and regulations. Any change in these laws or regulations, whether by the Federal Deposit Insurance Corporation, the Indiana Department of Financial Institutions or Congress, could have a material adverse impact on LaPorte Bancorp and The LaPorte Savings Bank, and their operations.

### Proposed Federal Legislation

Legislation has been introduced in the United States Senate and House of Representatives that would implement sweeping changes to the current bank regulatory structure described in this section. A bill passed by the House of Representatives would eliminate LaPorte Bancorp's current primary federal regulator, the Office of Thrift Supervision, by merging the Office of Thrift Supervision into the Comptroller of the Currency (the primary federal regulator for national banks). The House legislation would authorize the Comptroller of the Currency to charter mutual and stock savings banks and mutual holding companies, which would be under the supervision of the Division of Thrift Supervision of the Comptroller of the Currency. The House bill would also establish a Financial Services Oversight Council and grant the Board of Governors of the Federal Reserve System exclusive authority to regulate all bank and thrift holding companies. If the proposed legislation is enacted, LaPorte Bancorp would become a holding company subject to supervision by the Federal Reserve Board as opposed to the Office of Thrift Supervision, and would become subject to the Federal Reserve's regulations.

The Senate proposal would also merge the Office of Thrift Supervision into the Office of the Comptroller of the Currency. Supervision of savings and loan holding companies with a state savings bank subsidiary and less than \$50 billion in assets, such as LaPorte Bancorp, Inc., would be transferred to the Federal Deposit Insurance Corporation. The Federal Deposit Insurance Corporation would also remain the primary federal regulator of The LaPorte Savings Bank.



Both the House bill and the Senate proposal would establish new government bureaucracies empowered to write consumer protection rules and, in certain cases, to conduct examinations and implement enforcement actions with respect thereto. We believe that the creation of such consumer protection bureaucracies could result in an increase in our compliance costs.

### Savings Bank Regulation

As an Indiana savings bank, The LaPorte Savings Bank is subject to federal regulation and supervision by the Federal Deposit Insurance Corporation and to state regulation and supervision by the Indiana Department of Financial Institutions. The LaPorte Savings Bank's deposit accounts are insured by Deposit Insurance Fund, which is administered by the Federal Deposit Insurance Corporation. The LaPorte Savings Bank is not a member of the Federal Reserve System.

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

Under Federal Deposit Insurance Corporation regulations, an insured state chartered bank, such as The LaPorte Savings Bank, is prohibited from engaging as principal in activities that are not permitted for national banks, unless: (i) the Federal Deposit Insurance Corporation determines that the activity would pose no significant risk to the appropriate deposit insurance fund and (ii) the bank is, and continues to be, in compliance with all applicable capital standards.

**Branching and Interstate Banking.** The establishment of branches by The LaPorte Savings Bank is subject to approval of the Indiana Department of Financial Institutions and Federal Deposit Insurance Corporation and geographic limits established by state laws. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Riegle-Neal Act") facilitates the interstate expansion and consolidation of banking organizations by permitting, among other things, (i) bank holding companies that are adequately capitalized and managed to acquire banks located in states outside their home state regardless of whether such acquisitions are authorized under the law of the host state, (ii) the interstate merger of banks, subject to the right of individual states to "opt out" of this authority, and (iii) banks to establish new branches on an interstate basis provided that such action is specifically authorized by the law of the host state.

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

**Capital Requirements.** Under Federal Deposit Insurance Corporation regulations, state chartered banks that are not members of the Federal Reserve System, such as The LaPorte Savings Bank, are required to maintain a minimum leverage capital requirement consisting of a ratio of Tier 1 capital to total assets of 3% if the Federal Deposit Insurance Corporation determines that the institution is not anticipating or experiencing significant growth and has well-diversified risk, including no undue interest rate risk exposure, excellent asset quality, high liquidity, good earnings, and in general, a strong banking organization, rated composite 1 under the Uniform Financial Institutions Rating System (the CAMELS rating system) established by the Federal Financial Institutions Examination Council. For all but the most highly rated institutions meeting the conditions set forth above, the minimum leverage capital ratio is 4%. Tier 1 capital is the sum of common shareholders' equity, noncumulative perpetual preferred stock (including any related surplus) and minority interests in consolidated subsidiaries, minus all intangible assets (other than certain mortgage servicing assets, purchased credit card relationships, credit-enhancing interest-only strips and certain deferred tax assets), identified losses, investments in certain financial subsidiaries and non-financial equity investments.



In addition to the leverage capital ratio (the ratio of Tier I capital to total assets), state chartered nonmember banks must maintain a minimum ratio of qualifying total capital to risk-weighted assets of at least 8%, of which at least half must be Tier 1 capital. Qualifying total capital consists of Tier 1 capital plus Tier 2 capital (also referred to as supplementary capital) items. Tier 2 capital items include allowances for loan losses in an amount of up to 1.25% of risk-weighted assets, cumulative preferred stock and preferred stock with a maturity of over 20 years, certain other capital instruments and up to 45% of pre-tax net unrealized holding gains on equity securities. The includable amount of Tier 2 capital cannot exceed the institution's Tier 1 capital. Qualifying total capital is further reduced by the amount of the bank's investments in banking and finance subsidiaries that are not consolidated for regulatory capital purposes, reciprocal cross-holdings of capital securities issued by other banks, most intangible assets and certain other deductions. Under the Federal Deposit Insurance Corporation risk-weighted system, all of a bank's balance sheet assets and the credit equivalent amounts of certain off-balance sheet items are assigned to one of four broad risk-weight categories from 0% to 100%, based on the risks inherent in the type of assets or item. The aggregate dollar amount of each category is multiplied by the risk weight assigned to that category. The sum of these weighted values equals the bank's risk-weighted assets.

**U.S. Treasury's TARP Capital Purchase Program.** In October 2008 the U.S. Treasury created the Capital Purchase Program ("CPP") under which Treasury purchased securities from qualified financial institutions in an effort to stabilize the financial system. Institutions electing to participate in the CPP became subject to a number of restrictions, including limits on executive compensation, stock redemptions and dividends. We elected not to participate in the CPP.

**Dividend Limitations.** LaPorte Bancorp is a legal entity separate and distinct from The LaPorte Savings Bank. The primary source of LaPorte Bancorp's cash flow, including cash flow to pay dividends on LaPorte Bancorp's common stock, is the payment of dividends to LaPorte Bancorp by The LaPorte Savings Bank. Under Indiana law, The LaPorte Savings 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 LaPorte Savings Bank's board. However, The LaPorte Savings 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 LaPorte Savings Bank during the current year, including the proposed dividend, would exceed the sum of retained net income for the year to date plus its retained net income for the previous two years. For this purpose, "retained net income" means net income as calculated for call report purposes, less all dividends declared for the applicable period. Also, the Federal Deposit Insurance Corporation has the authority to prohibit The LaPorte Savings Bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice in light of the financial condition of The LaPorte Savings Bank. In addition, since The LaPorte Savings Bank will be a subsidiary of a savings and loan holding company, The LaPorte Savings Bank must file a notice with the Office of Thrift Supervision at least 30 days before the board declares a dividend or approves a capital distribution.

**Federal Deposit Insurance.** In October 2008, in response to the global financial crisis, deposit insurance by the Federal Deposit Insurance Corporation ("FDIC") was increased to a maximum of \$250,000 per depositor. On January 1, 2014, the maximum insurance amount will return to \$100,000 per depositor for all deposit accounts except certain retirement accounts, which will remain at \$250,000 per depositor. In addition, under the FDIC's Transaction Account Guarantee Program, most noninterest-bearing transaction accounts are guaranteed regardless of amount until June 30, 2010.

Pursuant to the Federal Deposit Insurance Reform Act of 2005 (the "Reform Act"), the FDIC is authorized to set the reserve ratio for the Deposit Insurance Fund annually at between 1.15% and 1.5% of estimated insured deposits. As of June 30, 2008, the reserve ratio had decreased to 1.01% as a result of bank failures. As part of a plan to restore the reserve ratio to 1.15%, the FDIC imposed a special assessment equal to five basis points of assets less Tier 1 capital as of June 30, 2009, which was payable on September 30, 2009. In addition, the FDIC has increased its quarterly assessment rates and amended the method by which rates are calculated. Beginning in the second quarter of 2009, institutions are assigned an initial base assessment rate ranging from 12 to 45 basis points of deposits depending on risk category. The initial base assessment is then adjusted based upon the level of unsecured debt, secured liabilities, and brokered deposits to establish a total base assessment rate ranging from 7 to 77.5 basis points.



On November 12, 2009, the FDIC approved a final rule requiring insured depository institutions to prepay on December 30, 2009, their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012. Estimated assessments for the fourth quarter of 2009 and for all of 2010 are based upon the assessment rate in effect on September 30, 2009, with 3 basis points added for the 2011 and 2012 assessment rates. In addition, a 5% annual growth in the assessment base is assumed. Prepaid assessments are to be applied against the actual quarterly assessments until exhausted, and may not be applied to any special assessments that may occur in the future. Any unused prepayments will be returned to the institution on June 30, 2013. On December 30, 2009, The LaPorte Savings Bank prepaid approximately \$1.3 million in estimated assessment fees for 2010 through 2012. Because the prepaid assessments represent the prepayment of future expense, they do not affect The LaPorte Savings Bank's capital (the prepaid asset will have a risk-weighting of 0%) or tax obligations.

In addition to the FDIC assessments, the Financing Corporation ("FICO") is authorized to impose and collect, with the approval of the FDIC, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2017 through 2019. During the year ended December 31, 2009, we paid \$26,000 in fees related to the FICO.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not know of any practice, condition or violation that might lead to termination of The LaPorte Savings Bank's deposit insurance.

**FDIC Temporary Liquidity Guarantee Program.** On October 14, 2008, the FDIC announced a new program – the Temporary Liquidity Guarantee Program ("TLGP"). This program has two components. One guarantees newly issued senior unsecured debt of the participating organizations, up to certain limits established for each institution, issued between October 14, 2008 and October 31, 2009. The FDIC will pay the unpaid principal and interest on an FDIC-guaranteed debt instrument upon the uncured failure of the participating entity to make a timely payment of principal or interest in accordance with the terms of the instrument. The guarantee will remain in effect until June 30, 2012 (or until December 31, 2012 for debt issued after March 17, 2009). In return for the FDIC's guarantee, participating institutions will pay the FDIC a fee based on the amount and maturity of the debt. The Company opted to participate in this component of the TLGP, and on February 11, 2009, it issued approximately \$5 million of FDIC guaranteed debt due in February 2012.

The other component of the program provides full FDIC insurance coverage for non-interest bearing transaction deposit accounts, regardless of dollar amount, until June 30, 2010. An annualized 10 basis point assessment on balances in noninterest-bearing transaction accounts that exceed the existing deposit insurance limit of \$250,000 will be assessed on a quarterly basis to insured depository institutions that have not opted out of this component of the TLGP. The Company has opted to participate in this component of the TLGP.

**Federal Home Loan Bank System.** The LaPorte Savings Bank is a member of the Federal Home Loan Bank of Indianapolis, which is one of 12 regional Federal Home Loan Banks. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from funds deposited by member institutions and proceeds from the sale of consolidated obligations of the Federal Home Loan Bank system. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of directors of the Federal Home Loan Bank. As a member, The LaPorte Savings Bank is required to purchase and maintain stock in the Federal Home Loan Bank of Indianapolis in an amount equal to the greater of 1% of its aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year or 5% of its outstanding advance from the Federal Home Loan Bank. At December 31, 2009, The LaPorte Savings Bank was in compliance with this requirement.

**Community Reinvestment Act.** Under the Community Reinvestment Act ("CRA"), The LaPorte Savings Bank has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish



specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the Federal Deposit Insurance Corporation in connection with its examination of The LaPorte Savings Bank, to assess its record of meeting the credit needs of its community and to take that record into account in its evaluation of certain applications by The LaPorte Savings Bank. For example, the regulations specify that a bank's CRA performance will be considered in its expansion (e.g., branching) proposals and may be the basis for approving, denying or conditioning the approval of an application. As of the date of its most recent regulatory examination, The LaPorte Savings Bank was rated "satisfactory" with respect to its CRA compliance.

**Prompt Corrective Regulatory Action.** The Federal Deposit Insurance Corporation Improvement Act requires, among other things, that federal bank regulatory authorities take "prompt corrective action" with respect to institutions that do not meet minimum capital requirements. For these purposes, the statute establishes five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized.

The Federal Deposit Insurance Corporation may order savings banks which have insufficient capital to take corrective actions. For example, a savings bank which is categorized as "undercapitalized" would be subject to growth limitations and would be required to submit a capital restoration plan, and a holding company that controls such a savings bank would be required to guarantee that the savings bank complies with the restoration plan. A "significantly undercapitalized" savings bank would be subject to additional restrictions. Savings banks deemed by the Federal Deposit Insurance Corporation to be "critically undercapitalized" would be subject to the appointment of a receiver or conservator.

**The USA PATRIOT Act.** The USA PATRIOT Act of 2001 gave the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. The USA PATRIOT Act also required the federal banking agencies to take into consideration the effectiveness of controls designed to combat money laundering activities in determining whether to approve a merger or other acquisition application of a member institution. Accordingly, if we engage in a merger or other acquisition, our controls designed to combat money laundering would be considered as part of the application process. We have established policies, procedures and systems designed to comply with these regulations.

### Holding Company Regulation

**General.** LaPorte Savings Bank, MHC and LaPorte Bancorp are nondiversified savings and loan holding companies within the meaning of the Home Owners' Loan Act. As such, LaPorte Savings Bank, MHC and LaPorte Bancorp are registered with the Office of Thrift Supervision and are subject to Office of Thrift Supervision regulations, examinations, supervision and reporting requirements. In addition, the Office of Thrift Supervision has enforcement authority over LaPorte Bancorp and LaPorte Savings Bank, MHC, and their subsidiaries. Among other things, this authority permits the Office of Thrift Supervision to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings institution. As federal corporations, LaPorte Bancorp and LaPorte Savings Bank, MHC are generally not subject to state business organization laws.

**Permitted Activities.** Pursuant to Section 10(o) of the Home Owners' Loan Act and Office of Thrift Supervision regulations and policy, a mutual holding company, such as LaPorte Savings Bank, MHC and a federally chartered mid-tier holding company, such as LaPorte Bancorp may engage in the following activities: (i) investing in the stock of a savings bank, (ii) acquiring a mutual savings bank through the merger of such savings bank into a savings bank subsidiary of such holding company or an interim savings bank subsidiary of such holding company, (iii) merging with or acquiring another holding company, one of whose subsidiaries is a savings bank, (iv) investing in a corporation, the capital stock of which is available for purchase by a savings bank under federal law or under the law of any state where the subsidiary savings bank or savings banks share their home offices, (v) furnishing or performing management services for a savings bank subsidiary of such company, (vi) holding, managing or liquidating assets owned or acquired from a savings subsidiary of such company, (vii) holding or managing properties used or occupied by a savings bank subsidiary of such company, (viii) acting as trustee under deeds of trust, (ix) any other activity (A) that the Federal Reserve Board, by regulation, has determined to be permissible for bank holding companies under Section 4(c) of the Bank Holding Company Act of 1956, unless the Director, by



regulation, prohibits or limits any such activity for savings and loan holding companies; or (B) in which multiple savings and loan holding companies were authorized (by regulation) to directly engage on March 5, 1987, (x) any activity permissible for financial holding companies under Section 4(k) of the Bank Holding Company Act, including securities and insurance underwriting, and (xi) purchasing, holding, or disposing of stock acquired in connection with a qualified stock issuance if the purchase of such stock by such savings and loan holding company is approved by the Director of the Office of Thrift Supervision. If a mutual holding company acquires or merges with another holding company, the holding company acquired or the holding company resulting from such merger or acquisition may only invest in assets and engage in activities listed in (i) through (xi) above, and has a period of two years to cease any nonconforming activities and divest of any nonconforming investments.

The Home Owners' Loan Act prohibits a savings and loan holding company, including LaPorte Bancorp and LaPorte Savings Bank, MHC, directly or indirectly, or through one or more subsidiaries, from acquiring more than 5% of another savings institution or holding company thereof, without prior written approval of the Office of Thrift Supervision. It also prohibits the acquisition or retention of, with certain exceptions, more than 5% of a nonsubsidiary company engaged in activities other than those permitted by the Home Owners' Loan Act; or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the Office of Thrift Supervision must consider the financial and managerial resources, future prospects of the company and institution involved, the effect of the acquisition on the risk to the insurance fund, the convenience and needs of the community and competitive factors.

The Office of Thrift Supervision is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions: (i) the approval of interstate supervisory acquisitions by savings and loan holding companies, and (ii) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisitions.

**Waivers of Dividends by LaPorte Savings Bank, MHC.** Office of Thrift Supervision regulations require LaPorte Savings Bank, MHC to notify the Office of Thrift Supervision of any proposed waiver of its receipt of dividends from LaPorte Bancorp. The Office of Thrift Supervision reviews dividend waiver notices on a case-by-case basis, and, in general, does not object to any such waiver if: the waiver would not be detrimental to the safe and sound operation of the subsidiary savings bank; and the mutual holding company's board of directors determines that such waiver is consistent with such directors' fiduciary duties to the mutual holding company's depositors. We anticipate that LaPorte Savings Bank, MHC will waive any dividends paid by LaPorte Bancorp. As long as The LaPorte Savings Bank remains an Indiana chartered savings bank, (i) any dividends waived by LaPorte Savings Bank, MHC must be retained by LaPorte Bancorp or The LaPorte Savings Bank and segregated, earmarked, or otherwise identified on the books and records of LaPorte Bancorp or The LaPorte Savings Bank, (ii) such amounts must be taken into account in any valuation of the institution, and factored into the calculation used in establishing a fair and reasonable basis for exchanging shares in any subsequent conversion of LaPorte Savings Bank, MHC to stock form and (iii) such amounts shall not be available for payment to, or the value thereof transferred to, minority shareholders, by any means, including through dividend payments or at liquidation.

**Conversion of LaPorte Savings Bank, MHC to Stock Form.** Office of Thrift Supervision regulations permit LaPorte Savings Bank, MHC to convert from the mutual form of organization to the capital stock form of organization (a "Conversion Transaction"). There can be no assurance when, if ever, a Conversion Transaction will occur, and the board of directors has no current intention or plan to undertake a Conversion Transaction. In a Conversion Transaction a new holding company would be formed as the successor to LaPorte Bancorp (the "New Holding Company"), LaPorte Savings Bank, MHC's corporate existence would end, and certain depositors of The LaPorte Savings Bank would receive the right to subscribe for shares of the New Holding Company. In a Conversion Transaction, each share of common stock held by shareholders other than LaPorte Savings Bank, MHC ("Minority Shareholders") would be automatically converted into a number of shares of common stock of the New Holding Company determined pursuant to an exchange ratio that ensures that Minority Shareholders own the same percentage of common stock in the New Holding Company as they owned in LaPorte Bancorp immediately prior to the Conversion Transaction subject to adjustment for any mutual holding company assets or waived dividends, as applicable. The total number of shares of common stock held by Minority Shareholders after a Conversion Transaction also would be increased by any purchases by Minority Shareholders in the stock offering conducted as part of the Conversion Transaction.



Any Conversion Transaction would require the approval of a majority of the outstanding shares of common stock of LaPorte Bancorp held by Minority Shareholders and by two thirds of the total outstanding shares of common stock of LaPorte Bancorp. Any Conversion Transaction also would require the approval of a majority of the eligible votes of depositors of LaPorte Savings Bank, MHC.

**Sarbanes-Oxley Act of 2002.** The Sarbanes-Oxley Act of 2002 was enacted in response to public concerns regarding corporate accountability in connection with certain accounting scandals. The stated goals of the Sarbanes-Oxley Act are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Sarbanes-Oxley Act generally applies to all companies that file or are required to file periodic reports with the Securities and Exchange Commission, under the Securities Exchange Act of 1934.

The Sarbanes-Oxley Act includes specific additional disclosure requirements, requires the Securities and Exchange Commission and national securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules, and mandates further studies of certain issues by the Securities and Exchange Commission. The Sarbanes-Oxley Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

### FEDERAL AND STATE TAXATION

**Federal Taxation.** Historically, savings institutions, such as The LaPorte Savings Bank, had been permitted to compute bad debt deductions using either the bank experience method or the percentage of taxable income method. However, In August, 1996, legislation was enacted that repealed the reserve method of accounting for federal income tax purposes.

Depending on the composition of its items of income and expense, a savings bank may be subject to the alternative minimum tax. A savings bank must pay an alternative minimum tax equal to the amount (if any) by which 20% of alternative minimum taxable income ("AMTI"), as reduced by an exemption varying with AMTI, exceeds the regular tax due. AMTI equals regular taxable income increased or decreased by certain tax preferences and adjustments, including depreciation deductions in excess of that allowable for alternative minimum tax purposes, tax-exempt interest on most private activity bonds issued after August 7, 1986 (reduced by any related interest expense disallowed for regular tax purposes), the amount of the bad debt reserve deduction claimed in excess of the deduction based on the experience method and 75% of the excess of adjusted current earnings over AMTI (before any alternative tax net operating loss). AMTI may be reduced only up to 90% by net operating loss carryovers, but alternative minimum tax paid can be credited against regular tax due in later years.

For federal income tax purposes, The LaPorte Savings Bank reports its income and expenses on the accrual method of accounting. LaPorte Bancorp and The LaPorte Savings Bank file a consolidated federal income tax return for each fiscal year ending December 31. The federal income tax returns filed by The LaPorte Savings Bank have not been subject to an IRS examination in the last five years.

**State Taxation.** The LaPorte Savings Bank is subject to Indiana's Financial Institutions Tax ("FIT"), which is imposed at a flat rate of 8.5% on "adjusted gross income." "Adjusted gross income," for purposes of FIT, begins with taxable income as defined by Section 63 of the Code and, thus, incorporates federal tax law to the extent that it affects the computation of taxable income. Federal taxable income is then adjusted by several Indiana modifications. Other applicable state taxes include generally applicable sales and use taxes plus real and personal property taxes. In the last five years, The LaPorte Savings Bank's state income tax returns have not been subject to any other examination by a taxing authority.



**Item 1A. Risk Factors**

**The United States economy remains weak and unemployment levels are high. The prolonged economic downturn will adversely affect our business and financial results.**

The United States experienced a severe economic recession in 2008 and 2009. While economic growth has resumed recently, the rate of growth has been slow and unemployment remains at very high levels and is not expected to improve in the near future. Loan portfolio quality has deteriorated at many financial institutions reflecting, in part, the weak U.S. economy and high unemployment. In addition, the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue to decline. The continuing real estate downturn also has resulted in reduced demand for the construction of new housing and increased delinquencies in construction, residential and commercial mortgage loans. Bank and bank holding company stock prices have declined substantially, and it is significantly more difficult for banks and bank holding companies to raise capital or borrow in the debt markets.

Continued negative developments in the financial services industry and the domestic and international credit markets may significantly affect the markets in which we do business, the market for and value of our loans and investments, and our ongoing operations, costs and profitability. Moreover, continued declines in the stock market in general, or stock values of financial institutions and their holding companies specifically, could adversely affect our stock performance.

**A continued downturn in the local economy or a decline in real estate values could hurt our profits.**

Nearly all of our real estate loans are secured by real estate in LaPorte County. As a result of this concentration, a continued downturn in the local economy could cause significant increases in non-performing loans, which would hurt our profits. Additionally, a decrease in asset quality could require additions to our allowance for loan losses through increased provisions for loan losses, which would hurt our profits. A decline in real estate values could cause some of our mortgage loans to become inadequately collateralized, which would expose us to a greater risk of loss. In addition, because we have a significant amount of commercial real estate loans, decreases in tenant occupancy may also have a negative effect on the ability of many of our borrowers to make timely repayments on their loans, which would have an adverse impact on our earnings.

**We have increased our commercial real estate loan originations, which increases the risk in our loan portfolio.**

In order to enhance the yield and shorten the term-to-maturity of our loan portfolio, we have expanded our commercial real estate lending during recent years. In addition, we acquired a significant portfolio of such loans in the City Savings Bank merger in 2007. Commercial real estate lending has increased as a percentage of our total loan portfolio from 18.5% at December 31, 2002 to 29.16% at December 31, 2009.

Given their larger balances and the complexity of the underlying collateral, commercial real estate loans generally expose a lender to greater credit risk than loans secured by owner occupied one- to four-family real estate. In addition, our commercial real estate loan portfolio is not as seasoned as the loan portfolios of some of our competitors. During 2008, we began to experience an increase in nonperforming commercial real estate loans, which continued during 2009. In light of the current weakness in the real estate market and economy, we may continue to experience increases in nonperforming loans and provisions for loan losses.

**Our mortgage warehousing line of business may be subject to a higher risk than our residential lending operations.**

We operate a mortgage warehousing line of business. Under this program, we provide financing to approved mortgage companies for the origination and sale of residential mortgage loans. Each individual mortgage is assigned to us until the loan is sold to the secondary market by the mortgage company. We take possession of each original note and forward such note to the end investor once the mortgage company has sold the loan. Because we rely on the mortgage companies to make and document the loans, we have less control over the quality of the underlying loans and the creditworthiness of the borrowers.



**If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings will decrease.**

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover probable incurred losses in our loan portfolio, resulting in additions to our allowance. While our allowance for loan losses was 1.07% of total loans at December 31, 2009, material additions to our allowance could materially decrease our net income. In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities might have a material adverse effect on our financial condition and results of operations.

**Any future Federal Deposit Insurance Corporation insurance premium increases or special assessments will adversely affect our earnings.**

The Federal Deposit Insurance Corporation has adopted a rule that will require us to prepay insurance premiums. As part of a plan to restore the reserve ratio of the Deposit Insurance Fund, the FDIC imposed a special assessment equal to five basis points of assets less Tier 1 capital as of June 30, 2009, which was payable on September 30, 2009. We recorded an expense of \$176,000 during the quarter ended June 30, 2009, to reflect the special assessment. The FDIC has also increased its maximum quarterly assessment rates and amended the method by which rates are calculated. Quarterly assessments we paid for 2009 equaled \$399,000, compared to \$60,000 for 2008. Any further special assessments or increases to quarterly assessment rates will adversely affect our earnings.

In addition, in November 2009 the FDIC adopted a rule requiring insured depository institutions to prepay, on December 30, 2009, their estimated quarterly risk-based assessments for all of 2010, 2011, and 2012. On December 30, 2009, we prepaid approximately \$1.3 million in estimated quarterly assessment fees for the first quarter of 2010 through the fourth quarter of 2012. Because the prepaid assessments represent the prepayment of future expense, they do not affect our capital or tax obligations. For further discussion of how changes in interest rates could impact us, see “—Savings Bank Regulation—Insurance of Deposit Accounts.”

**Changing interest rates may hurt our profits and asset values.**

Our ability to make a profit largely depends on our net interest income, which could be negatively affected by changes in interest rates. Net interest income is the difference between:

- the interest income we earn on our interest-earning assets, such as loans and securities; and
- the interest expense we pay on our interest-bearing liabilities, such as deposits and borrowings.

Our liabilities generally have shorter maturities than our assets. This imbalance can create significant earnings volatility as market interest rates change. In periods of rising interest rates, the interest income earned on our assets may not increase as rapidly as the interest paid on our liabilities, resulting in a decline in our net interest income. In periods of declining interest rates, our net interest income is generally positively affected although such positive effects may be reduced or eliminated by prepayments of loans and redemptions of callable securities. In addition, when long-term interest rates are not significantly higher than short-term rates thus creating a “flat” yield curve, the Company’s interest rate spread will decrease thus reducing net interest income. Finally, federal initiatives designed to reduce mortgage interest spreads may reduce our loan income without a corresponding reduction in funding costs, thus decreasing our spreads. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Management of Market Risk.”



Changes in interest rates also affect the current market value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. As December 31, 2009, the fair value of our securities classified as available for sale totaled \$102.1 million. Unrealized net gains on available-for-sale securities totaled \$2.7 million at December 31, 2009 and are reported, net of tax, as a separate component of shareholders' equity. However, a rise in interest rates could cause a decrease in the fair value of securities available for sale in future periods which would have an adverse effect on shareholders' equity.

Depending on market conditions, we often place more emphasis on enhancing our net interest margin rather than matching the interest rate sensitivity of our assets and liabilities. In particular, we believe that the increased net interest income resulting from a mismatch in the maturity of our asset and liability portfolios can, during periods of stable or declining interest rates provide high enough returns to justify increased exposure to sudden and unexpected increases in interest rates. As a result, our results of operations and the economic value of our equity will remain vulnerable to increases in interest rates and to declines in the difference between long- and short-term rates. See "Managements Discussion and Analysis of Financial Condition and Results of Operations—Management of Market Risk."

**Slow growth in our market area has adversely affected and may continue to adversely affect our performance.**

Economic and population growth within our market area has for several decades been below the national average. Management believes that these factors have adversely affected our profitability and our ability to increase our loans and deposits. Our acquisition of City Savings Financial Corporation facilitated our entrance into the Michigan City and Chesterton, Indiana markets, which are growing more rapidly than Eastern LaPorte County. However, these markets have experienced a significant decline in real estate values and economic activity as a result of the current recession.

**Strong competition within our market area could hurt our profits and slow growth.**

We face intense competition in making loans, attracting deposits and hiring and retaining experienced employees. This competition has made it more difficult for us to make new loans and attract deposits. Price competition for loans and deposits sometimes results in us charging lower interest rates on our loans and paying higher interest rates on our deposits, which reduces our net interest income. Competition also makes it more difficult and costly to attract and retain qualified employees. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to compete successfully in our market area. For more information about our market area and the competition we face, see "Item 1. Business—Market Area" and "Item 1. Business—Competition."

**We operate in a highly regulated environment and we may be adversely affected by changes in laws and regulations.**

We are subject to extensive regulation, supervision and examination by the Federal Deposit Insurance Corporation, as insurer of our deposits, and by the Indiana Department of Financial Institutions as our primary regulator. LaPorte Savings Bank, MHC and LaPorte Bancorp are subject to regulation and supervision by the Office of Thrift Supervision. Such regulation and supervision governs the activities in which an institution and its holding company may engage and are intended primarily for the protection of the insurance fund and the depositors and borrowers of The LaPorte Savings Bank rather than for holders of LaPorte Bancorp common stock. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations including compliance costs.

In addition, future legislative or regulatory actions responding to perceived financial and market problems could impair our rights against borrowers. There have been proposals made by members of Congress and others that would reduce the amount distressed borrowers are otherwise contractually obligated to pay under their mortgage loans and limit an institution's ability to foreclose on mortgage collateral. With proposals such as these or other proposals limiting our rights as a creditor to be implemented, we could experience increased credit losses or increased expense in pursuing our remedies as a creditor.



**A legislative proposal has been introduced that would eliminate the Office of Thrift Supervision, the primary federal regulator for LaPorte Savings Bank, MHC and LaPorte Bancorp, Inc., which would require LaPorte Bancorp, Inc. to become a bank holding company.**

Legislation has been introduced in the United States Senate and House of Representatives that would implement sweeping changes to the current bank regulatory structure. A bill passed by the House of Representatives would eliminate our current primary federal regulator, the Office of Thrift Supervision, by merging the Office of Thrift Supervision into the Comptroller of the Currency (the primary federal regulator for national banks). The House legislation would authorize the Comptroller of the Currency to charter mutual and stock savings banks and mutual holding companies, which would be under the supervision of the Division of Thrift Supervision of the Comptroller of the Currency. The House bill would also establish a Financial Services Oversight Council and grant the Board of Governors of the Federal Reserve System exclusive authority to regulate all banks and thrift holding companies. As a result, LaPorte Bancorp, Inc. would become a holding company subject to supervision by the Federal Reserve Board as opposed to the Office of Thrift Supervision, and would become subject to the Federal Reserve’s regulations, including holding company capital requirements, that LaPorte Bancorp, Inc. would not be subject to as a savings and loan holding company. In addition, compliance with new regulations and being supervised by one or more new regulatory agencies could increase our expenses.

The Senate proposal would also merge the Office of Thrift Supervision into the Office of the Comptroller of the Currency. Supervision of savings and loan holding companies with a state savings bank subsidiary and less than \$50 billion in assets, such as LaPorte Bancorp, Inc., would be transferred to the Federal Deposit Insurance Corporation. The Federal Deposit Insurance Corporation would also remain the primary federal regulator of The LaPorte Savings Bank. Both the House bill and the Senate proposal would establish new government bureaucracies empowered to write consumer protection rules and, in certain cases, to conduct examinations and implement enforcement actions with respect thereto. We believe that the creation of such consumer protection bureaucracies could result in an increase in our compliance costs.

**If the Federal Home Loan Bank of Indianapolis continues to pay a reduced dividend, our earnings will be negatively affected.**

We own common stock of the Federal Home Loan Bank of Indianapolis (“FHLBI”) to qualify for membership in the Federal Home Loan Bank System and to be eligible to borrow funds under the FHLBI’s advance program. There is no market for our FHLBI common stock. Since the fourth quarter of 2008, the FHLBI has paid a reduced dividend on its stock due to losses in its securities portfolio. As a result, we received approximately \$88,000 less from FHLBI dividends in 2009 compared to 2008. If the FHLBI continues to pay a reduced dividend, our earnings will be negatively affected.

**Stock price may be volatile due to limited trading volume.**

LaPorte Bancorp, Inc.’s common stock is traded on the NASDAQ Capital Market. However, the average daily trading volume in the Stock Company’s common stock has been relatively small, averaging less than approximately 4,178 shares per day during the month of December 2009 and approximately 1,158 shares per day during the year of 2009. As a result, trades involving a relatively small number of shares may have a significant effect on the market price of the common stock, and it may be difficult for investors to acquire or dispose of large blocks of stock without significantly affecting the market price.



**Public stockholders own a minority of LaPorte Bancorp, Inc.’s common stock and will not be able to exercise voting control over most matters put to a vote of stockholders.**

LaPorte Bancorp, Inc.’s holding company, LaPorte Savings Bank, MHC owns approximately 54.73% of its common stock, as of December 31, 2009. Directors and executive officers own or control approximately 2.84% of the common stock. The same directors and executive officers that manage LaPorte Bancorp, Inc., also manage LaPorte Savings Bank, MHC. Public stockholders who are not associated with the MHC or LaPorte Bancorp, Inc. own approximately 42.43% of the common stock. The Board of Directors of LaPorte Savings Bank, MHC will be able to exercise voting control over most matters put to a vote of stockholders because the MHC owns a majority of LaPorte Bancorp, Inc.’s common stock. For example, LaPorte Savings Bank, MHC may exercise its voting control to prevent a sale or merger transaction in which stockholders could receive a premium for their shares or to approve employee benefit plans.

**We could potentially recognize goodwill impairment charges.**

In connection with our acquisition of City Savings Financial, we recorded goodwill equaling \$8.4 million. LaPorte Bancorp annually measures the fair value of its investment in The LaPorte Savings Bank to determine that such fair value equals or exceeds the carrying value of its investment, including goodwill. If the fair value of our investment in The LaPorte Savings Bank does not equal or exceed its carrying value, we will be required to record goodwill impairment charges which may adversely affect future earnings. The fair value of a banking franchise can fluctuate downward based on a number of factors that are beyond management’s control, (e.g. adverse trends in the general economy or interest rates). As a result of impairment testing performed as of September 30, 2009, no impairment charge was recorded by the Company. There can be no assurance that our banking franchise value will not decline in the future to a level necessitating goodwill impairment charges to operations that could be material to our results of operations.

**Item 1B. Unresolved Staff Comments**

None

**Item 2. Properties**

As of December 31, 2009, the net book value of our properties was \$9.6 million. The following is a list of our offices:

<u>Location</u>	<u>Leased or Owned</u>	<u>Year Acquired or Leased</u>	<u>Square Footage</u>	<u>Net Book Value of Real Property (In thousands)</u>
<b>Main Office (including land):</b> 710 Indiana Avenue La Porte, Indiana 46350	Owned	1916	57,000	\$ 3,280
<b>Full Service Branches:</b> (including land) 6959 W. Johnson Road La Porte, Indiana 46350	Owned	1987	3,500	320
301 Boyd Blvd. La Porte, Indiana 46350	Owned	1997	4,000	1,162
1222 W. State Road #2 La Porte, Indiana 46350	Owned	1999	2,200	401
2000 Franklin Street Michigan City, Indiana 46360	Owned	2007	5,589	828
851 Indian Boundary Road Chesterton, Indiana 46304	Owned	2007	7,475	1,216
101 Michigan Street Rolling Prairie, Indiana 46371	Owned	2007	1,850	107



<u>Location</u>	<u>Leased or Owned</u>	<u>Year Acquired or Leased</u>	<u>Square Footage</u>	<u>Net Book Value of Real Property (In thousands)</u>
1 Parkman Drive Westville, Indiana 46390	Owned	2006	4,000	1,429
Lots Owned:				
1201 E. Lincolnway Valparaiso, Indiana 46383	Owned	2006	N/A	375
Cleveland Crossing Michigan City, Indiana 46360	Owned	2007	N/A	506

The net book value of our furniture, fixtures and equipment (including computer software) at December 31, 2009 was \$1.5 million.

**Item 3. Legal Proceedings**

The Company and its subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Company’s results of operations.

**PART II**

**Item 4. (Removed and Reserved)**

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

Our shares of common stock are traded on the NASDAQ Capital Market under the symbol “LPSB”. The approximate number of holders of record of LaPorte Bancorp, Inc.’s common stock as of December 31, 2009 was 711. Certain shares of LaPorte Bancorp, Inc. are held in “nominee” or “street” name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number. The following table presents quarterly market information for LaPorte Bancorp, Inc.’s common stock for each quarter during 2008 and 2009, as reported on the NASDAQ Capital Market.

	<u>High</u>	<u>Low</u>	<u>Dividends</u>
<b>2008</b>			
Quarter ended March 31, 2008	\$7.77	\$6.35	—
Quarter ended June 30, 2008	7.43	6.20	—
Quarter ended September 30, 2008	8.30	5.90	—
Quarter ended December 31, 2008	7.00	4.55	—
<b>2009</b>			
Quarter ended March 31, 2009	6.00	3.85	—
Quarter ended June 30, 2009	5.15	4.20	—
Quarter ended September 30, 2009	5.24	4.21	—
Quarter ended December 31, 2009	5.00	4.14	—

The Board of Directors has the authority to declare cash dividends on shares of common stock, subject to statutory and regulatory requirements. However, no decision has been made with respect to the payment of cash dividends. In determining whether and in what amount to pay a cash dividend, the Board is expected to take into account a number of factors, including capital requirements, our consolidated financial condition and results of operations, tax considerations, statutory and regulatory limitations and general economic conditions. No assurances can be given that any cash dividends will be paid or that, if paid, will not be reduced or eliminated in the future.



The available sources of funds for the payment of a cash dividend in the future are interest and principal payments with respect to LaPorte Bancorp, Inc.'s loan to the Employee Stock Ownership Plan, and dividends from LaPorte Savings Bank.

LaPorte Bancorp is generally not subject to regulatory restrictions on the payment of dividends. However, if LaPorte Bancorp pays dividends to its shareholders, it also will be required to pay dividends to LaPorte Savings Bank, MHC, unless LaPorte Savings Bank, MHC elects to waive the receipt of dividends. We anticipate that LaPorte Savings Bank, MHC will waive any dividends that LaPorte Bancorp may pay. Any decision to waive dividends will be subject to regulatory approval. As long as The LaPorte Savings Bank remains an Indiana chartered savings bank, (i) any dividends waived by LaPorte Savings Bank, MHC must be retained by LaPorte Bancorp or The LaPorte Savings Bank and segregated, earmarked, or otherwise identified on the books and records of LaPorte Bancorp or The LaPorte Savings Bank, (ii) such amounts must be taken into account in any valuation of the institution, and factored into the calculation used in establishing a fair and reasonable basis for exchanging shares in any subsequent conversion of LaPorte Savings Bank, MHC to stock form and (iii) such amounts shall not be available for payment to, or the value thereof transferred to, minority shareholders, by any means, including through dividend payments or at liquidation.

Under several of the banking reform proposals being discussed by the United States Congress, the Federal Reserve Board would become the regulator of LaPorte Bancorp, Inc. and LaPorte Savings Bank, MHC. While such legislation may contain a limited grandfather clause protecting LaPorte Savings Bank, MHC's ability to waive dividends from the Company, the Federal Reserve Board's current policy does not permit the waiver of such dividends.

In addition, our ability to pay dividends largely depends upon dividends we receive from The LaPorte Savings Bank, which are subject to regulatory restrictions on dividends. Applicable regulations limit dividends and other distributions from The LaPorte Savings Bank to us. See Item 1 Business – Supervision and Regulation –Dividend Limitations. In addition, The LaPorte Savings Bank may not make a distribution that would constitute a return of capital during the three-year term of the business plan submitted in connection with the offering. No insured depository institution may make a capital distribution if, after making the distribution, the institution would be undercapitalized.

At December 31, 2009, there were no compensation plans under which equity securities of LaPorte Bancorp, Inc. were authorized for issuance other than the Employee Stock Ownership Plan.

The following table presents a summary of the Company's share repurchases during the quarter ended December 31, 2009.

<u>Period</u>	<u>Total number of shares purchased</u>	<u>Average price paid per share</u>	<u>Total number of shares purchased as part of publicly announced plans or programs <sup>(1)</sup></u>	<u>Maximum number of shares that may yet be purchased under the plans or programs <sup>(1)</sup></u>
October 1- October 31	0	\$ —	0	63,400
November 1- November 30	7,200	4.97	7,200	56,200
December 1- December 31	20,500	4.41	20,500	35,700
<b>Total</b>	<b>27,700</b>	<b>\$ 4.55</b>	<b>27,700</b>	<b>35,700</b>

(1) On November 13, 2009, the Company commenced a stock repurchase program pursuant to which the Company intends to repurchase, in the open market and in privately negotiated transactions, up to 3 percent (approximately 63,400 shares) of the Company's outstanding public shares. The timing of the repurchases will depend on certain factors, including but not limited to, market conditions and prices, the Company's liquidity requirements and alternative uses of capital. Any repurchased shares will be held as treasury stock and will be available for general corporate purposes.



**Item 6. Selected Financial Data**

The following information is derived from the audited consolidated financial statements of LaPorte Bancorp, Inc. For additional information, reference is made to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Consolidated Financial Statements of LaPorte Bancorp, Inc. and related notes included elsewhere in this Annual Report.

	At December 31,				
	2009	2008	2007	2006	2005
	(In thousands)				
<b>Selected Financial Condition Data:</b>					
Total assets	\$405,827	\$368,558	\$367,260	\$266,472	\$256,861
Cash and cash equivalents	6,000	5,628	9,937	21,047	8,664
Investment securities	102,095	101,451	96,048	88,538	85,996
Federal Home Loan Bank stock	4,206	4,206	4,187	2,661	2,773
Loans held for sale	981	124	—	—	707
Loans, net	256,275	219,926	220,497	136,077	140,577
Deposits	273,408	234,814	246,271	201,859	182,348
Federal Home Loan Bank of Indianapolis advances and other long-term borrowings	62,780	83,883	71,671	36,500	48,500
Short-term borrowings	16,675	650	—	—	—
Shareholders’ equity	49,872	46,142	46,705	26,386	24,542
<b>For the Year Ended December 31,</b>					
	2009	2008	2007	2006	2005
	(In thousands)				
Interest and dividend income	\$ 19,000	\$ 19,357	\$ 15,244	\$ 13,585	\$ 12,412
Interest expense	8,265	9,432	8,135	6,945	6,021
Net interest income	10,735	9,925	7,109	6,640	6,391
Provision for loan losses	851	1,125	64	143	215
Net interest income after provision for loan losses	9,884	8,800	7,045	6,497	6,176
Noninterest income	4,211	879	2,857	1,956	1,890
Noninterest expense	11,158	10,621	8,917	7,093	7,102
Income (loss) before income taxes	2,937	(942)	985	1,360	964
Income tax expense (benefit)	425	(542)	268	243	73
Net income (loss)	<u>\$ 2,512</u>	<u>\$ (400)</u>	<u>\$ 717</u>	<u>\$ 1,117</u>	<u>\$ 891</u>



At or For the Years Ended December 31,

**Selected Financial Ratios and Other Data:**

**Performance Ratios:**

	2009	2008	2007	2006	2005
Return on assets (ratio of net income (loss) to average total assets)	0.65%	(0.11)%	0.26%	0.43%	0.34%
Return on equity (ratio of net income (loss) to average equity)	5.25%	(0.86)%	2.32%	4.44%	3.62%
Interest rate spread <sup>(1)</sup>	2.80%	2.74%	2.39%	2.44%	2.35%
Net interest margin <sup>(2)</sup>	3.13%	3.08%	2.86%	2.85%	2.68%
Efficiency ratio <sup>(3)</sup>	74.66%	98.31%	89.47%	82.52%	85.76%
Noninterest expense to average total assets	2.90%	2.91%	3.22%	2.76%	2.72%
Average interest-earning assets to average interest-bearing liabilities	113.49%	111.72%	114.57%	113.56%	113.11%
Loans to deposits	94.75%	94.68%	90.23%	67.83%	77.55%

**Asset Quality Ratios:**

Nonperforming assets to total assets	2.04%	2.08%	0.69%	0.48%	0.60%
Nonperforming loans to total loans	2.98%	3.04%	0.94%	0.61%	0.69%
Allowance for loan losses to nonperforming loans	35.98%	37.21%	86.15%	124.37%	109.35%
Allowance for loan losses to total loans	1.07%	1.13%	0.81%	0.76%	0.75%

**Capital Ratios:**

Average equity to average assets	12.44%	12.75%	11.19%	9.78%	9.43%
Equity to total assets at end of period	12.29%	12.52%	12.72%	9.90%	9.55%
Total capital to risk-weighted assets <sup>(4)</sup>	15.30%	16.50%	17.50%	17.70%	17.00%
Tier 1 capital to risk-weighted assets <sup>(4)</sup>	14.30%	15.40%	16.70%	17.00%	16.20%
Tier 1 capital to average assets <sup>(4)</sup>	10.40%	10.40%	11.60%	10.20%	9.80%

**Other Data:**

Number of full service offices	8	8	7	4	4
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- (1) Represents the difference between the weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the period.
- (2) Represents net interest income as a percent of average interest-earning assets for the period.
- (3) Represents noninterest expense divided by the sum of net interest income and noninterest income. The efficiency ratio presented above includes other than temporary impairment losses on investments totaling \$0, \$1,711, \$228, \$0 and \$0 for 2009 through 2005, respectively. The efficiency ratio excluding these losses would be 74.66%, 84.87%, 87.47%, 82.52% and 85.76% for 2009 through 2005, respectively.
- (4) Represents capital ratios of The LaPorte Savings Bank.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Overview**

Our results of operations depend mainly on our net interest income, which is the difference between the interest income earned on our loan and investment portfolios and interest expense paid on our deposits and borrowed funds. Results of operations are also affected by fee income from deposits, lending and mortgage banking operations, provisions for loan losses, gains (losses) on sales and other than temporary impairment charges of loans and securities and other miscellaneous income. Our noninterest expenses consist primarily of salaries and employee benefits, occupancy and equipment, data processing, advertising, bank examination fees, amortization of intangibles, general administrative expenses, deposit insurance fees and income tax expense (benefit). Our results of operations are also significantly affected by general economic and competitive conditions, particularly with respect to changes in interest rates, government policies and actions of regulatory authorities. Future changes in applicable laws, regulations or government policies may materially affect our financial condition and results of operations. See "Item 1A. Risk Factors."



## Critical Accounting Policies

We consider accounting policies that require management to exercise significant judgment or discretion or make significant assumptions that have, or could have, a material impact on the carrying value of certain assets or on income, to be critical accounting policies. We consider the following to be our critical accounting policies:

**Securities.** Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. In estimating other-than-temporary losses, management considers: (1) the length of time and extent that fair value has been less than cost and further review will be performed for all securities that have been in a loss position for greater than one year and at a current loss of 10% or more, (2) the financial condition and near term prospects of the issuer and whether it has the ability to pay all amounts due according to the contractual terms of the debt security, (3) whether the market decline was affected by macroeconomic conditions and (4) The LaPorte Savings Bank's intent not to sell the security and whether it is more likely than not that the Company will be required to sell the debt security before its anticipated recovery.

Management completes an extensive review of whole loan collateralized mortgage obligations on a quarterly basis. We obtain a third party review of our whole loan collateralized mortgage obligations, which helps to identify impairment of these securities. The review includes information on each security, including the security's rating, credit risk profile, weighted average FICO score, weighted average loan to value ratio and delinquency ratio.

Management reviews a performance report issued by a third party on each of its mortgage-backed securities on a quarterly basis. This review includes information on each security, including the overall credit score and loan to value ratios for the underlying mortgage of these securities.

Management completes a quarterly review of its corporate bond portfolio. The third party review report includes each bond's investment grade. We continue to closely monitor the corporate bonds due to ongoing economic concerns and spreads on these securities.

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

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired with specific allowance amounts allocated, if applicable, when based on current information and events it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified and for which the borrower is experiencing financial difficulties are considered troubled debt restructurings and classified as impaired. Loans included for analysis for potential impairment are all commercial and commercial real estate loans classified by The LaPorte Savings Bank as Substandard, Doubtful or Loss. Such loans are analyzed to determine if specific allowance allocations are required under either the fair value of collateral method, for all collateral dependent loans, or using the present value of estimated future cash flows method, using the loan's existing interest rate as the discount factor. Other factors considered in the potential specific allowance allocation measurement are the timing and reliability of collateral appraisals or other collateral valuation sources, the confidence in The LaPorte Savings Bank's lien on the collateral, historical losses on similar loans, and any other factors known to management at the time of the measurement that may affect the valuation. Based on management's consideration of these factors for each individual loan that is reviewed for potential impairment, a specific allowance allocation is assigned to the loan, if applicable, and such allocations are periodically monitored and adjusted as appropriate.



Non-specific general allowance amounts are allocated to all other loans not considered in the specific allowance allocation analysis described above. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly they are not separately identified for impairment disclosures. A minimum and maximum allowance allocation estimate is determined for each general loan category or loan pool based on the current three year historical average annual loss ratios as well as consideration of significant recent changes in annual historical loss ratios, classified loan trends by category, delinquency ratios and inherent risk factors attributable to current local and national economic conditions.

All of the allowance for loan losses is allocated under the specific and general allowance allocation methodologies described above. Management reviews its allowance allocation estimates and loan collateral values on at least a quarterly basis and adjusts the allowance for loan losses for changes in specific and general allowance allocations, as appropriate. Any differences between the estimated and actual observed loan losses are adjusted through increases or decreases to the allowance for loan losses on at least a quarterly basis and such losses are then factored into the revised historical average annual loss ratios for future quarterly allowance allocations.

The Bank is subject to periodic examinations by its federal and state regulatory examiners and may be required by such regulators to recognize additions to the allowance for loan losses based on their assessment of credit information available to them at the time of their examinations. The process of assessing the adequacy of the allowance for loan losses is necessarily subjective. Further, and particularly in times of economic downturns, it is reasonably possible that future credit losses may exceed historical loss levels and may also exceed management's current estimates of incurred credit losses inherent within the loan portfolio. As such, there can be no assurance that future charge-offs will not exceed management's current estimate of what constitutes a reasonable allowance for loan losses.

The Company acquired a group of loans through the acquisition of City Savings Financial Corporation on October 12, 2007. Purchased loans that showed evidence of credit deterioration since their origination were recorded at an allocated fair value, such that there is no carryover of the seller's allowance for loan losses. After acquisition, incurred losses are recognized by an increase in the allowance for loan losses. For further information about the accounting treatment of purchased loans, see Note 3 of the Notes to Consolidated Financial Statements included in Part IV hereof.

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

The Company adopted guidance issued by the FASB with respect to accounting for uncertainty in income taxes as of January 1, 2007. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The adoption had no effect on the Company's consolidated financial condition or results of operations.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

**Valuation of Goodwill and Other Intangible Assets.** We assess the carrying value of our goodwill at least annually in order to determine if this intangible asset is impaired. In reviewing the carrying value of our goodwill, we assess the recoverability of such assets by evaluating the fair value of the related business unit. If the carrying amount of goodwill exceeds its fair value, an impairment loss is recognized for the amount of the excess and the carrying value of goodwill is reduced accordingly. Any impairment would be required to be recorded during the period identified.

At December 31, 2009, the Company had core deposit intangibles of \$1.0 million subject to amortization and \$8.4 million of goodwill, which is not subject to amortization. Goodwill arising from business combinations represents the value attributable to unidentifiable intangible assets arising from the acquisition of City Savings



Financial in 2007. Accounting standards require an annual evaluation of goodwill for potential impairment using various estimates and assumptions. The Company became a publicly traded entity in October 2007 and due to the deteriorating financial environment that began at that time, the Company's common stock has traded below book value since origination. The market price of the Company's common stock at the close of business on December 31, 2009 was \$4.40 per common share, compared to a book value of \$10.82 per common share. Management believes the lower market price in relation to book value of the Company's common stock is due to the overall decline in the financial industry sector and is not specific to the Company. Further, the Company engaged an independent third party specialist to perform an impairment test of its goodwill. The evaluation included three approaches: 1) income approach using a discounted cash flow analysis based on earnings capacity, 2) comparable sales transactions approach and 3) control premium price to book value ratios. Approaches 2 and 3 used median results from 43 bank sale transactions that occurred during 2008 and 2009. The selling banks ranged in size from \$100 million to \$5 billion. The impairment test was performed as of September 30, 2009 and resulted in an implied fair value for the Company sufficiently above the book value of its common stock to support the carrying value of goodwill.

Based on the annual evaluation performed as of September 30, 2009 and completed in January 2010, management determined that the fair value of the reporting unit, which is defined as the Company as a whole, exceeded the carrying value of the goodwill, based on the opinion of the independent third party specialist that a control premium would be paid by a potential acquirer, such that the Company's sale price per common share would exceed its book value per common share. Accordingly, no goodwill impairment was recognized in 2009. As the Company's stock price per common share is currently less than its book value per common share, it is reasonably possible that management may conclude that goodwill, totaling \$8.4 million at December 31, 2009, is impaired as a result of a future assessment. If our goodwill is determined to be impaired, the related charge to earnings could be material.

Other intangible assets consist of core deposit and acquired customer relationship intangible assets arising from a whole bank acquisition. They are initially measured at fair value and then are amortized on an accelerated method over their estimated useful lives, which range from 4 to 15 years. These intangible assets are also periodically evaluated for impairment. In the future, if these other intangible assets are determined to be impaired, our financial results could be materially impacted.

## Business Strategy

Our business strategy is to enhance operations by:

- **Increasing Commercial Real Estate Lending.** In order to increase the yield of and reduce the term to repricing of our loan portfolio, we have increased our originations and, to a lesser extent, purchases of commercial real estate loans. However, we do not expect significant growth in such lending until economic conditions begin to improve.
- **Maintaining a Portfolio of Residential Loans.** Although we have reduced to an extent the percentage of our loan portfolio consisting of residential loans, in view of the generally high credit quality of such assets, and in order to maintain close ties with our customers, we intend to devote a significant amount of our assets to one- to four-family and home equity loans.
- **Building, Subject to Market Conditions, Mortgage Warehouse Lending.** In order to increase the yield and balance of our loan portfolio and increase other noninterest income, we introduced the mortgage warehouse line of business. We intend to maintain and possibly increase the activity in this division.
- **Maintaining Our Status As An Independent Community Oriented Institution.** We intend to use our customer service and our knowledge of our local community to enhance our status as an independent community financial institution.
- **Managed Growth.** We believe that it can be helpful to increase our loans and deposits, if possible, in order to help cover the costs of operating in a highly competitive and regulated



marketplace. Our acquisition of City Savings Financial was a part of this effort. In the future, we will continue, subject to market and economic conditions, to explore ways to grow our franchise both through internal growth and external acquisitions.

- **Maintaining the Quality of our Loan Portfolio.** Maintaining the quality of our loan portfolio is a key factor in managing our operations, particularly during a period of economic downturn. We will continue to use customary risk management techniques, such as independent internal and external loan reviews, portfolio credit analysis and field inspections of collateral in overseeing the performance of our loan portfolio.
- **Managing Interest Rate Risk.** We believe that it is difficult to achieve satisfactory levels of profitability in the financial services industry without assuming some level of interest rate risk. However, we believe that such risk must be carefully managed to avoid undue exposure to changes in interest rates. Accordingly, we seek to manage to the extent practical our interest rate risk, which may include the use of interest rate swap agreements as a part of our strategy.

Our strategy is subject to changes necessitated by future market conditions and other factors.

### Comparison of Financial Condition at December 31, 2009 and December 31, 2008

**General:** Total assets increased \$37.3 million, or 10.1%, to \$405.8 million at December 31, 2009 from \$368.6 million at December 31, 2008. The increase was primarily due to an increase in net loans of \$36.3 million, attributable to the implementation of the mortgage warehouse lending program in May of 2009. Total deposits increased \$38.6 million, or 16.4%, which assisted in funding the increase in loans. The Company experienced organic growth in all deposit categories during 2009 and continued to focus on increasing market share in the communities it serves.

**Investment Securities:** There was no material change in the balance of securities available for sale at December 31, 2009 compared to December 31, 2008; however there was a change in composition of its securities portfolio. There was a significant reduction in the mortgage-backed securities of \$21.9 million, or 41.3%, the majority of which moved into tax-exempt municipal bonds. The increase of \$18.0 million in tax-exempt municipal bonds from December 31, 2009 compared to the same prior year period was primarily attributable to management's decision to reduce its exposure to the extension and price risk of mortgage-backed securities, while taking advantage of the potential tax benefits of municipal securities.

As of December 31, 2009, management reviewed the securities portfolio for possible other-than-temporary impairment and determined there were no impairment charges to be recorded. The Company held \$5.0 million in corporate debt securities which had a net unrealized gain of \$142,000 at December 31, 2009. These investments are considered investment grade securities and the Company has been, and expects to continue to be paid as agreed. At December 31, 2009, the total available for sale securities portfolio reflected a net unrealized gain of \$2.7 million compared to a net unrealized gain of \$581,000 at December 31, 2008.

**Loans Held for Sale:** Loans held for sale increased \$857,000 to \$981,000 at December 31, 2009 from \$124,000 at December 31, 2008, which is attributable to the increase in refinance activity in one-to four-family residential mortgages that are sold to the secondary market. This activity has started to decrease in the second half of the year and the Company anticipates that this trend will continue.

**Net Loans:** Net loans increased \$36.3 million, or 16.5%, to \$256.3 million at December 31, 2009 from \$219.9 million at December 31, 2008, primarily due to the implementation of the mortgage warehouse lending program, as well as an increase in commercial real estate loans. One-to four-family residential real estate loans have continued to decrease due to the increased refinance activity during 2009, with a majority of the new fixed rate loans being sold in the secondary market.



Commercial business loans decreased \$1.3 million, or 6.5%, to \$18.1 million at December 31, 2009 from \$19.4 million at December 31, 2008. This decrease is primarily due to a decrease in short term tax anticipation warrants issued by local schools and cities.

Commercial real estate loans increased \$12.7 million, or 15.8%, to \$93.2 million at December 31, 2009 compared to \$80.5 million at December 31, 2008. The bank continued to see a demand for commercial real estate lending in the first six months of 2009, primarily in the Michigan City and Porter County markets served. This activity has slowed in the second half of 2009 and management does not anticipate a significant increase in 2010.

Total construction loans decreased \$2.3 million, or 29.9%, to \$5.4 million at December 31, 2009 compared to \$7.7 million for the same prior year period, primarily due to a decrease of \$2.2 million in residential construction loans to \$1.5 million at December 31, 2009 compared to \$3.7 million at December 31, 2008. These loans converted to permanent financing or were sold to the secondary market. There was no material change in the commercial construction loans at December 31, 2009 compared to the prior year period.

Mortgage warehouse loans increased \$43.8 million at December 31, 2009, due to the establishment of the mortgage warehouse lending division at the Bank. In May of 2009, the Company introduced a mortgage warehousing lending line of business. Under this program, we provide financing to approved mortgage companies for the origination and sale of residential mortgage loans. Each individual mortgage is assigned to us until the loan is sold to the secondary market by the mortgage company. We take possession of each original note and forward such note to the end investor once the mortgage company has sold the loan. These individual loans are typically sold by the mortgage company within 30 days and are seldom held more than 90 days. Interest income is accrued during this period and fee income for each loan sold is collected when the loan is sold. Agency eligible, governmental (FHA insured or VA guaranteed) and jumbo residential mortgage loans that are secured by mortgages placed on existing one- to four-family dwellings will be allowed to be purchased and placed in the warehouse line.

One-to four-family residential loans decreased \$14.6 million, or 17.1%, to \$70.9 million at December 31, 2009 compared to \$85.5 million at December 31, 2008, primarily attributable to the increase in refinance activity in 2009. The Bank has continued to sell the majority of its fixed rate one-to four-family residential real estate loans originated in 2009 in the secondary market, which along with the repayment and refinance activity has accounted for the decrease. Management expects to continue to sell a majority of the one-to four-family residential loans it originates during 2010.

Consumer and home equity loans, including indirect automobile loans, decreased \$1.7 million, or 5.9%, to \$27.5 million at December 31, 2009 compared to \$29.2 million at December 31, 2008, primarily due to a continued decrease in the indirect automobile loans of \$1.3 million over the same time period. This is attributable to management's decision to decrease exposure in this type of lending over the last several years. Home equity lines of credit increased \$752,000 during 2009; however, fixed home equity loans decreased \$628,000 during the same time period. During the third quarter of 2009, management lowered the maximum loan-to-value ratio to 70% from 80% for its interest only home equity product. This policy change was made due to the decline in home values we have observed over the last year.

The allowance for loan losses balance increased \$264,000, or 10.5%, to \$2.8 million at December 31, 2009 compared to \$2.5 million at December 31, 2008. The allowance for loan losses to total loans rate was 1.07% at December 31, 2009 compared to 1.13% at December 31, 2008. This rate decreased primarily due to the increase in the mortgage warehouse division loans of \$43.8 million. We have not experienced a loss on a mortgage warehouse loan, and as a result the reserve for the mortgage warehouse loans is based primarily on the one-to four-family residential loan portfolio historical loss ratio. This historical loss rate is the lowest loss ratio in the loan portfolio. Management believes the reserve established for the warehouse portfolio is adequate given the repurchase agreement that is in place with the mortgage companies, in addition to certain reserves that the mortgage companies are required to maintain with the Bank, as well as a separate fidelity and fraudulent mortgage insurance bond that was purchased by the Bank for the division. If mortgage warehouse loans are excluded from our analysis, the allowance to total loans ratio would have been 1.28% at December 31, 2009, compared to 1.13% at December 31, 2008.



Total nonperforming loans to total loans ratio was 2.98% at December 31, 2009 compared to 3.04% at December 31, 2008. Total nonperforming loans were \$7.7 million at December 31, 2009 compared to \$6.8 million at December 31, 2008. Subsequent to December 31, 2009, \$1.0 million in life insurance proceeds were received by the Company which was pledged as collateral for a nonperforming commercial loan relationship, which had a book value at December 31, 2009 of \$3.2 million, consisting of one commercial real estate loan secured by a chemical manufacturing facility, one commercial construction loan secured by an addition to the chemical manufacturing facility and one commercial and industrial loan secured by the equipment and inventory within the facility. The remaining outstanding balance on the loan after the proceeds of the life insurance were applied is \$2.2 million.

**Other Real Estate Owned:** Other real estate owned decreased \$367,000, or 39.8%, to \$554,000 at December 31, 2009 compared to \$921,000 at December 31, 2008, primarily due to the sale of several properties throughout the year. At December 31, 2009 the Company held five properties in other real estate owned, of which four are one-to four-family residential homes and one is a commercial car wash facility.

**Mortgage Servicing Rights:** Mortgage servicing rights increased \$95,000, or 28.9%, to \$424,000 at December 31, 2009 compared to \$329,000 at December 31, 2008, primarily due to the increase in mortgage refinance activity.

**Goodwill and Other Intangible Assets:** The Company's goodwill totaled \$8.4 million at December 31, 2009 and at December 31, 2008. Accounting standards require goodwill to be tested for impairment on an annual basis, or more frequently if circumstances indicate that an asset might be impaired, by comparing the fair value of such goodwill to its recorded or carrying amount. If the carrying amount of the goodwill exceeds the fair value, an impairment charge must be recorded in an amount equal to the excess. The annual impairment review of the \$8.4 million of goodwill previously recorded was performed in the fourth quarter of 2009. As a result of impairment testing performed, no impairment charge was recorded by the Company.

The fair value of goodwill was estimated using a number of measurement methods. These included the application of various metrics from bank sale transactions for institutions comparable to LaPorte Bancorp, Inc. including the application of market-derived multiples of tangible book value and earnings, as well as estimations of the present value of future cash flows. Based on this evaluation completed in January 2010, management determined that the fair value of the reporting unit, which is defined as the Company as a whole, exceeded the carrying value of the goodwill, based on the opinion of an independent third party specialist that a control premium would be paid by a potential acquirer, such that the sale price per common share of the Company would exceed its book value per common share. Accordingly, no goodwill impairment was recognized in 2009. As the Company's market price per common share is currently less than its book value per common share, it is reasonably possible that management may conclude that goodwill, totaling \$8.4 million at December 31, 2009, is impaired as a result of a future assessment. If our goodwill is determined to be impaired, the related charge to earnings could be material.

**Premises and Equipment:** Net premises and equipment decreased \$561,000, or 4.8%, to \$11.2 million at December 31, 2009 compared to \$11.7 million at December 31, 2008, primarily attributable to ongoing depreciation. There were no significant capital expenditures made during 2009.

**Deposits:** Total deposits increased \$38.6 million, or 16.4%, to \$273.4 million at December 31, 2009 compared to \$234.8 million at December 31, 2008, which is attributable to increases in all deposit categories. The largest increase was in the certificate of deposit and individual retirement accounts, which increased \$16.7 million in 2009. The majority of this increase was a \$10.9 million increase in brokered certificates of deposit through the CDARS (Certificate of Deposit Account Registry Service) program implemented in 2009. During the fourth quarter of 2009, management acquired \$10.8 million floating rate five year brokered deposits and took out a \$10.3 million fixed interest rate swap for five years in order to lock in an effective five year fixed rate of 3.19%. Management put the interest rate swap in place to partially address the concern of rising interest rates. The CDARS funds are also being used as one source to fund the mortgage warehouse program.

Retail certificates of deposit and IRAs less than \$100,000 increased \$3.3 million, and those greater than \$100,000 increased \$2.4 million. Interest rates offered on these deposits remain competitive with local institutions; however, management has not offered what we consider to be excessive rates of interest on deposits when compared to other sources of funding. Money market balances increased \$7.8 million, or 83.3%, to \$17.1 million at December 31, 2009



compared to \$9.4 million at December 31, 2008, primarily due to a competitive rate offered to the accounts with balances greater than \$100,000 when compared to the interest rates on our commercial sweep account product. This has resulted in many commercial customers moving the balances on those sweep accounts back to the bank's money market product. The Company also experienced an increase of \$6.5 million in noninterest bearing demand accounts. The Company had two major marketing campaigns as well as increased business development efforts in 2009, which may have also contributed to the increase in deposits.

**Borrowed Funds:** Federal Home Loan Bank of Indianapolis borrowings decreased \$26.0 million, or 33.0%, to \$52.8 million at December 31, 2009 from \$78.7 million at December 31, 2008. The decrease is primarily attributable to a shift in the funding sources to the Federal Reserve Discount Window and an increase in deposits. Overnight borrowings at the Federal Reserve Discount Window increased \$16.0 million at December 31, 2009 compared to the same prior year period. During 2009, the Bank issued a \$5.0 million note due February 15, 2012 under the FDIC Temporary Guarantee Program. The note bears an interest rate of 2.74% in addition to the 100 basis point FDIC guarantee fee paid by the Bank. All legal and placement fees associated with this transaction were capitalized as debt issuance costs and will be amortized to interest expense over the repayment period.

**Total Shareholders' Equity:** Total shareholders' equity increased \$3.7 million, or 8.1%, to \$49.9 million at December 31, 2009 compared to \$46.1 million at December 31, 2008 primarily attributable to net income of \$2.5 million and an increase in other comprehensive income of \$1.4 million. Partially offsetting the increase in shareholders' equity was the repurchase of stock of \$259,000 during 2009. The increase in other comprehensive income was primarily due to the continued decrease in interest rates during 2009 and the positive impact this had on the market values on securities held in the Company's available-for-sale investment portfolio at December 31, 2009.

#### **Comparison of Operating Results For The Years Ended December 31, 2009 and December 31, 2008**

**Net Income (Loss):** Net income increased \$2.9 million, or 728.0%, to \$2.5 million for the year ended December 31, 2009, from a net loss of \$400,000 for the year ended December 31, 2008. During 2009, the Company entered into the mortgage warehousing line of business, which contributed approximately \$715,000 to the increase in net income, primarily attributable to the increased loan yield earned on these types of loans as well as an increase in transaction and wire fees from the mortgage warehousing division. Also contributing to the increase in earnings was an increase in gain on mortgage banking activities during the year of \$609,000. The Company also had a decrease in other-than-temporary impairment charges recorded during 2009 of \$1.7 million compared to the previous year.

**Net Interest Income:** Net interest income increased \$810,000, or 8.2%, to \$10.7 million for the year ended December 31, 2009 from \$9.9 million for the year ended December 31, 2008. This increase is primarily attributable to the increase in average net interest-earning assets of \$6.9 million over the same period, in addition to an increase in the net interest spread of 7 basis points to 2.81% from 2.74%.

**Interest and Dividend Income:** Interest and dividend income decreased \$357,000, or 1.8%, to \$19.0 million for the year ended December 31, 2009 from \$19.4 million for the year ended December 31, 2008, primarily due to the continued decline in interest rates and the impact this has had on the yield on average interest-earning assets.

Interest income on loans, including fees, increased \$221,000, or 1.6%, for the year ended December 31, 2009 compared to the prior year, primarily attributable to the increase in average loans of \$20.7 million partially offset by the decrease in the annualized average loan yield of 48 basis points, from 6.55% to 6.07%. The decrease in the average loan yield is primarily due to the decrease in prime rate and its impact on variable rate loans as well as the pricing on new and renewed loans. Also impacting this decrease in the loan yield is the increase in non-accrual loans, which lowered the annualized average loan yield by 10 basis points for the year ended December 31, 2009. Partially offsetting the decrease in the loan yield during 2009 was the annualized average yield on the mortgage warehouse loans of 7.58% in 2009. The Bank started originating these loans on or around May 15, 2009.

Interest income from taxable securities decreased \$787,000, or 16.9%, to \$3.9 million for the year ended December 31, 2009 compared to \$4.6 million for the year ended December 31, 2008. This decrease is primarily due to the decrease in the average balance of taxable securities of \$6.8 million for the year ended December 31, 2009 as



compared to 2008 as well as a 52 basis point decrease in the annualized average yield. The decrease in the average balance is primarily due to a shift to tax exempt securities of \$8.3 million over the same time period, due to the tax advantage and the yield spreads on municipal securities when compared to taxable securities. The average yield earned on tax exempt securities increased 47 basis points in the year ended December 31, 2009 compared to the same prior year period.

Dividend income from Federal Home Bank of Indianapolis (FHLBI) stock decreased \$88,000, or 42.1%, for the year ended December 31, 2009 compared to the same prior year period, attributable to the decrease in the annualized average yield from 4.99% to 2.88%. The FHLBI has decreased the dividend paid due to impairment charges that they have recorded attributable to their private label mortgage backed securities.

**Interest Expense:** Interest expense decreased \$1.2 million, or 12.4%, for the year ended December 31, 2009 compared to the same prior year period. This decrease is primarily attributable to the decrease in the annualized cost of average interest-bearing liabilities of 53 basis points, partially offset by an increase in average balance of interest-bearing liabilities of \$13.4 million over the same time period. The annualized cost of average interest-bearing liabilities was 2.73% for 2009 compared to 3.26% for 2008. The decrease is primarily attributable to the continued decrease in interest rates paid on all interest-bearing deposits as well as the decrease in the average cost of borrowed funds.

The annualized average cost of interest-bearing deposits decreased 53 basis points to 2.19% for 2009 compared to 2.72% for the same prior year period, primarily due to an overall decrease in interest rates paid on maturing certificate of deposit and IRA time deposits. The annualized average cost of certificates of deposits and IRA time deposits decreased 70 basis points for 2009 compared to 2008. Management does expect an increase in interest rates at some point in the future due to the historically low interest rate environment.

Interest expense on FHLBI advances decreased \$387,000, or 12.0%, for 2009 compared to 2008, primarily due to a decrease in the annualized average cost of 24 basis points as well as a decrease of \$5.0 million in the average balance. Management expects the average cost of FHLBI advances to continue to decrease in 2010 due to \$18.0 million in advances maturing in the first nine months of year at an average cost of 5.9%. Interest expense on the subordinated debentures decreased 120 basis points in 2009 compared to 2008. On April 15, 2009 the Company executed an interest rate swap against the \$5.0 million floating rate debentures for five years at an effective fixed rate of 5.54%. Management took this action in order to hedge against a potential interest rate increase over the next five years. Interest expense on the FDIC guaranteed unsecured debt increased \$177,000 for 2009 compared to the same prior year period since this debt originated in February 2009.

**Provision for Loan Losses:** The Bank recognizes a provision for loan losses, which is charged to earnings, at a level necessary to absorb known and inherent losses that are both probable and reasonably estimable at the date of the financial statements. In evaluating the level of the allowance for loan losses, management considers historical loan loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect borrowers' ability to repay, the estimated value of any underlying collateral, peer group information and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events occur. After an evaluation of these factors, management recognized a provision for loan losses of \$851,000 for 2009 compared to \$1.1 million for 2008. Net charge-offs for the same periods were \$587,000 and \$410,000 respectively. Of the \$587,000 in net charge-offs in 2009, \$531,000 had been specifically reserved for previously in the allowance for loan losses.

The provision for the prior year period was higher primarily due to one commercial and industrial loan acquired through the City Savings acquisition which at that time was deemed to have a risk of loss as a result of concerns with the documentation supporting an SBA guarantee and accordingly a \$250,000 specific reserve was provided in the allowance for loan losses that period. Management was subsequently successful in collecting the guarantee and this specific allowance was reversed. One of the factors management considers when evaluating the level of the allowance for loan losses is the historical loan loss experience and given the overall economic concerns we elected to rely on more recent loan loss experience to establish their minimum reserve ratios for the general loan pools, which resulted in an increase in the provision.



**Noninterest Income:** Noninterest income increased \$3.3 million, or 379.1%, for 2009 compared to 2008, primarily due to the \$1.7 million in other-than-temporary impairment charges recorded in 2008 as compared to 2009. The gain on mortgage banking activities in 2009 increased \$609,000 in 2009 due to the increase in refinance activity compared to the prior year period. Also contributing to the increase in noninterest income was \$441,000 in life insurance death benefit proceeds received from two insurance policies as a part of the Company's bank owned life insurance plan. There was an increase in the net gain on the sale of securities of \$441,000 in 2009 compared to 2008, primarily due to the sale of \$1.6 million in FHLB bonds maturing in 2014 in order to move into municipal securities. Wire transfer and warehouse loan fees increased a total of \$354,000 in 2009 due to the new mortgage warehouse line of business that started in the second quarter of 2009.

Partially offsetting these increases in noninterest income for 2009 compared to 2008 was a decrease in brokerage fees of \$147,000 due to the termination of the Bank's retail brokerage division in the first quarter of 2009. After an extensive review management announced the decision to enter into a referral agreement with Harbour Trust & Investment Management Company, Michigan City, Indiana (HTC) to provide ongoing trust services to its client base rather than continue offering these services through an in-house Trust Division. Trust fees totaled \$170,000 in 2009, the majority of which will not be recurring in 2010. The Trust Division employed two full-time employees. Service charges on deposit accounts decreased \$44,000, or 4.9%, in 2009 as a result of reduced overdraft fee income as the number of consumer overdrafts have gone down.

**Noninterest Expense:** Noninterest expense increased \$537,000, or 5.1%, in 2009 compared to 2008, primarily due to an increase in FDIC insurance of \$515,000 as a result of the substantial increase in premium rates set by the FDIC for 2009, along with the special assessment of \$176,000 in the second quarter of 2009. Also contributing to the increase in noninterest expense was a \$427,000 prepayment penalty fee assessed to retire the FHLBI advance with a stated maturity in 2010. Data processing expenses increased \$59,000, or 14.8%, in 2009 compared to 2008, primarily due to the cancellation of a software provider for the Bank's trust department of \$32,000 as well as an increase in online banking bill pay fees. Advertising increased \$40,000, or 20.0%, primarily due to an increase in the promotions and business development expenses in addition to an increase in billboard advertising throughout 2009.

Partially offsetting these increases in noninterest expense in 2009 as compared to 2008 was a decrease in salaries and wages of \$80,000, or 1.4%, primarily due to the termination of the Bank's post retirement life insurance benefit plans that it had established for a limited number of exempt employees. The Bank had a liability recorded in connection with this plan and as a result of the plan termination the liability was reversed during the second quarter of 2009 resulting in a \$161,000 decrease in the expense compared to the prior year. Also contributing to the decrease in salaries and benefits is an increase in the deferred loan origination costs of \$125,000 from the prior year due to the increase in loan origination and refinance activity. Actual payroll and commission expense increased 6.3%, primarily attributable to the additional staff in the mortgage warehouse division during 2009. Amortization of intangibles decreased \$103,000, as a result of the core deposit intangible asset being amortized into expense on an accelerated basis. Collection and other real estate related expenses decreased \$77,000 in 2009 compared to 2008, primarily as a result of a lower number of OREO properties being managed.

Other expenses decreased \$133,000, or 10.7%, in 2009 compared to the previous year, primarily due to a decrease in legal and consulting fees of \$60,000, primarily due to the additional attorney fees associated with the first annual meeting and SEC reporting in 2008. There also was a decrease in general supplies of \$30,000, as a result of the additional supplies purchased for the new Westville branch office in 2008.

**Income Taxes:** Income tax expense increased \$967,000 for 2009 compared to 2008, primarily due to the increase in income before taxes of \$3.9 million. Partially offsetting this increase was the beneficial tax treatment of the reversal of the post retirement life insurance plan expense as well as the favorable treatment of the death benefit proceeds from two of the Company's bank owned life insurance policies. The effective tax rate was 14.5% for 2009 compared to a (57.5%) benefit in 2008.



### Interest Rate Margin Analysis

The following tables set forth average balance sheets, average yields and costs, and certain other information at the date and for the periods indicated. No tax-equivalent yield adjustments were made. All average balances are daily average balances. Nonaccrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred loan fees, discounts and premiums that are amortized or accreted to interest income or expense.

	Years Ended December 31,					
	2009		2008			
	Average Outstanding Balance	Interest	Yield/Cost (Dollars in thousands)	Average Outstanding Balance	Interest	Yield/Cost
<b>Assets:</b>						
Loans	\$ 237,837	\$14,431	6.07%	\$ 217,102	\$14,210	6.55%
Taxable securities	85,033	3,862	4.54	91,881	4,649	5.06
Tax exempt securities	14,005	582	4.16	5,751	212	3.69
Federal Home Loan Bank of Indianapolis stock	4,206	121	2.88	4,187	209	4.99
Fed funds sold and other interest-bearing deposits	1,952	4	0.20	3,842	77	2.00
Total interest-earning assets	343,033	19,000	5.54%	322,763	19,357	6.00%
Noninterest-earning assets	41,630			42,800		
Total assets	\$ 384,663			\$ 365,563		
<b>Liabilities and equity:</b>						
Savings deposits	\$ 43,918	52	0.12%	\$ 43,625	111	0.25%
Money market/NOW accounts	42,505	352	0.83	37,195	418	1.12
CDs and IRAs	141,029	4,568	3.24	135,774	5,354	3.94
Total interest bearing deposits	227,452	4,972	2.19	216,594	5,883	2.72
FHLB advances	62,111	2,833	4.56	67,153	3,220	4.80
Subordinated debentures	5,155	267	5.18	5,155	329	6.38
FDIC guaranteed unsecured borrowings	4,287	177	4.13	—	—	—
Other secured borrowings	3,252	16	0.49	2	—	—
Total interest-bearing liabilities	302,257	8,265	2.73%	288,904	9,432	3.26%
Noninterest-bearing demand deposits	31,081			26,948		
Other liabilities	3,467			3,111		
Total liabilities	336,805			318,963		
Equity	47,858			46,600		
Total liabilities and equity	\$ 384,663			\$ 365,563		
Net interest income		\$10,735			\$ 9,925	
Net interest rate spread			2.81%			2.74%
Net interest-earning assets	\$ 40,776			\$ 33,859		
Net interest margin			3.13%			3.08%
Average of interest-earning assets to interest-bearing liabilities			113.49%			111.72%



**Rate/Volume Analysis**

The following table presents the dollar amount of changes in interest income and interest expense for the major categories of our interest-earning assets and interest-bearing liabilities. Information is provided for each category of interest-earning assets and interest-bearing liabilities with respect to (i) changes attributable to changes in volume (i.e., changes in average balances multiplied by the prior-period average rate) and (ii) changes attributable to rate (i.e., changes in average rate multiplied by prior-period average balances). For purposes of this table, changes attributable to both rate and volume which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate.

	Years Ended December 31, 2009 vs. 2008		
	Increase (Decrease) Due to		Total
	Volume	Rate	Increase (Decrease)
	(Dollars in thousands)		
<b>Interest-earning assets:</b>			
Loans	\$ 1,301	\$ (1,080)	\$ 221
Taxable securities	(332)	(455)	(787)
Tax exempt securities	340	30	370
Federal Home Loan Bank of Indianapolis stock	1	(89)	(88)
Fed funds sold and other interest-bearing deposits	(26)	(47)	(73)
Total interest-earning assets	<u>1,284</u>	<u>(1,641)</u>	<u>(357)</u>
<b>Interest-bearing liabilities:</b>			
Savings deposits	1	(60)	(59)
Money market/NOW accounts	54	(120)	(66)
CDs and IRAs	201	(987)	(786)
FHLB advances and federal funds purchased	(235)	(152)	(387)
Subordinated debentures	—	(62)	(62)
Other secured borrowings	16	—	16
FDIC guaranteed borrowings	177	—	177
Total interest-bearing liabilities	<u>214</u>	<u>(1,381)</u>	<u>(1,167)</u>
Change in net interest income	<u>\$ 1,070</u>	<u>\$ (260)</u>	<u>\$ 810</u>



## Management of Interest Rate Risk

Our asset/liability management strategy attempts to manage the impact of changes in interest rates on net interest income, our primary source of earnings.

Historically, we have relied on funding longer term higher interest-earning assets with shorter term lower interest-bearing deposits to earn a favorable net interest rate spread. As a result, we have been vulnerable to adverse changes in interest rates. Over the past several years, management has implemented an asset/liability strategy to manage, subject to our profitability goals, our interest rate risk. Among the techniques we are currently using to manage interest rate risk are: (i) selling on the secondary market the majority of our originations of long-term fixed-rate one- to four-family residential mortgage loans; (ii) subject to market conditions and consumer demand, originating residential adjustable rate mortgages for our portfolio; (iii) expanding, subject to market conditions, our commercial real estate loans and mortgage warehousing loans as they generally reprice more quickly than residential mortgage loans; (iv) using interest rate swaps, caps or floors to hedge our assets and/or liabilities; and (v) reducing the amount of long term, fixed rate mortgage-backed and CMO securities, which are vulnerable to a decreasing interest rate environment and will extend in duration. We have also used structured rates with redemption features to improve our yield and may consider interest rate swaps and other hedging instruments although we have not done so recently.

While this strategy has helped manage our interest rate exposure, it does pose risks. For instance, the prepayment options embedded in adjustable rate one- to four-family residential loans and the mortgage-backed securities and CMOs, which allow for early repayment at the borrower's discretion may result in prepayment before the loan reaches the fully indexed rate. Conversely, in a falling interest rate environment, borrowers may refinance their loans and redeemable securities may be called. In addition, non-residential lending generally presents higher credit risks than residential one- to four-family lending.

Our Board of Directors is responsible for the review and oversight of management's asset/liability strategies. Our Asset/Liability Committee is charged with developing and implementing an asset/liability management plan. This committee meets monthly to review pricing and liquidity needs and assess our interest rate risk. We currently utilize a third party modeling program, prepared on a quarterly basis, to evaluate our sensitivity to changing interest rates. In addition, on a monthly basis, the committee reviews our current liquidity position, investment activity, deposit and loan repricing and terms, interest rate swap effectiveness testing, and Federal Home Loan Bank and other borrowing strategies.

Depending on market conditions, we often place more emphasis on enhancing net interest margin rather than matching the interest rate sensitivity of our assets and liabilities. In particular, we believe that the increased net interest income resulting from a mismatch in the maturity of our asset and liabilities portfolios can, during periods of stable interest rates, provide high enough returns to justify increased exposure to sudden and unexpected increases in interest rates. As a result of this philosophy, our results of operations and the economic value of our equity will remain vulnerable to increases in interest rates and to declines in the difference between long- and short-term interest rates.



**Quantitative Analysis.** The table below sets forth, as of December 31, 2009, the estimated changes in the economic value of equity that would result from the designated changes in the United States Treasury yield curve over a 12 month non-parallel ramp for the LaPorte Savings Bank. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results.

Changes in Interest Rates (basis points) <sup>(1)</sup>	Estimated Increase (Decrease) in EVE		EV as a Percentage of Economic Value of Assets <sup>(3)</sup>		
	Estimated EVE <sup>(2)</sup>	Amount	Percent (Dollars in thousands)	EV Ratio	Changes in Basis Points
+300	\$ 54,494	\$ (7,876)	(12.63)%	14.07%	(1.20)%
+200	58,273	(4,097)	(6.57)	14.77	(0.50)
+100	61,058	(1,312)	(2.10)	15.20	(0.07)
0	62,370	—	0.00	15.27	0.00
-100	60,480	(1,890)	(3.03)	14.67	(0.60)
-200	58,538	(3,882)	(6.14)	14.10	(1.17)
-300	56,464	(5,906)	(9.47)	13.52	(1.75)

- (1) Assumes changes in interest rates over a 12 month non-parallel ramp.
- (2) EVE or Economic Value of Equity at Risk measures the Bank's exposure to equity due to changes in a forecast interest rate environment.
- (3) EVE Ratio represents Economic Value of Equity divided by the economic value of assets which should translate into built in stability for future earnings.

The table above indicates that at December 31, 2009, in the event of a 100 basis point decrease in interest rates over a 12 month non-parallel ramp, we would experience a 3.03% decrease in net portfolio value. In the event of a 100 basis point increase in interest rates over a 12 month non-parallel ramp, the economic value would decrease 2.10% in net portfolio value.

As a result of the current interest rate environment, the table above reflects a greater exposure to increasing interest rates in the event of a 200 and 300 basis point movement in interest rates over a 12 month non-parallel ramp.

The Company is also continuing to take steps to address its exposure to rising interest rates. For instance management executed an interest rate swap to address the exposure on its \$5.0 million floating rate trust preferred debenture in April 2009, by swapping for a fixed five year effective rate of 5.54%. In October 2009, the Company executed a \$10.3 million interest rate swap which took \$10.3 million five year floating rate brokered certificates of deposit and swapped for a fixed five year effective rate of 3.19%. We will continue to look for opportunities to address our exposure to rising interest rates utilizing hedging strategies in the future. We are also continuing to sell a majority of the fixed rate one-to-four family residential real estate loans originated and continuing to originate the majority of commercial real estate loans at a variable rate with interest rate floors attached.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurement. Modeling changes in the economic portfolio value of equity require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in interest rates. In this regard, the economic value of equity table presented assumes that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that particular changes in interest rates occur at different times and in different amounts in response to a designed change in the yield curve for U.S.



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Treasuries. Furthermore, although the economic value of equity table provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income. Finally, the above table does not take into account the changes in the credit risk of our assets which can occur in connection with change in interest rates.

### Liquidity and Capital Resources

We maintain liquid assets at levels we consider adequate to meet both our short- and long-term liquidity needs. We adjust our liquidity levels to fund deposit outflows, repay our borrowings and to fund loan commitments. We also adjust liquidity as appropriate to meet asset and liability management objectives.

Our primary sources of liquidity are deposits, amortization and prepayment of loans and mortgage-backed securities, maturities of investment securities and other short-term investments, and earnings and funds provided from operations, as well as access to Federal Home Loan Bank advances and other borrowings. While scheduled principal repayments on loans and mortgage-backed securities are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by market interest rates, economic conditions, and rates offered by our competition. We set the interest rates on our deposits to maintain a desired level of total deposits.

A portion of our liquidity consists of cash and cash equivalents and borrowings, which are a product of our operating, investing and financing activities. At December 31, 2009, \$6.0 million of our assets were invested in cash and cash equivalents. Our primary sources of cash are principal repayments on loans, proceeds from the maturities of securities, principal repayments of mortgage-backed securities and increases in deposit accounts. Short-term investment securities (maturing in one year or less) totaled \$0 at December 31, 2009, not including scheduled or pre-payments from mortgage backed securities and CMOs. As of December 31, 2009, we had \$52.8 million in borrowings outstanding from the Federal Home Loan Bank of Indianapolis and we have access to additional Federal Home Loan Bank advances of up to approximately \$24.9 million. As of December 31, 2009, we had \$16.7 million in borrowings from the Federal Reserve Bank discount window and access to additional borrowings of up to approximately \$32.3 million. The market value of unpledged available for sale securities which could be pledged for additional borrowing purposes was \$31.5 million at December 31, 2009.

At December 31, 2009, we had \$43.3 million in loan commitments outstanding, of which \$16.3 million was committed to originate unused home equity lines of credit, \$7.5 million was committed to originate commercial lines of credit, \$4.3 million was committed to originate unused commercial standby letters of credit, \$12.8 million was committed to unused overdraft lines of credit and \$2.4 million was committed to originate commercial real estate loans. Certificates of deposit and IRAs due within one year of December 31, 2009 totaled \$77.7 million, or 53.8% of certificates of deposit and IRAs. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit, IRAs and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before December 31, 2009. We believe, however, based on past experience that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

As reported in the Consolidated Statements of Cash Flows, our cash flows are classified for financial reporting purposes as operating, investing or financing cash flows. Net cash provided by operating activities was \$2.0 million and \$3.6 million for years ended December 31, 2009 and December 31, 2008, respectively. Net cash used in investing activities was \$34.8 million and 8.6 million during the years ended December 31, 2009 and 2008. Investment securities cash flows had the most significant effect, as net cash from sales and maturities amounted to \$58.7 million and \$44.1 million and net cash utilized in purchases amounted to \$56.6 million and \$50.0 million during the years ended December 31, 2009 and December 31, 2008, respectively. During 2009 we used \$259,000 to purchase treasury stock. Net cash provided by financing activities was \$33.2 million for the year ended December 31, 2009. Deposit and borrowing cash flows have comprised most of our financing activities in 2009 and 2008. The net effect of our operating, investing and financing activities was to increase our cash and cash equivalents from \$5.6 million at the beginning of fiscal year 2008 to \$6.0 million at December 31, 2009.

We also have obligations under our post retirement plans as described in Notes 11 and 12 of the Notes to Consolidated Financial Statements. The post retirement benefit plans will require future payments to eligible plan



participants. We contributed \$72,000 to our 401(k) plan in 2009 and \$111,000 in 2008. In addition, as part of the reorganization and offering, the employee stock ownership plan trust borrowed funds from LaPorte Bancorp and used those funds to purchase shares to be allocated to participants in our ESOP.

**Off-Balance-Sheet Arrangements.** In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, unused lines of credit and standby letters of credit. For information about our loan commitments, letters of credit and unused lines of credit, see Note 18 of the Notes to Consolidated Financial Statements.

For the years ended December 31, 2009 and 2008, we did not engage in any off-balance-sheet transactions other than loan origination commitments, unused lines of credit and standby letters of credit in the normal course of our lending activities. During 2008, we did acquire several additional letters of credit and a substantial increase in unused lines of credit through the City Savings Financial acquisition, however, this increase is in proportion to the commercial loan portfolio acquired.

## Recent Accounting Pronouncements

### **FASB ASC 820-10**

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (ASC 820-10). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement also establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard was effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued Staff Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157*, which is currently FASB ASC 820-10. This FSP delayed the effective date of FAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The adoption of this new guidance did not have a material impact on the Company's consolidated financial condition or results of operations.

### **FASB ASC 805**

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* (ASC 805). ASC 805 establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. ASC 805 was effective for fiscal years beginning on or after December 15, 2008. The adoption of this new guidance did not have a material impact on the Company's consolidated financial condition or results of operations.

### **FASB ASC 810-10**

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51* (ASC 810-10). ASC 810-10 changes the accounting and reporting for minority interests, which is recharacterized as noncontrolling interest and classified as a component of equity within the consolidated balance sheets. ASC 810-10 was effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. The adoption of this new guidance did not have a material impact on the Company's consolidated financial condition or results of operations.



### **FASB ASC 815**

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133*, (ASC 815) which amends and expands the disclosure requirements of SFAS No. 133 for derivative instruments and hedging activities. ASC 815 requires qualitative disclosure about objectives and strategies for using derivative and hedging instruments, quantitative disclosures about fair value amounts of the instruments and gains and losses on such instruments, as well as disclosures about credit-risk features in derivative agreements. ASC 815 was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of this new guidance did not have a material impact on the Company's consolidated financial condition or results of operations.

### **FASB ASC 105-10**

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, to replace Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, and to establish the *FASB Accounting Standards Codification*<sup>TM</sup> as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification was effective for financial statements issued for periods after September 15, 2009. The adoption of this new guidance did not have a material impact on the Company's consolidated financial condition or results of operations.

### **FASB ASC 320-10**

In April 2009, the FASB issued Staff Position No. 115-2 and No. 124.2, *Recognition and Presentation of Other-Than-Temporary Impairments* (ASC 320-10), which amended existing guidance for determining whether impairment is other-than-temporary for debt securities. This requires an entity to assess whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) other-than-temporary impairment (OTTI) related to other factors, which is recognized in other comprehensive income and 2) OTTI related to credit loss, which must be recognized in the income statement. The credit loss is determined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. Additionally, disclosures about other-than-temporary impairments for debt and equity securities were expanded. ASC 320-10 was effective for interim and annual reporting periods ending June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company elected to early-adopt this FSP as of January 1, 2009. The adoption of this new guidance did not have a material impact on the Company's consolidated financial condition or results of operations.

### **FASB ASC 820-10**

In April 2009, the FASB issued Staff Position (FSP) No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset and Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (ASC 820-10). This FSP emphasizes that the objective of a fair value measurement does not change even when market activity for the asset or liability has decreased significantly. Fair value is the price that would be received for an asset sold or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. When observable transactions or quoted prices are not considered orderly, then little, if any, weight should be assigned to the indication of the asset or liability's fair value. Adjustments to those transactions or prices would be needed to determine the appropriate fair value. The FSP, which was applied prospectively, was effective for interim and annual reporting periods ending after June 15, 2009 with early adoption for periods ending after March 15, 2009. The adoption of this new guidance did not have a material impact on the Company's consolidated financial condition or results of operations.



**FASB ASC 820**

In August 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-05, *Measuring Liabilities at Fair Value* (ASC 820). This Update provides amendments to ASC 820 for the fair value measurement of liabilities by clarifying that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using a valuation technique that uses the quoted price of the identical liability when traded as an asset, quoted prices for similar liabilities or similar liabilities when traded as assets, or that is consistent with the principles of ASC 820. The amendments in this guidance also clarify that both a quoted price for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required for Level 1 fair value measurements. The guidance was effective for the first reporting period beginning after issuance. The adoption of this new guidance did not have a material impact on the Company's consolidated financial condition or results of operations.

**FASB ASC 810**

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140* (ASC 810). The new accounting requirement amends previous guidance relating to the transfers of financial assets and eliminates the concept of a qualifying special purpose entity. This Statement must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. This Statement must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. Additionally, the disclosure provisions of this Statement were also amended and apply to transfers that occurred both before and after the effective date of this Statement. The adoption of this new guidance did not have a material impact on its consolidated financial condition or results of operations.

**FASB ASC 810-10**

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R) (ASC 810-10)*, which amended guidance for consolidation of variable interest entities by replacing the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. This Statement will be effective as of the beginning of each reporting entity's first annual reporting period after November 15, 2009, and for interim and annual reporting periods thereafter. Early adoption is prohibited. The adoption of this new guidance did not have a material impact on the consolidated financial condition or results of operations.

**Impact of Inflation and Changing Prices**

The financial statements and related notes of LaPorte Bancorp, Inc. have been prepared in accordance with United States generally accepted accounting principles ("GAAP"). GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

For information regarding market risk see Item 7- "Management's Discussion and Analysis of Financial Conditions and Results of Operation."

**Item 8. Financial Statements and Supplementary Data**

The information regarding financial statements is incorporated herein by reference to LaPorte Bancorp's 2009 Annual Report to Stockholders in the Financial Statements and the Notes thereto.

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

Not Applicable

**Item 9A. Controls and Procedures****(a) Evaluation of disclosure controls and procedures**

The Company has adopted disclosure controls and procedures designed to facilitate financial reporting. The Company's disclosure controls currently consist of communications among the Company's Chief Executive Officer, the Company's Chief Financial Officer and each department head to identify any transactions, events, trends, risks or contingencies which may be material to its operations. These disclosure controls also contain certain elements of the Company's internal controls adopted in connection with applicable accounting and regulatory guidelines. In addition, the Company's Chief Executive Officer, Chief Financial Officer, Audit Committee and independent registered public accounting firm meet on a quarterly basis to discuss disclosure matters. The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report and found them to be effective.

**(b) Management's Report on Internal Control over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, and management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2009 based upon the criteria set forth in a report entitled *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its assessment, the Company's management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2009.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

**(c) Changes in internal controls**

There were no significant changes made in our internal control over financial reporting during the Company's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. Other Information**

Not Applicable

**PART III****Item 10. Directors, Executive Officers and Corporate Governance**

The "Proposal I—Election of Directors" section of the Company's definitive proxy statement for the Company's 2010 Annual Meeting of Stockholders (the "2010 Proxy Statement") is incorporated herein by reference.



**Item 11. Executive Compensation**

The “Proposal I—Election of Directors” section of the Company’s 2010 Proxy Statement is incorporated herein by reference.

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

The “Proposal I—Election of Directors” section of the Company’s 2010 Proxy Statement is incorporated herein by reference.

The Company does not have any equity compensation program that was not approved by stockholders, other than its employee stock ownership plan.

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

The “Transactions with Certain Related Persons” section of the Company’s 2010 Proxy Statement is incorporated herein by reference.

**Item 14. Principal Accountant Fees and Services**

The “Proposal III—Ratification of Appointment of Independent Registered Public Accounting Firm” Section of the Company’s 2010 Proxy Statement is incorporated herein by reference.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules**

(a)(1) Financial Statements

The following are filed as a part of this report by means of incorporation by reference to LaPorte Bancorp’s 2009 Annual Report to Stockholders:

- (A) Report of Independent Registered Public Accounting Firm
- (B) Consolidated Balance Sheets—at December 31, 2009 and 2008
- (C) Consolidated Statements of Income—Years ended December 31, 2009 and 2008
- (D) Consolidated Statements of Changes In Shareholders’ Equity—Years ended December 31, 2009 and 2008
- (E) Consolidated Statements of Cash Flows—Years ended December 31, 2009 and 2008
- (F) Notes to Consolidated Financial Statements.

(a)(2) Financial Statement Schedules

None.



(a)(3) Exhibits

- 3.1 Charter of LaPorte Bancorp, Inc. (1)
- 3.2 Bylaws of LaPorte Bancorp, Inc. (1)
- 4 Form of Common Stock Certificate of LaPorte Bancorp, Inc. (1)
- 10.1 Form of Employment Agreements between for Lee A. Brady and Michele M. Thompson (1)
- 10.2 First Amendment to the Employment Agreement for Lee A. Brady (2)
- 10.3 First Amendment to the Employment Agreement for Michele M. Thompson (2)
- 10.4 Supplemental Executive Retirement Plan (1)
- 10.5 Third Amendment to the Supplemental Executive Retirement Plan for Lee A. Brady (2)
- 10.6 Third Amendment to the Supplemental Executive Retirement Plan for Russell L. Klosinski (2)
- 10.7 Deferred Compensation Agreement (1)
- 10.8 First Amendment to the Deferred Compensation Agreement (2)
- 10.9 Employee Stock Ownership Plan and Trust (1)
- 13 Consolidated Financial Statements
- 21 Subsidiaries of Registrant
- 23 Consent of Crowe Horwath LLP
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- 
- (1) Incorporated by reference to the Registration Statement on Form S-1 of LaPorte Bancorp, Inc. (file no. 333-143526), originally filed with the Securities and Exchange Commission on June 5, 2007.
  - (2) Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Securities and Exchange Commission on March 31, 2009.



**SIGNATURES**

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

**LAPORTE BANCORP, INC.**

Date: March 22, 2010

By: /s/ Lee A. Brady  
Lee A. Brady  
Chief Executive Officer and President  
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Lee A. Brady</u> Lee A. Brady	President and Chief Executive Officer (Principal Executive Officer)	March 22, 2010
<u>/s/ Michele M. Thompson</u> Michele M. Thompson	Executive Vice President, Chief Financial Officer and Director (Principal Financial and Accounting Officer)	March 22, 2010
<u>/s/ Paul G. Fenker</u> Paul G. Fenker	Chairman of the Board	March 22, 2010
<u>/s/ Mark A. Krentz</u> Mark A. Krentz	Secretary of the Board	March 22, 2010
<u>/s/ Ralph F. Howes</u> Ralph F. Howes	Director	March 22, 2010
<u>/s/ L. Charles Lukmann, III</u> L. Charles Lukmann, III	Director	March 22, 2010
<u>/s/ Jerry L. Mayes</u> Jerry L. Mayes	Vice Chairman of the Board	March 22, 2010



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**LAPORTE BANCORP, INC**  
**FORM 10-K**

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/s/ Dale A. Parkison Director  
Dale A. Parkison

March 22, 2010

/s/ Thomas D. Sallwasser Director  
Thomas D. Sallwasser

March 22, 2010



Crowe Horwath LLP  
Member Horwath International

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors  
LaPorte Bancorp, Inc.  
LaPorte, Indiana

We have audited the accompanying consolidated balance sheets of LaPorte Bancorp, Inc. as of December 31, 2009 and 2008 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LaPorte Bancorp, Inc. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Crowe Horwath LLP

Crowe Horwath LLP

South Bend, Indiana  
March 22, 2010

LAPORTE BANCORP, INC.  
CONSOLIDATED BALANCE SHEETS  
December 31, 2009 and 2008

(Dollar amounts in thousands, except share and per share data)

	2009	2008
<b>ASSETS</b>		
Cash and due from financial institutions	\$ 6,000	\$ 5,628
Securities available for sale	102,095	101,451
Federal Home Loan Bank (FHLB) stock, at cost (restricted)	4,206	4,206
Loans held for sale, at fair value	981	124
Loans, net of allowance for loan losses of \$2,776 at December 31, 2009 and \$2,512 at December 31, 2008	256,275	219,926
Mortgage servicing rights	424	329
Other real estate owned	554	921
Premises and equipment, net	11,150	11,711
Goodwill	8,431	8,431
Other intangible assets	939	1,272
Bank owned life insurance	9,618	9,455
Accrued interest receivable and other assets	5,154	5,104
Total assets	<u>\$405,827</u>	<u>\$368,558</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits		
Non-interest bearing	\$ 34,066	\$ 27,584
Interest bearing	239,342	207,230
Total deposits	273,408	234,814
Federal Home Loan Bank advances	52,773	78,728
Subordinated debentures	5,155	5,155
Federal Deposit Insurance Corporation guaranteed unsecured borrowings	4,852	—
Federal Reserve Bank discount window borrowings	16,675	650
Accrued interest payable and other liabilities	3,092	3,069
Total liabilities	355,955	322,416
Loan commitments and other related activities (Note 18)		
Shareholders' equity		
Preferred Stock, no par value; 1,000,000 shares authorized; none issued	—	—
Common stock, \$0.01 par value; 19,000,000 shares authorized; 4,783,163 shares issued; and 4,607,963 and 4,658,163 shares outstanding at December 31, 2009 and December 31, 2008	48	48
Additional paid-in capital	21,188	21,235
Surplus	770	770
Retained earnings	28,620	26,108
Accumulated other comprehensive income, net of tax of \$936 and \$198 at December 31, 2009 and 2008	1,817	383
Treasury stock, at cost (2009—175,200 shares, 2008—125,000 shares)	(1,033)	(774)
Unearned Employee Stock Ownership Plan (ESOP) shares	(1,538)	(1,628)
Total shareholders' equity	49,872	46,142
Total liabilities and shareholders' equity	<u>\$405,827</u>	<u>\$368,558</u>

See accompanying notes to consolidated financial statements.



LAPORTE BANCORP, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
Years ended December 31, 2009 and 2008  
(Dollar amounts in thousands, except share and per share data)

	2009	2008
Interest and dividend income		
Loans, including fees	\$14,431	\$14,210
Taxable securities	3,862	4,649
Tax exempt securities	582	212
FHLB stock	121	209
Other interest income	4	77
Total interest and dividend income	19,000	19,357
Interest expense		
Deposits	4,972	5,883
Federal Home Loan Bank advances	2,833	3,220
Subordinated debentures	267	329
FDIC guaranteed unsecured borrowings	177	—
Federal funds purchased and other short-term borrowings	16	—
Total interest expense	8,265	9,432
Net interest income	10,735	9,925
Provision for loan losses	851	1,125
Net interest income after provision for loan losses	9,884	8,800
Noninterest income		
Service charges on deposits	855	899
ATM and debit card fees	317	285
Brokerage fees, net	(4)	143
Trust fees	170	164
Earnings on life insurance, net	351	382
Net gains on mortgage banking activities	942	333
Loan servicing fees, net	13	30
Net gains (losses) on securities	702	261
Other-than-temporary loss		
Total impairment loss	—	(1,711)
Loss recognized in other comprehensive income	—	—
Net impairment loss recognized in earnings	—	(1,711)
Warehouse loan fees	272	—
Losses on sales of other assets	(130)	(97)
Bank owned life insurance death benefit	441	—
Other income	282	190
Total noninterest income	4,211	879
Noninterest expense		
Salaries and employee benefits	5,498	5,578
Occupancy and equipment	1,861	1,948
Data processing	458	399
Advertising	240	200
Bank examination fees	525	549
Amortization of intangibles	333	436
Collection and other real estate owned	131	208
FDIC insurance	575	60
FHLB advances prepayment penalty	427	—
Other expenses	1,110	1,243
Total noninterest expense	11,158	10,621
Income (loss) before income taxes	2,937	(942)
Income tax expense (benefit)	425	(542)



Net income (loss)	<u>\$ 2,512</u>	<u>\$ (400)</u>
<b>Earnings (loss) per share:</b>		
Basic and diluted (Note 20)	\$ 0.56	\$ (0.09)

See accompanying notes to consolidated financial statements.



LAPORTE BANCORP, INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
Years ended December 31, 2009 and 2008  
(Dollar amounts in thousands, except share and per share data)

	Common Stock	Additional Paid-In Capital	Surplus	Retained Earnings	Accumulated Other Comprehensive Income, Net of Tax	Treasury Stock	Unearned ESOP Shares	Total
Balance at January 1, 2008	\$ 48	\$ 21,266	\$ 770	\$26,563	\$ (224)	\$ —	\$(1,718)	\$46,705
Comprehensive income:								
Net income (loss)	—	—	—	(400)	—	—	—	(400)
Other comprehensive income (loss):								
Net change in unrealized gain (loss) on securities available for sale, net of reclassification adjustments and tax effects	—	—	—	—	607	—	—	607
Total comprehensive income								207
Cumulative effect of adoption of EITF 06-4	—	—	—	(55)	—	—	—	(55)
Treasury shares purchased, 125,000 shares	—	—	—	—	—	(774)	—	(744)
ESOP shares earned, 9,044 shares	—	(31)	—	—	—	—	90	59
Balance at December 31, 2008	<u>\$ 48</u>	<u>\$ 21,235</u>	<u>\$ 770</u>	<u>\$26,108</u>	<u>\$ 383</u>	<u>\$ (774)</u>	<u>\$(1,628)</u>	<u>\$46,142</u>

(Continued)



LAPORTE BANCORP, INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
Years ended December 31, 2009 and 2008  
(Dollar amounts in thousands, except share and per share data)

	Common Stock	Additional Paid-In Capital	Surplus	Retained Earnings	Accumulated Other Comprehensive Income, Net of Tax	Treasury Stock	Unearned ESOP Shares	Total
Balance at January 1, 2009	\$ 48	\$ 21,235	\$ 770	\$26,108	\$ 383	\$ (774)	\$(1,628)	\$46,142
Comprehensive income:								
Net income	—	—	—	2,512	—	—	—	2,512
Other comprehensive income:								
Net change in unrealized gain on securities available for sale, net of reclassification adjustments and tax effects	—	—	—	—	1,376	—	—	1,376
Net change in unrealized gain on derivative instruments, net of tax effects	—	—	—	—	58	—	—	58
Total comprehensive income								3,946
Treasury shares purchased, 50,200 shares	—	—	—	—	—	(259)	—	(259)
ESOP shares earned, 9,044 shares	—	(47)	—	—	—	—	90	43
Balance at December 31, 2009	<u>\$ 48</u>	<u>\$ 21,188</u>	<u>\$ 770</u>	<u>\$28,620</u>	<u>\$ 1,817</u>	<u>\$(1,033)</u>	<u>\$(1,538)</u>	<u>\$49,872</u>

See accompanying notes to consolidated financial statements.



LAPORTE BANCORP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years ended December 31, 2009 and 2008  
(Dollar amounts in thousands, except share and per share data)

	2009	2008
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 2,512	\$ (400)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation	777	782
Provision for loan losses	851	1,125
Net gains on securities	(702)	(261)
Other than temporary impairment on investment securities	—	1,711
Net gains on sales of loans	(713)	(301)
Originations of loans held for sale	(53,398)	(21,706)
Proceeds from sales of loans held for sale	53,254	21,883
Recognition of mortgage servicing rights	(229)	(32)
Amortization of mortgage servicing rights	126	73
Net change in mortgage servicing rights valuation allowance	8	42
Gain on sales of other real estate owned	(23)	(67)
Write down of other real estate owned	114	186
Earnings on life insurance, net	(604)	(382)
Amortization of intangible assets	333	436
ESOP compensation expense	43	59
Amortization of issuance costs of unsecured borrowing	55	—
Changes in assets and liabilities:		
Accrued interest receivable and other assets	(700)	30
Accrued interest payable and other liabilities	23	456
Net cash from operating activities	<u>1,727</u>	<u>3,634</u>
<b>Cash flows from investing activities</b>		
Net change in loans	(37,561)	(2,013)
Proceeds from sales of other real estate owned	637	873
Proceeds from call on interest-bearing time deposits in other financial institutions	—	100
Proceeds from maturities, calls and principal repayments of securities available for sale	30,420	20,017
Proceeds from sales of securities available for sale	28,324	24,098
Purchase of FHLB stock	—	(19)
Purchases of securities available for sale	(56,602)	(50,048)
Premises and equipment expenditures, net	(216)	(1,582)
Bank owned life insurance death benefits	441	—
Net cash from investing activities	<u>(34,557)</u>	<u>(8,574)</u>

(Continued)



LAPORTE BANCORP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years ended December 31, 2009, 2008 and 2007  
(Dollar amounts in thousands, except share and per share data)

	2009	2008
<b>Cash flows from financing activities</b>		
Net change in deposits	\$ 38,594	\$(11,457)
Proceeds from FHLB advances	2,500	78,370
Repayment of FHLB advances	(28,455)	(66,158)
Net change in Federal Reserve Bank discount window borrowings	16,025	650
Proceeds from issuance of unsecured borrowing, net of issuance costs	4,797	—
Purchase of treasury stock	(259)	(774)
Net cash from financing activities	<u>33,202</u>	<u>631</u>
Net change in cash and cash equivalents	372	(4,309)
Cash and cash equivalents at beginning of year	<u>5,628</u>	<u>9,937</u>
Cash and cash equivalents at end of year	<u>\$ 6,000</u>	<u>\$ 5,628</u>
Supplemental cash flow information:		
Interest paid	\$ 8,281	\$ 9,616
Income taxes paid	45	—
Supplemental noncash disclosures:		
Transfers from loans receivable to other real estate owned	\$ 361	\$ 1,459

See accompanying notes to consolidated financial statements.



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Operations and Principles of Consolidation: The consolidated financial statements include the accounts of LaPorte Bancorp, Inc. (“the Bancorp”), its wholly owned subsidiary, The LaPorte Savings Bank (“the Bank”) and the Bank’s wholly owned subsidiary, LPSB Investments LTD., Cayman (“LPSB Ltd.”), together referred to as “the Company.” The Bancorp was formed on October 12, 2007 and acquired City Savings Financial Corporation and its subsidiary, City Savings Bank, which were merged into the Bancorp and the Bank. Intercompany transactions and balances are eliminated in consolidation. LaPorte Bancorp, Inc. is a majority owned (54.14%) subsidiary of LaPorte Savings Bank, MHC. These financial statements do not include the transactions and balances of LaPorte Savings Bank, MHC.

The Company provides financial services through its offices in LaPorte and Porter counties of Indiana. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial, and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. There are no significant concentrations of loans to any one industry or customer. However, the customers’ ability to repay their loans is dependent on the real estate and general economic conditions in the area. LPSB Ltd. began operations in 2002 when the Bank received approval from the Federal Deposit Insurance Corporation to form the subsidiary in the Cayman Islands. LPSB Ltd. held and managed a portion of the Bank’s investment portfolio until July 30, 2008 when the securities were transferred to the Bank as LPSB Ltd. was in the process of being dissolved. LPSB Ltd. was deemed to be dissolved on March 17, 2009.

Use of Estimates: To prepare financial statements in conformity with United States generally accepted accounting principles management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The allowance for loan losses, consideration of other than temporary declines in fair values of securities, the fair values of securities and other financial instruments, consideration of impairment of goodwill and other intangible assets, and the need for a deferred tax asset valuation allowance are particularly subject to change.

Cash Flows: Cash and cash equivalents includes cash, deposits with other financial institutions with original maturities under 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions.

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Securities: Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss), net of tax, as a separate component of shareholders' equity. Trading securities are carried at fair value, with changes in unrealized holding gains and losses included in income.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities and collateralized mortgage obligations where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. In estimating other-than-temporary losses, management considers: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) the Company's intent not to sell the security and whether it is more likely than not that the Company will be required to sell the debt security before its anticipated recovery.

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at fair value, as determined by outstanding commitments from investors.

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

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

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(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Consumer loans are typically charged off no later than 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

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

Concentration of Credit Risk: Most of the Company's business activity is with customers located within La Porte County. Therefore, the Company's exposure to credit risk is significantly affected by changes in the economy in the La Porte County area.

Mortgage Warehouse Loans: During the month of May 2009, a mortgage warehouse lending division was established at the Bank. This division has approved specific mortgage companies through which individual mortgage loans are originated by the mortgage company and funded by the Bank, as a secured borrowing with the pledge of collateral under the Bank's agreement with the mortgage company. The individual mortgage loans are held between the time of origination and subsequent repurchase by the mortgage company for sale of the loan into the secondary market. Each individual mortgage is assigned to the Bank until the loan is repurchased and sold to the secondary market by the mortgage company. Also, the Bank takes possession of each original note and forwards such note to the end investor once the mortgage company has sold the loan. The individual loans are typically sold by the mortgage company within 30 days of origination and are seldom held more than 90 days. Interest income is accrued by the Bank during this period and fee income for each loan sold is collected when the sale has been completed.

Purchased Loans: The Company purchased a group of loans through the acquisition of City Savings Financial Corporation on October 12, 2007. Purchased loans that showed evidence of credit deterioration since their origination are recorded at an allocated fair value, such that there is no carryover of the seller's allowance for loan losses. After acquisition, incurred losses are recognized by an increase in the allowance for loan losses.

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Purchased loans are accounted for individually or aggregated into pools of loans based on common risk characteristics (e.g., credit score, loan type, and date of origination). The Company estimates the amount and timing of expected cash flows for each purchased loan or pool, and the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan or pool (accretable yield). The excess of the loan's or pool's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference).

Over the life of the loan or pool, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

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

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. All individually classified commercial and commercial real estate loans are evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

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(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The Bank is subject to periodic examinations by its federal and state regulatory examiners, and may be required by such regulators to recognize additions to the allowance for loan losses based on their assessment of credit information available to them at the time of their examinations. The process of assessing the allowance for loan losses is necessarily subjective. Further, and particularly in times of economic downturns, it is reasonably possible that future credit losses may exceed historical loss levels and may also exceed management's current estimates of incurred credit losses inherent within the loan portfolio. As such, there can be no assurance that future charge-offs will not exceed management's current estimate of what constitutes a reasonable allowance for loan losses.

Mortgage Servicing Rights: Mortgage servicing rights are initially recorded at fair value with the income statement effect recorded in net gains on mortgage banking activities. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. The Company compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported with loan servicing fees, net on the consolidated statements of income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income, which is reported on the consolidated statements of income as loan servicing fees, net, is recorded for fees earned for servicing loans. The fees are based on a

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Loan servicing fees, net totaled \$13 and \$30 for the years ended December 2009 and 2008. Late fees and ancillary fees related to loan servicing are not material.

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

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

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight line method with useful lives ranging from 5 to 30 years. Furniture, fixtures and equipment are depreciated on an accelerated or straight line method with useful lives ranging from 3 to 10 years.

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

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

Goodwill and Other Intangible Assets: All goodwill on the Company's balance sheet resulted from business combinations prior to January 1, 2009 and represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. The Company has selected September 30<sup>th</sup> as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Other intangible assets consist of core deposit and acquired customer relationship intangible assets arising from a whole bank acquisition. They are initially measured at fair value and then are amortized on an accelerated method over their estimated useful lives, which range from 4 to 15 years.

Derivatives: At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("stand-alone derivative"). As of December 31, 2009, the Company has entered into two cash flow hedge transactions. The gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. Any changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings.

Net cash settlements on these derivatives are recorded in interest income or interest expense, based on the item being hedged. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

(Continued)



LAPORTE BANCORP, INC.  
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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income. If the cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

Mortgage Banking Derivatives: Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as free standing derivatives. Fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the interest rate on the loan is locked. The Company enters into forward commitments for the future delivery of mortgage loans when interest rate locks are entered into, in order to hedge the change in interest rates resulting from its commitments to fund the loans. Changes in the fair values of these derivatives are included in net gains on mortgage banking activities on the consolidated statements of income.

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

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

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

The Company adopted guidance issued by the FASB with respect to accounting for uncertainty in income taxes as of January 1, 2007. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The adoption had no effect on the Company’s consolidated financial position or results of operations.

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Retirement Plans: Employee 401(k) and profit sharing plan expense is the amount of matching contributions. Split-dollar life insurance plan expense and supplemental retirement plan expense allocates the benefits over years of service.

Employee Stock Ownership Plan: The cost of shares issued to the ESOP, but not yet allocated to participants, is shown as a reduction of shareholders' equity. Compensation expense is based on the market price of shares as they are committed to be released to participant accounts. Dividends, when paid, on allocated ESOP shares reduce retained earnings; dividends, when paid, on unearned ESOP shares reduce debt and accrued interest.

Earnings (Loss) Per Common Share: Basic earnings (loss) per common share is net income (loss) divided by the weighted average number of common shares outstanding during the period. ESOP shares are considered outstanding for this calculation unless unearned. There were no potentially dilutive shares for any periods presented. Diluted earnings (loss) per common share is equal to basic earnings (loss) per common share for the years ended December 31, 2009 and 2008, as there were no outstanding equity plans which would have a dilutive effect.

Surplus: Surplus has been established in reference to Indiana State Banking Statute 28-6-1-28. This statute required State Savings Banks to reserve and set aside from the gross amount of gains and profits of the institution not less than one quarter of one percent ( $\frac{1}{4}\%$ ) per annum on the deposits, to be held and invested as a surplus fund to meet any contingency in its business, until the surplus fund shall equal up to ten percent (10%) upon the amount of deposits, however, a surplus fund up to twenty-five percent (25%) upon the amount of deposits was allowed. This statute has since been repealed, however, the fund will remain as a part of the Company's total equity.

Comprehensive Income: Comprehensive income, net of tax, consists of net income and other comprehensive income (loss), net of tax. Other comprehensive income (loss), net of tax, includes net changes in net unrealized gains and losses on securities available for sale, net of tax, reclassification adjustments and unrealized gains and losses on cash flow hedges, which are also recognized as a separate component of shareholders' equity.

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

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LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements. These balances do not earn interest.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Bancorp or by the Bancorp to shareholders.

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

Operating Segments: While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Operating segments are aggregated into one as operating results for all segments are similar. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation.

Adoption of New Accounting Standards:

FASB ASC 820-10

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (ASC 820-10). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement also establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard was effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued Staff Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157*, which is currently FASB ASC 820-10. This FSP delayed the effective date of FAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The adoption of this new guidance did not have a material impact on the Company's consolidated financial condition or results of operations.

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LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

FASB ASC 805

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* (ASC 805). ASC 805 establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. ASC 805 was effective for fiscal years beginning on or after December 15, 2008. The adoption of this new guidance did not have a material impact on the Company's consolidated financial condition or results of operations.

FASB ASC 810-10

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51* (ASC 810-10). ASC 810-10 changes the accounting and reporting for minority interests, which is recharacterized as noncontrolling interest and classified as a component of equity within the consolidated balance sheets. ASC 810-10 was effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. The adoption of this new guidance did not have a material impact on the Company's consolidated financial condition or results of operations.

FASB ASC 815

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133*, (ASC 815) which amends and expands the disclosure requirements of SFAS No. 133 for derivative instruments and hedging activities. ASC 815 requires qualitative disclosure about objectives and strategies for using derivative and hedging instruments, quantitative disclosures about fair value amounts of the instruments and gains and losses on such instruments, as well as disclosures about credit-risk features in derivative agreements. ASC 815 was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of this new guidance did not have a material impact on the Company's consolidated financial condition or results of operations.

FASB ASC 105-10

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, to replace Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, and to establish the *FASB Accounting Standards Codification*<sup>TM</sup> as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental

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LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification was effective for financial statements issued for periods after September 15, 2009. The adoption of this new guidance did not have a material impact on the Company's consolidated financial condition or results of operations.

FASB ASC 320-10

In April 2009, the FASB issued Staff Position No. 115-2 and No. 124.2, *Recognition and Presentation of Other-Than-Temporary Impairments* (ASC 320-10), which amended existing guidance for determining whether impairment is other-than-temporary for debt securities. This requires an entity to assess whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) other-than-temporary impairment (OTTI) related to other factors, which is recognized in other comprehensive income and 2) OTTI related to credit loss, which must be recognized in the income statement. The credit loss is determined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. Additionally, disclosures about other-than-temporary impairments for debt and equity securities were expanded. ASC 320-10 was effective for interim and annual reporting periods ending June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company elected to early-adopt this FSP as of January 1, 2009. The adoption of this new guidance did not have a material impact on the Company's consolidated financial condition or results of operations.

FASB ASC 820-10

In April 2009, the FASB issued Staff Position (FSP) No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset and Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (ASC 820-10). This FSP emphasizes that the objective of a fair value measurement does not change even when market activity for the asset or liability has decreased significantly. Fair value is the price that would be received for an asset

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LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

sold or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. When observable transactions or quoted prices are not considered orderly, then little, if any, weight should be assigned to the indication of the asset or liability's fair value. Adjustments to those transactions or prices would be needed to determine the appropriate fair value. The FSP, which was applied prospectively, was effective for interim and annual reporting periods ending after June 15, 2009 with early adoption for periods ending after March 15, 2009. The adoption of this new guidance did not have a material impact on the Company's consolidated financial condition or results of operations.

FASB ASC 820

In August 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-05, *Measuring Liabilities at Fair Value* (ASC 820). This Update provides amendments to ASC 820 for the fair value measurement of liabilities by clarifying that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using a valuation technique that uses the quoted price of the identical liability when traded as an asset, quoted prices for similar liabilities or similar liabilities when traded as assets, or that is consistent with the principles of ASC 820. The amendments in this guidance also clarify that both a quoted price for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required for Level 1 fair value measurements. The guidance was effective for the first reporting period beginning after issuance. The adoption of this new guidance did not have a material impact on the Company's consolidated financial condition or results of operations.

Newly Issued Not Yet Effective Standards:

FASB ASC 810

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140* (ASC 810). The new accounting requirement amends previous guidance relating to the transfers of financial assets and eliminates the concept of a qualifying special purpose entity. This Statement must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim

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LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

periods within that first annual reporting period and for interim and annual reporting periods thereafter. This Statement must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. Additionally, the disclosure provisions of this Statement were also amended and apply to transfers that occurred both before and after the effective date of this Statement. The adoption of this new guidance did not have a material impact on its consolidated financial condition or results of operations.

FASB ASC 810-10

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R) (ASC 810-10)*, which amended guidance for consolidation of variable interest entities by replacing the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. This Statement will be effective as of the beginning of each reporting entity's first annual reporting period after November 15, 2009, and for interim and annual reporting periods thereafter. Early adoption is prohibited. The adoption of this new guidance did not have a material impact on the consolidated financial condition or results of operations.

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(Continued)



LAPORTE BANCORP, INC.  
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NOTE 2 – SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale securities portfolio at December 31, 2009 and 2008 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>2009</b>				
U.S. federal agency	\$ 13,112	\$ 19	\$ (159)	\$ 12,972
State and municipal	24,761	597	(94)	25,264
Mortgage-backed securities - residential	29,732	1,350	—	31,082
Government agency sponsored collateralized mortgage obligations	17,718	456	(26)	18,148
Privately held collateralized mortgage obligations	9,114	398	(18)	9,494
Corporate debt securities	4,993	165	(23)	5,135
Total	<u>\$ 99,430</u>	<u>\$ 2,985</u>	<u>\$ (320)</u>	<u>\$102,095</u>
<b>2008</b>				
U.S. federal agency	\$ 10,855	\$ 180	\$ —	\$ 11,035
State and municipal	6,293	28	(121)	6,200
Mortgage-backed securities - residential	51,928	1,112	(82)	52,958
Government agency sponsored collateralized mortgage obligations	17,718	109	(116)	17,711
Privately held collateralized mortgage obligations	8,024	45	(181)	7,888
Corporate debt securities	6,042	13	(406)	5,649
Total debt securities	100,860	1,487	(906)	101,441
Equity securities	10	—	—	10
Total	<u>\$100,870</u>	<u>\$ 1,487</u>	<u>\$ (906)</u>	<u>\$101,451</u>

At December 31, 2009 and 2008, mortgage backed securities available for sale consisted solely of Federal Home Loan Mortgage Corporation, Federal National Mortgage Association and Government National Mortgage Association issues.

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LAPORTE BANCORP, INC.  
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**NOTE 2 – SECURITIES** (Continued)

Sales of securities available for sale were as follows:

	2009	2008
Proceeds	\$28,324	\$24,098
Gross gains	728	285
Gross losses	24	77

Proceeds from calls of securities available for sale during the years ended December 31, 2009 and 2008 were \$9,071 and \$7,504 with gross gains of \$2 and \$53 and gross losses of \$4 and \$0.

The amortized cost and fair value of the investment securities portfolio are shown by expected maturity. Securities not due at a single maturity date, primarily mortgage-backed securities and CMOs, are shown separately.

	December 31, 2009	
	Amortized Cost	Fair Value
Due in one year or less	\$ —	\$ —
Due from one to five years	3,916	3,974
Due from five to ten years	14,422	14,493
Due after ten years	24,528	24,904
Subtotal	42,866	43,371
Mortgage-backed securities and CMOs	56,564	58,724
Total	<u>\$ 99,430</u>	<u>\$ 102,095</u>

	December 31, 2008	
	Amortized Cost	Fair Value
Due in one year or less	\$ 537	\$ 520
Due from one to five years	4,872	4,780
Due from five to ten years	10,219	10,027
Due after ten years	7,562	7,557
Subtotal	23,190	22,884
Mortgage-backed securities and CMOs	77,670	78,557
Total	<u>\$ 100,860</u>	<u>\$ 101,441</u>

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 2 – SECURITIES (Continued)

Securities pledged at year-end 2009 and 2008 had a carrying amount of approximately \$70,561 and \$44,183 and were pledged to secure public deposits, FHLB advances, short-term borrowings through the Federal Reserve Bank discount window and cash flow hedges.

At year-end 2009 and 2008, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

Securities with unrealized losses at year-end 2009 and 2008, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

Description of Securities	Continuing Unrealized Loss For		Continuing Unrealized Loss For		Total	
	Less Than 12 Months		12 Months or More		Fair Value	Unrealized Loss
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss		
U.S. federal agency	\$ 10,582	\$ (159)	\$ -	\$ -	\$ 10,582	\$ (159)
State and municipal	5,496	(67)	678	(27)	6,174	(94)
Government agency sponsored collateralized mortgage obligations	2,620	(26)	—	—	2,620	(26)
Privately held collateralized mortgage obligations	1,236	(1)	286	(17)	1,522	(18)
Corporate debt securities	—	—	962	(23)	962	(23)
Total temporarily impaired	<u>\$ 19,934</u>	<u>\$ (253)</u>	<u>\$ 1,926</u>	<u>\$ (67)</u>	<u>\$ 21,860</u>	<u>\$ (320)</u>

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 2 – SECURITIES (Continued)

December 31, 2008	Continuing Unrealized Loss For Less Than 12 Months		Continuing Unrealized Loss For 12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<b>Description of Securities</b>						
State and municipal	\$ 2,493	\$ (81)	\$ 1,975	\$ (40)	\$ 4,468	\$ (121)
Mortgage-backed securities - Residential	10,985	(82)	—	—	10,985	(82)
Government agency sponsored collateralized mortgage obligations	4,043	(12)	7,368	(104)	11,411	(116)
Privately held collateralized mortgage obligations	4,253	(142)	582	(39)	4,835	(181)
Corporate debt securities	4,631	(406)	—	—	4,631	(406)
Total temporarily impaired	<u>\$26,405</u>	<u>\$ (723)</u>	<u>\$ 9,925</u>	<u>\$ (183)</u>	<u>\$36,330</u>	<u>\$ (906)</u>

At December 31, 2009, the Company held 37 investments in debt securities which were in an unrealized loss position of which 32 were in an unrealized loss position for less than twelve months and 5 were in an unrealized loss position for twelve months or more. Management periodically evaluates each investment security for potential other than temporary impairment, relying primarily on industry analyst reports and observation of market conditions and interest rate fluctuations. Except as disclosed below, management believes it will be able to collect all amounts due according to the contractual terms of the underlying investment securities and that the noted declines in fair value are considered temporary and due only to normal market interest rate fluctuations. The Company does not intend to sell the securities and it is not more likely than not to be required to sell the debt security before its anticipated recovery.

During 2008, certain government sponsored enterprise equity securities and a Lehman Brothers debt security were determined to have declines in market values that were considered to be “other than temporary” and accordingly impairment charges to earnings of \$1,711 were recorded in 2008. In making these determinations, management considered: (1) the fact that certain of these securities were previously considered to have declines in market values that were considered to be “other than temporary”, (2) the financial condition and near term prospects of the issuers, (3) whether the market decline was affected by macroeconomic conditions, and (4) the Company’s intent not to sell the security and whether it is more likely than not that the Company will be required to sell the debt security before its anticipated recovery.

(Continued)



LAPORTE BANCORP, INC.  
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**NOTE 3 – LOANS**

Loans at year end were as follows:

	<u>2009</u>	<u>2008</u>
Commercial	\$ 18,122	\$ 19,390
Real estate:		
Residential	70,884	85,462
Commercial	93,244	80,538
Construction	5,420	7,736
Mortgage warehouse	43,765	—
Consumer	27,494	29,201
Subtotal	258,929	222,327
Less: Net deferred loan (fees) costs	122	111
Allowance for loan losses	(2,776)	(2,512)
<b>Loans, net</b>	<u>\$256,275</u>	<u>\$219,926</u>

As of December 31, 2009, the Bank had repurchase agreements with ten mortgage companies. For the year ended December 31, 2009, the mortgage companies originated \$604,755 in mortgage loans and sold \$560,991 in mortgage loans. The Bank recorded interest income of \$1,456, mortgage warehouse loan fees of \$272 and wire transfer fees of \$71 for the year ended December 31, 2009.

Activity in the allowance for loan losses was as follows:

	<u>2009</u>	<u>2008</u>
Beginning balance	\$2,512	\$1,797
Provision for loan losses	851	1,125
Loans charged-off	(640)	(483)
Recoveries	53	73
Ending balance	<u>\$2,776</u>	<u>\$2,512</u>

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

NOTE 3 – LOANS (Continued)

Individually impaired loans were as follows:

	2009	2008
Year-end loans with no allocated allowance for loan losses	\$3,067	\$4,745
Year-end loans with allocated allowance for loan losses	4,397	1,700
<b>Total</b>	<b>\$7,464</b>	<b>\$6,445</b>
Amount of the allowance for loan losses allocated to impaired loans	\$ 614	\$ 730
	2009	2008
Average of individually impaired loans during year	\$6,622	\$3,004
Interest income recognized during impairment	21	38
Cash-basis interest income recognized	—	—

Nonperforming loans were as follows at year-end:

	2009	2008
Loans past due over 90 days still on accrual	\$ —	\$ —
Nonaccrual loans	7,716	6,750

Nonperforming loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

During January 2010, \$1.0 million in life insurance proceeds was received by the Company which was pledged as collateral for a nonaccrual commercial loan relationship. The remaining outstanding balance of the relationship after the proceeds of the life insurance was applied is \$2.2 million.

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

NOTE 3 – LOANS (Continued)

Purchased Loans:

The Company purchased loans during 2007, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans is as follows at year end:

	<u>2009</u>	<u>2008</u>
Commercial	\$ 93	\$ 125
Commercial real estate	1,000	1,323
Consumer	16	21
Residential real estate	<u>170</u>	<u>186</u>
Outstanding balance	<u>\$1,279</u>	<u>\$1,655</u>
Carrying amount, net of allowance of \$0	<u>\$ 797</u>	<u>\$ 986</u>

Accretable yield, or income expected to be collected, is as follows:

	<u>2009</u>	<u>2008</u>
Beginning balance	\$ 78	\$ 126
New loans purchased	—	—
Reclassification from nonaccretable yield	97	366
Accretion of income	(146)	(392)
Disposals	<u>—</u>	<u>(22)</u>
Ending balance	<u>\$ 29</u>	<u>\$ 78</u>

For those purchased loans disclosed above, the Company did not increase the allowance for loan losses during 2009 or 2008. No allowances for loan losses were reversed during 2009 or 2008.

There were no such loans purchased during 2009 or 2008.

Income is not recognized on certain purchased loans if the Company cannot reasonably estimate cash flows expected to be collected. The carrying amounts of such loans were \$51 and \$242 at December 31, 2009 and 2008.

(Continued)



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LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

**NOTE 4 – FAIR VALUE**

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

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

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

Level 3 – Significant unobservable inputs that reflect a company’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial asset:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2).

Loans Held for Sale and Loan Commitment Derivatives: The fair value of loans held for sale and residential mortgage loan commitments are determined by obtaining quoted prices for similar loans and commitments with similar interest rates and maturities from major secondary markets (Level 2).

Derivatives-Interest Rate Swaps: The fair value of derivatives are based on valuation models using observable market data as of the measurement date (Level 2).

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

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**NOTE 4 – FAIR VALUE** (Continued)

Other Real Estate Owned: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned (OREO) are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Mortgage Servicing Rights: The fair value of mortgage servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income (Level 2).

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(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

NOTE 4 – FAIR VALUE (Continued)

Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities for which the Company has elected the fair value option, are summarized below:

	Carrying Value	Fair Value Measurements at December 31, 2009 using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets</b>				
Investment securities available-for-sale				
U.S. federal agency	\$ 12,972	\$ —	\$ 12,972	\$ —
State and municipal	25,264	—	25,264	—
Mortgage-backed securities – residential	31,082	—	31,082	—
Government agency sponsored collateralized mortgage obligations	18,148	—	18,148	—
Privately held collateralized mortgage obligations	9,494	—	9,494	—
Corporate debt securities	5,135	—	5,135	—
<b>Total investment securities available-for-sale</b>	<b>\$102,095</b>	<b>\$ —</b>	<b>\$ 102,095</b>	<b>\$ —</b>

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

NOTE 4 – FAIR VALUE (Continued)

	Carrying Value	Fair Value Measurements at December 31, 2009 using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Loans held for sale	\$ 981	\$ —	\$ 981	\$ —
Derivatives – residential mortgage loan commitments	31	—	31	—
Derivatives – interest rate swaps	88	—	88	—

	Carrying Value	Fair Value Measurements at December 31, 2008 using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets</b>				
Investment securities available-for-sale				
U.S. treasury and federal agency	\$ 11,035	\$ —	\$ 11,035	\$ —
State and municipal	6,200	—	6,200	—
Mortgage-backed securities – residential	52,958	—	52,958	—
Government agency sponsored collateralized mortgage obligations	17,711	—	17,711	—
Privately held collateralized mortgage obligations	7,888	—	7,888	—
Corporate debt securities	5,649	—	5,649	—
Equity securities	10	10	—	—
Total investment securities available-for-sale	<u>\$101,451</u>	<u>\$ 10</u>	<u>\$ 101,441</u>	<u>\$ —</u>

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

NOTE 4 – FAIR VALUE (Continued)

	Carrying Value	Fair Value Measurements at December 31, 2008 using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Loans held for sale	\$ 124	\$ —	\$ 124	\$ —
Derivatives - residential mortgage loan commitments	31	—	31	—

Loans held for sale, which are carried at the lower of cost or fair value, were carried at the fair value of \$981, which is made up of the outstanding balance of \$967, net of a valuation of \$14 at December 31, 2009, resulting in income of \$14 for the year ending December 31, 2009. At December 31, 2008, loans held for sale were carried at the fair value of \$124, which is made up of the outstanding balance of \$120, net of a valuation of \$4 at December 31, 2008, resulting in income of \$4 for the year ending December 31, 2008.

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

	Carrying Value	Fair Value Measurements at December 31, 2009 using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ 3,783	\$ —	\$ —	\$ 3,783
Other real estate owned, net	230	—	—	230
Mortgage servicing rights	318	—	318	—

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

NOTE 4 – FAIR VALUE (Continued)

	Carrying Value	Fair Value Measurements at December 31, 2008 using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ 970	\$ —	\$ —	\$ 970
Mortgage servicing rights	329	—	329	—

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$4,397, with a valuation allowance of \$614 at December 31, 2009, resulting in an additional provision for loan losses of \$323 for the year ending December 31, 2009. At December 31, 2008, impaired loans had a carrying amount of \$1,700, with a valuation allowance of \$730, resulting in an additional provision for loan losses of \$730 for the year ending December 31, 2008.

Other real estate owned, which is measured at the lower of carrying or fair value less costs to sell, had a net carrying amount of \$230, which is made up of the outstanding balance of \$308, net of a valuation allowance of \$78 at December 31, 2009, resulting in a write-down of \$78 for the year ending December 31, 2009.

Mortgage servicing rights, which are carried at lower of cost or fair value, were carried at their fair value of \$318, which is made up of the outstanding balance of \$368, net of a valuation allowance of \$50 at December 31, 2009, resulting in a charge of \$8 for the year ending December 31, 2009. At December 31, 2008, mortgage servicing rights were carried at their fair value of \$329, which is made up of the outstanding balance of \$371, net of a valuation allowance of \$42, resulting in a charge of \$42 for the year ended December 31, 2008.

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

NOTE 4 – FAIR VALUE (Continued)

The carrying amounts and estimated fair values of financial instruments, at December 31, 2009 and December 31, 2008 are as follows:

	Carrying Amount	Fair Value
<b>December 31, 2009</b>		
<b>Financial assets</b>		
Cash and due from financial institutions	\$ 6,000	\$ 6,000
Securities available-for-sale	102,095	102,095
Federal Home Loan Bank stock	4,206	N/A
Loans held for sale	981	981
Loans, net	256,275	260,311
Accrued interest receivable	1,650	1,650
Derivatives – interest rate swaps	88	88
<b>Financial liabilities</b>		
Deposits	\$(273,408)	\$(263,933)
Federal Home Loan Bank advances	(52,773)	(54,547)
Subordinated debentures	(5,155)	(4,360)
FDIC guaranteed unsecured borrowings	(4,852)	(5,152)
Federal Reserve Bank discount window borrowings	(16,675)	(16,675)
Accrued interest payable	(396)	(396)
<b>December 31, 2008</b>		
<b>Financial assets</b>		
Cash and due from financial institutions	\$ 5,628	\$ 5,628
Securities available-for-sale	101,451	101,451
Federal Home Loan Bank stock	4,206	N/A
Loans held for sale	124	124
Loans, net	219,926	221,324
Accrued interest receivable	1,450	1,450
<b>Financial liabilities</b>		
Deposits	\$(234,814)	\$(238,304)
Federal Home Loan Bank advances	(78,728)	(81,321)
Subordinated debentures	(5,155)	(3,087)
Federal Reserve Bank discount window borrowings	(650)	(650)
Accrued interest payable	(412)	(412)

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

**NOTE 4 – FAIR VALUE** (Continued)

The methods and assumptions, not previously presented, used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and due from financial institutions, accrued interest receivable and payable, demand deposits, other secured borrowings, and variable rate loans or deposits that reprice frequently and fully. The methods for determining the fair values for securities, loans held for sale, and interest rate swap derivatives were described previously. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair value of debt is based on current rates for similar financing. It was not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability. The fair value of off-balance sheet items is not considered material.

**NOTE 5 – LOAN SERVICING**

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

	<u>2009</u>	<u>2008</u>
Mortgage loan portfolios serviced for:		
FHLMC	\$64,016	\$52,739
FHLB	504	624
Total	<u>\$64,520</u>	<u>\$53,363</u>

Custodial escrow balances maintained in connection with serviced loans were \$220 and \$312 at year-end 2009 and 2008.

Activity for capitalized mortgage servicing rights was as follows:

	<u>2009</u>	<u>2008</u>
Servicing rights:		
Beginning of year	\$ 329	\$412
Additions	229	32
Amortized to expense	(126)	(73)
Change in valuation allowance	<u>(8)</u>	<u>(42)</u>
End of year	<u>\$ 424</u>	<u>\$329</u>

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

NOTE 5 – LOAN SERVICING (Continued)

	2009	2008
Valuation allowance:		
Beginning of year	\$ 42	\$—
Additions expensed	15	42
Reductions credited to expense	(7)	—
Direct write-downs	—	—
End of year	<u>\$ 50</u>	<u>\$ 42</u>

The fair value of mortgage servicing rights was \$473 and \$329 at year-end 2009 and 2008. At year-end 2009, \$106 of the mortgage servicing rights were carried at book value and \$318 of the mortgage servicing rights were carried at their fair value, which is made up of the outstanding balance of \$368, net of a valuation allowance of \$50. Fair value at year-end 2009 was determined using a discount rate of 9.0%, prepayment speeds ranging from 11.1% to 22.7%, depending on the stratification of the specific right, and a weighted average default rate of approximately 0.5%. Fair value at year-end 2008 was determined using a discount rate of 9.0%, prepayment speeds ranging from 11.2% to 30.5%, depending on stratification of the specific right, and a weighted average default rate of approximately 0.5%.

The weighted average amortization period is 3.95 years.

NOTE 6 – PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows:

	2009	2008
Land	\$ 3,268	\$ 3,268
Buildings	9,856	9,810
Furniture, fixtures and equipment	5,728	6,089
Construction in progress	3	—
	<u>18,855</u>	<u>19,167</u>
Less: Accumulated depreciation	<u>(7,705)</u>	<u>(7,456)</u>
	<u>\$11,150</u>	<u>\$11,711</u>

Depreciation expense was \$777 and \$782 for 2009 and 2008.

(Continued)



LAPORTE BANCORP, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Dollar amounts in thousands, except share and per share data)

**NOTE 7 – GOODWILL AND INTANGIBLE ASSETS**

Goodwill: The change in goodwill during the year is as follows:

	2009	2008
Beginning of year	\$8,431	\$8,431
Acquired goodwill	—	—
Impairment	—	—
End of year	<u>\$8,431</u>	<u>\$8,431</u>

Impairment exists when a reporting unit’s carrying value of goodwill exceeds its fair value, which is determined through a two-step impairment test. Step 1 includes the determination of the carrying value of our single reporting unit, including the existing goodwill and intangible assets, and estimating the fair value of the reporting unit. We determined the fair value of our reporting unit and compared it to its carrying amount. If the carrying amount of a reporting unit exceeds its fair value, we are required to perform a second step to the impairment test.

Our annual impairment analysis as of September 30, 2009, indicated that the Step 2 analysis was not necessary. The estimate of the fair value of the reporting unit was higher than the carrying value of our reporting unit, including the existing goodwill and intangible assets, as of September 30, 2009. The Company did not record an impairment charge during 2009 or 2008.

**Acquired Intangible Assets**

Acquired intangible assets were as follows at year end:

	Gross Carrying Amount	2009 Gross Accumulated Amortization	Net Carrying Value
Amortized intangible assets:			
Core deposit intangibles	\$ 1,534	\$ 728	\$ 806
Customer relationship intangibles	304	171	133
Total	<u>\$ 1,838</u>	<u>\$ 899</u>	<u>\$ 939</u>

(Continued)



LAPORTE BANCORP, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Dollar amounts in thousands, except share and per share data)

**NOTE 7 – GOODWILL AND INTANGIBLE ASSETS (Continued)**

	2008		
	Gross Carrying Amount	Gross Accumulated Amortization	Net Carrying Value
Amortized intangible assets:			
Core deposit intangibles	\$ 1,534	\$ 471	\$ 1,063
Customer relationship intangibles	304	95	209
Total	<u>\$ 1,838</u>	<u>\$ 566</u>	<u>\$ 1,272</u>

Aggregate amortization expense for 2009 and 2008 was \$333 and \$436, respectively.

Estimated amortization expense for each of the next five years is as follows:

2010	\$267
2011	202
2012	109
2013	85
2014	66

**NOTE 8 – DEPOSITS**

Time deposits of \$100 thousand or more were \$43,773 and \$30,304 at year-end 2009 and 2008.

Scheduled maturities of time deposits for the next five years were as follows:

2010	\$ 77,680
2011	34,615
2012	18,398
2013	4,953
2014	7,173
Thereafter	1,592
	<u>\$144,411</u>

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

**NOTE 9 – FEDERAL HOME LOAN BANK ADVANCES**

The advance type, balances and interest rate ranges at December 31, 2009 and 2008 are as follows:

December 31, 2009

<u>Advance Type</u>	<u>Balance</u>	<u>Interest Rate Range</u>	<u>Weighted Average Rate</u>	<u>Maturity Date Range</u>
Fixed Rate Bullet	\$28,250	2.74% to 5.03%	3.81%	January 2010 through December 2012
Putable	24,000	2.95% to 6.09%	5.25%	July 2010 through January 2013
Mortgage	538	3.00% to 5.64%	4.54%	April 2011 through July 2013
Total advances	52,788			
Yield adjustment on acquired FHLB advances	(15)			
Total	<u>\$52,773</u>			

December 31, 2008

<u>Advance Type</u>	<u>Balance</u>	<u>Interest Rate Range</u>	<u>Weighted Average Rate</u>	<u>Maturity Date Range</u>
Fixed Rate Bullet	\$37,500	2.74% to 5.03%	3.76%	January 2009 through December 2012
Putable	31,500	2.95% to 6.09%	5.42%	July 2010 through January 2013
Variable	9,000	0.65%	0.65%	June 2009
Mortgage	756	3.00% to 5.64%	4.59%	April 2011 through July 2013
Total advances	78,756			
Yield adjustment on acquired FHLB advances	(28)			
Total	<u>\$78,728</u>			

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

**NOTE 9 – FEDERAL HOME LOAN BANK ADVANCES (Continued)**

The Bank was authorized to borrow up to \$77,621 from the Federal Home Loan Bank (FHLB) at December 31, 2009 and up to \$81,763 at December 31, 2008. At December 31, 2009 and 2008 the Bank had indebtedness to the FHLB totaling \$52,788 and \$78,756. The FHLB advances held by the Bank consisted of three different types as of December 31, 2009 and four different types as of December 31, 2008. Fixed Rate Bullet Advances carry a fixed interest rate throughout the life of the advance and may not be prepaid prior to maturity without a fee being assessed by the FHLB. Putable Advances have stated interest adjustment dates on which the FHLB will have the option to adjust the interest rate and will continue to have this option quarterly thereafter. These advances may not be prepaid by the Bank prior to the FHLB exercising its option to adjust the interest rate. Variable Advances carry a variable rate throughout the life of the advance. All of the Variable Advances held by the Bank as of December 31, 2008 were short-term advances and may be prepaid at any time. Mortgage Advances carry a fixed interest rate and require annual payments of the remaining principal balance. These advances may not be prepaid by the Bank prior to maturity without a fee being assessed by the FHLB.

During June 2009, the Bank retired a \$7,500 FHLB advance with a stated maturity of 2010 and a cost of 5.97%. As the advance was prepaid prior to maturity, a fee of \$427 was assessed and paid by the Bank.

The required payments over the next five years are as follows:

2010	\$28,935
2011	12,302
2012	6,528
2013	<u>5,023</u>
Total advances	<u>\$52,788</u>

At December 31, 2009, in addition to FHLB stock, the Bank pledged mortgage, home equity and commercial real estate loans totaling approximately \$108,017 to the FHLB to secure advances

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

**NOTE 9 – FEDERAL HOME LOAN BANK ADVANCES** (Continued)

outstanding. At December 31, 2008, the Bank pledged mortgage loans totaling approximately \$80,728 to the FHLB to secure advances outstanding. At December 31, 2009 and 2008, the Bank also pledged U.S. government sponsored agency securities totaling \$18,022 and \$36,502 to the FHLB to secure advances outstanding.

**NOTE 10 – FDIC GUARANTEED UNSECURED BORROWINGS**

On February 11, 2009, the Bank issued a \$5,000 note due on February 15, 2012 under the FDIC Temporary Debt Guarantee Program. The note bears an interest rate of 2.74% in addition to the 100 basis point FDIC guarantee fee paid by the Bank. Interest payments are required to be made semiannually in arrears on February 15 and August 15 in each year commencing on August 15, 2009 through the maturity date. All legal and placement fees associated with this transaction were capitalized as debt issuance costs and will be amortized to interest expense over the repayment period on a straight-line basis.

**NOTE 11 – SUBORDINATED DEBENTURES**

In June 2003, City Savings Statutory Trust I, a trust formed by City Savings Financial Corporation, closed a pooled private offering of 5,000 trust preferred securities with a liquidation amount of \$1 per security. City Savings Financial Corporation issued \$5,155 of subordinated debentures to the trust in exchange for ownership of all of the common security of the trust and the proceeds of the preferred securities sold by the trust. On October 12, 2007, the Company purchased the ownership of the common securities of the trust as a result of its acquisition of City Savings Financial Corporation. In accordance with FASB Interpretation 46R, the trust is not consolidated with the Company's financial statements, but rather the subordinated debentures are shown as a liability. The Company's investment in the common stock of the trust was \$155 and is included in other assets in the December 31, 2009 and 2008 consolidated balance sheets.

The Company may redeem the subordinated debentures, in whole or in part, in a principal amount with integral multiples of \$1, on or after June 26, 2008 at 100% of the principle amount, plus accrued and unpaid interest. The subordinated debentures mature on June 26, 2033.

The Company has the right to defer interest payments by extending the interest payment period during the term of the subordinated debentures for up to 20 consecutive quarterly periods.

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

**NOTE 11 – SUBORDINATED DEBENTURES** (Continued)

The subordinated debentures are also redeemable in whole or in part from time to time, upon the occurrence of specific events defined within the trust indenture.

The subordinated debentures may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The subordinated debentures have a variable rate of interest equal to the three month London Interbank Offered Rate (LIBOR) plus 3.10% which was 3.35% and 4.57% at year-end 2009 and 2008.

**NOTE 12 – EMPLOYEE BENEFIT PLANS**

401(k) Plan: The Bank maintains a defined contribution 401(k) plan for all employees. Employees must be 21 years of age to participate in the plan. There is no minimum service requirement. Basic contributions may be made by the Bank in the range of 1% to 6% of employee compensation. Voluntary participant contributions may be made in the range of 1% to 75% of employee compensation. The employer will make matching employer contributions equal to 25% of the participant's voluntary contributions on the first 6% of the participant's voluntary contributions. Employee contributions are 100% vested. Employer basic and matching contributions are vested over 5 years. Employer basic and matching contributions totaled approximately \$72 and \$111 for the years ended December 31, 2009 and 2008.

Supplemental Employee Retirement Plan: Effective August 1, 2002, a supplemental retirement plan covers selective officers. The Bank is recording an expense equal to the projected present value of payments due at retirement based on the projected remaining years of service. The obligation under the plans was approximately \$1,525 and \$1,233 for the years ended December 31, 2009 and 2008 and is included in other liabilities in the consolidated balance sheets. The expense attributable to the plan, included in salaries and employee benefits, was approximately \$292 and \$257 for the years ended December 31, 2009 and 2008.

Split-Dollar Life Insurance Plans: Effective January 1, 2003, life insurance plans were provided for certain officers on a split-dollar basis. The officer's designated beneficiary(s) is entitled to a percentage of the death proceeds from the split-dollar policies. The Bank is entitled to the remainder of the death proceeds less any loans on the policies and unpaid interest or cash withdrawals previously incurred by the Bank. The cash surrender value of these life insurance policies related to the Bank's supplemental employee retirement plan totaled \$9,618 and \$9,455 at December 31, 2009 and 2008. The Bank is the owner of the split-dollar policies. Beginning with the effective date of the plan, the Bank began to accrue a liability for the expected amount of premiums to be paid on the officer's portion of these split-dollar policies subsequent to the officer's retirement. At December 31, 2008, such accrued liability totaled approximately \$161.

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

**NOTE 12 – EMPLOYEE BENEFIT PLANS** (Continued)

In May 2009, the Bank terminated the post retirement benefit of these split-dollar policies and thus reversed the accrued liability of \$161. During the month of December 2009, the Company received insurance settlement proceeds attributable to the death benefit from two insurance policies as a part of the Company’s bank owned life insurance plan. The net settlement proceeds totaled approximately \$629, of which \$188 was applied as a reduction of the cash value of the policy and the remaining \$441 was recorded as tax-exempt income.

**NOTE 13 – EMPLOYEE STOCK OWNERSHIP PLAN**

Employees participate in an Employee Stock Ownership Plan (ESOP). The ESOP borrowed from the Company to purchase 180,894 shares of Bancorp stock at \$10 per share. The Company makes discretionary contributions to the ESOP, as well as paying dividends on unallocated shares to the ESOP, and the ESOP uses funds it receives to repay the loan. When loan payments are made, ESOP shares are allocated to participants based on relative compensation and expense is recorded. Dividends on allocated shares increase participant accounts.

Participants receive the shares at the end of employment.

Contributions to the ESOP during 2009 and 2008 were \$121 and \$165. ESOP related expenses totaled \$43 and \$59 during 2009 and 2008.

Shares held by the ESOP were as follows at year-end:

	<u>2009</u>	<u>2008</u>
Allocated to participants	27,134	18,089
Unearned	<u>153,760</u>	<u>162,805</u>
<b>Total ESOP shares</b>	<u><u>180,894</u></u>	<u><u>180,894</u></u>
Fair value of unearned shares	<u>\$ 677</u>	<u>\$ 855</u>

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

NOTE 14 – INCOME TAXES

Income tax expense (benefit) was as follows:

	2009	2008
Current expense (benefit)		
Federal	\$(128)	\$ 221
State	—	—
	(128)	221
Deferred expense		
Federal	553	(763)
State	70	(71)
	623	(834)
Change in valuation allowance related to realization of net state deferred tax asset	(70)	71
Total	<u>\$ 425</u>	<u>\$(542)</u>

The net deferred tax assets at December 31, 2009 and 2008 are as follows:

	2009	2008
Deferred tax assets		
Deferred officer compensation	\$ 587	\$ 474
Bad debt expense	1,069	1,024
Federal net operating loss carryforwards	950	950
Indiana net operating loss carryforwards	415	503
Impairment on investment securities	—	952
Tax credit carryforwards	353	406
Write downs of other real estate owned	30	56
Capital loss carryforwards	113	27
Nonaccrual loan interest	151	57
Market value adjustment on acquired assets liabilities	44	95
Other	102	—
	3,814	4,544
Deferred tax liabilities		
Mortgage servicing rights	(163)	(127)
Accretion	(1)	(1)
FHLB stock dividends	(151)	(151)
Deferred loan fees	(47)	(43)
Prepaid expenses	(84)	(73)
Depreciation	(424)	(455)
Net unrealized gains on securities available for sale	(906)	(197)
Net unrealized gains on interest rate swap	(30)	—
Amortization of other intangible assets	(362)	(489)
	(2,168)	(1,536)
Valuation allowance	(680)	(750)
	<u>\$ 966</u>	<u>\$ 2,258</u>

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

NOTE 14 – INCOME TAXES (Continued)

The valuation allowance has been established against the portion of the Company’s net state tax deferred tax asset that management feels is not realizable as of December 31, 2009 and 2008. The Company has an Indiana net operating loss carryforward of approximately \$7,470 and \$8,840 at December 31, 2009 and 2008 which will expire in 2018 through 2022, if not used. The Company also has Indiana enterprise zone credit carryforwards of approximately \$118 at December 31, 2009 and 2008 which will expire in 2013 through 2017, if not used. The Company has federal net operating loss carryforwards of \$2,793 as of December 31, 2009 and 2008 which will expire in 2025 through 2027. The Company also has a capital loss carryforward of \$63 and \$69 at December 31, 2009 and 2008, which will expire in 2012. Additionally, the Bank also has federal AMT credit carryforwards of approximately \$276 and \$328 at December 31, 2009 and 2008 which has no expiration date.

Total income tax expense differed from the amounts computed by applying the U.S. Federal income tax rate of 34% to income (loss) before income taxes as a result of the following:

	2009	2008
Expected income tax expense (benefit) at Federal tax rate	\$ 999	\$ (320)
Increase (decrease) resulting from:		
Effect of tax exempt income (net)	(556)	(197)
Dividend received deduction	—	(11)
Other, net	(18)	(14)
Total income tax expense (benefit)	<u>\$ 425</u>	<u>\$ (542)</u>
Effective tax rate	14.47%	57.54%

(Continued)



LAPORTE BANCORP, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Dollar amounts in thousands, except share and per share data)

**NOTE 14 – INCOME TAXES (Continued)**

Unrecognized Tax Benefits

The Company has no unrecognized tax positions at December 31, 2009 or 2008 not already addressed by the deferred tax asset valuation allowance.

Federal income tax laws provided savings banks with additional bad debt deductions through 1995, totaling \$2,659 for the Company. Accounting standards do not require a deferred tax liability to be recorded on this amount, which liability would otherwise total \$904 at December 31, 2009 and 2008. If the Company were liquidated or otherwise ceases to be a bank or if tax laws change, the \$904 would be recorded as expense.

**NOTE 15 – RELATED-PARTY TRANSACTIONS**

Loans to principal officers, directors, and their affiliates were as follows:

	<u>2009</u>	<u>2008</u>
Beginning balance	\$1,385	\$ 821
New loans	969	552
Effect of changes in composition of related parties	74	73
Repayments	<u>(665)</u>	<u>(61)</u>
Ending balance	<u>\$1,763</u>	<u>\$1,385</u>

Deposits from principal officers, directors, and their affiliates at year-end 2009 and 2008 were \$1,222 and \$1,681.

**NOTE 16 – REGULATORY CAPITAL MATTERS**

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

**NOTE 16 – REGULATORY CAPITAL MATTERS (Continued)**

requirements can initiate regulatory action. Management believes as of December 31, 2009, the Bank met all capital adequacy requirements to which it is subject. Companies under \$500 million in consolidated assets at the beginning of the year are not required to report consolidated regulatory capital ratios.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If only adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2009 and 2008, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution’s category.

Actual and required Bank capital amounts (in millions) and ratios are presented below at year end.

	Actual		Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>2009</b>						
Total Capital to risk weighted assets Bank	\$ 42.9	15.3%	\$ 22.4	8.0%	\$ 28.0	10.0%
Tier 1 (Core) Capital to risk weighted assets Bank	40.2	14.3	11.2	4.0	16.8	6.0
Tier 1 (Core) Capital to average assets Bank	40.2	10.4	15.4	4.0	19.3	5.0
<b>2008</b>						
Total Capital to risk weighted assets Bank	\$ 39.2	16.5%	\$ 19.0	8.0%	\$ 23.7	10.0%
Tier 1 (Core) Capital to risk weighted assets Bank	36.6	15.4	9.5	4.0	14.2	6.0
Tier 1 (Core) Capital to average assets Bank	36.6	10.4	14.1	4.0	17.6	5.0

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

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**NOTE 16 – REGULATORY CAPITAL MATTERS (Continued)**

The Qualified Thrift Lender test requires at least 65% of assets be maintained in housing-related finance and other specified areas. If this test is not met, limits are placed on growth, branching, new investments, FHLB advances and dividends, or the Bank must convert to a commercial bank charter. Management believes that this test is met.

**Dividend Restrictions**—The Bancorp’s principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year’s net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. During 2010, the Company could, without prior approval, declare dividends of approximately \$2,112 plus any 2010 net profits retained to the date of the dividend declaration.

**NOTE 17 – DERIVATIVES**

The Company utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

Interest Rate Swaps Designated as Cash Flow Hedges: Interest rate swaps with notional amounts of \$15.25 million as of December 31, 2009, were designated as cash flow hedges of subordinated debentures and certain CDARS deposits and were determined to be fully effective during all periods presented. As such, no amount of ineffectiveness has been included in net income. Therefore, the aggregate fair value of the swaps is recorded in other assets (liabilities) with changes in fair value recorded in other comprehensive income (loss). The amount included in accumulated other comprehensive income (loss) would be reclassified to current earnings should the hedges no longer be considered effective. The hedge would no longer be considered effective if a portion of the hedge becomes ineffective, the item hedged is no longer in existence or the Company discontinues hedge accounting. The Company expects the hedges to remain fully effective during the remaining terms of the swaps. The Company does not expect any amounts to be reclassified from other comprehensive income over the next 12 months.

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(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

NOTE 17 – DERIVATIVES (Continued)

Information related to the interest-rate swaps designated as cash flow hedges as of year-end is as follows:

<u>Subordinated debentures</u>	
Notional amount	\$ 5,000
Fixed interest rate payable	5.54%
Variable interest rate receivable (Three month LIBOR plus 3.10%)	3.35%
Maturity date	March 26, 2014
Unrealized gains	34
<u>CDARS deposits</u>	
Notional amount	\$ 10,250
Fixed interest rate payable	3.19%
Variable interest rate receivable (One month LIBOR plus 0.55%)	0.78%
Maturity date	October 9, 2014
Unrealized gains	54

Interest income (expense) recorded on these swap transactions totaled \$122 during 2009 and is reported as a component of interest expense on subordinated debentures and deposits.

The following table presents the net gains recorded in accumulated other comprehensive income and the Consolidated Statements of Income relating to the cash flow derivative instruments for the year ended December 31:

	Amount of gain recognized in OCI (Effective Portion) <u>2009</u>	Amount of gain reclassified from OCI to interest income <u>2009</u>	Amount of gain recognized in other non interest income (Ineffective Portion) <u>2009</u>
Interest rate contracts	\$ 58	\$ —	\$ —

(Continued)



LAPORTE BANCORP, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Dollar amounts in thousands, except share and per share data)

**NOTE 17 – DERIVATIVES** (Continued)

The following table reflects the cash flow hedges included in the Consolidated Balance Sheet as of December 31:

	2009	
	Notional Amount	Fair Value
Included in other assets:		
Interest rate swaps related to Subordinated debentures	\$ 5,000	\$ 34
CDARS deposits	10,250	54
Total included in other assets	<u>\$15,250</u>	<u>\$ 88</u>

The counterparty to the Company’s derivatives is exposed to credit risk whenever the derivative is in a liability position. As a result, the Company has collateralized the liability with cash and security collateral held in safekeeping by Bank of New York. At year-end 2009, the Company has \$100 in cash and a security with a fair value of \$251 posted as collateral for these derivatives.

**NOTE 18 – LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES**

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amounts of financial instruments with off-balance-sheet risk at year end were as follows:

	2009		2008	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	\$ 2,316	\$ 76	\$ 5,077	\$ 2,841
Unused lines of credit	11,078	25,588	6,344	20,496
Standby letters of credit	85	4,170	85	3,339
Total	<u>\$13,479</u>	<u>\$29,834</u>	<u>\$11,506</u>	<u>\$26,676</u>

(Continued)



LAPORTE BANCORP, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Dollar amounts in thousands, except share and per share data)

**NOTE 18 – LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES** (Continued)

Commitments to make loans are generally made for periods of 60 days or less. The fixed rate loan commitments have interest rates ranging from 6.25% to 6.75% at December 31, 2009 and 2.78% to 7.00% at December 31, 2008 with maturities ranging from 12 months to 10 years.

**NOTE 19 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION**

Condensed financial information of LaPorte Bancorp, Inc. at December 31, 2009 and 2008 and for the years ended December 31, 2009 and 2008 is as follows:

CONDENSED BALANCE SHEETS  
 December 31, 2009 and 2008

	2009	2008
<b>ASSETS</b>		
Cash and cash equivalents	\$ 945	\$ 1,000
ESOP loan receivable	1,558	1,626
Investment in banking subsidiary	51,375	47,879
Investment in statutory trust	155	155
Accrued interest receivable and other assets	1,002	725
<b>Total assets</b>	<b><u>\$55,035</u></b>	<b><u>\$51,385</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Subordinated debentures	\$ 5,155	\$ 5,155
Accrued interest payable and other liabilities	8	88
Shareholders' equity	49,872	46,142
<b>Total liabilities and shareholders' equity</b>	<b><u>\$55,035</u></b>	<b><u>\$51,385</u></b>

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

NOTE 19 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)

CONDENSED STATEMENTS OF INCOME  
Years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Dividends from banking subsidiary	\$ 725	\$ 1,600
Interest income	61	128
Interest expense	(267)	(329)
Other expense	<u>(179)</u>	<u>(234)</u>
Income (loss) before income tax and undistributed subsidiary income	340	1,165
Income tax benefit	(131)	(148)
Equity in excess distributed income or net income (loss) of banking subsidiary	<u>2,041</u>	<u>(1,713)</u>
Net income (loss)	<u>\$2,512</u>	<u>\$ (400)</u>

CONDENSED STATEMENTS OF CASH FLOWS  
For the years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 2,512	\$ (400)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Equity in excess distributed income or net (gain) loss of banking subsidiary	(2,041)	1,713
Change in other assets	(255)	(148)
Change in other liabilities	<u>(80)</u>	<u>31</u>
Net cash from operating activities	136	1,196
<b>Cash flows from investing activities</b>		
Payments received on ESOP loan	<u>68</u>	<u>43</u>
Net cash from investing activities	68	43
<b>Cash flows from financing activities</b>		
Purchase of treasury stock	<u>(259)</u>	<u>(774)</u>

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LAPORTE BANCORP, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Dollar amounts in thousands, except share and per share data)

**NOTE 19 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION** (Continued)

CONDENSED STATEMENTS OF CASH FLOWS  
 For the years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Net change in cash and cash equivalents	(55)	465
Beginning cash and cash equivalents	1,000	535
Ending cash and cash equivalents	<u>\$ 945</u>	<u>\$1,000</u>

**NOTE 20 – EARNINGS (LOSS) PER SHARE**

Diluted earnings (loss) per common share is equal to basic earnings (loss) per common share for the year ended December 31, 2009 and 2008, as there were no outstanding equity plans which would have a dilutive effect. The factors used in the earnings (loss) per common share computation follow:

	<u>2009</u>	<u>2008</u>
Basic		
Net income (loss)	<u>\$ 2,512</u>	<u>\$ (400)</u>
Weighted average common shares outstanding	4,635,823	4,772,576
Less: Average unallocated ESOP shares	<u>(158,283)</u>	<u>(167,327)</u>
Average shares	<u>4,477,541</u>	<u>4,605,249</u>
Basic and diluted earnings (loss) per common share	<u>\$ 0.56</u>	<u>\$ (0.09)</u>

There were no potential dilutive common shares for the periods presented.

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LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

**NOTE 21 – OTHER COMPREHENSIVE INCOME (LOSS)**

Other comprehensive income (loss) components and related tax effects were as follows:

	<u>2009</u>	<u>2008</u>
Net unrealized holding gains (losses) on securities available for sale arising during the year	\$2,786	\$ (530)
Reclassification adjustment for net (gains) losses included in net income (loss)	(702)	(261)
Other than temporary impairment on investment securities	—	1,711
Net unrealized gains	2,084	920
Tax expense	708	313
Net-of-tax amount	<u>1,376</u>	<u>607</u>
Change in fair value of derivatives used for cash flow hedges	88	—
Reclassification adjustments for gains realized in income	—	—
Net unrealized gains	88	—
Tax expense	30	—
Net-of-tax amount	<u>58</u>	<u>—</u>
	<u>\$1,434</u>	<u>\$ 607</u>

(Continued)



LAPORTE BANCORP, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Dollar amounts in thousands, except share and per share data)

**NOTE 21 – OTHER COMPREHENSIVE INCOME (LOSS)** (Continued)

The following is a summary of the accumulated other comprehensive income balances, net of tax:

	<u>Balance at December 31, 2008</u>	<u>Current Period Change</u>	<u>Balance at December 31, 2009</u>
Unrealized gain on securities available for sale	\$ 383	\$1,376	\$ 1,759
Unrealized gain on derivatives used for cash flow hedges	—	58	58
<b>Total</b>	<u>\$ 383</u>	<u>\$1,434</u>	<u>\$ 1,817</u>

(Continued)



LAPORTE BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in thousands, except share and per share data)

NOTE 22 – QUARTERLY FINANCIAL DATA (UNAUDITED)

	<u>Interest Income</u>	<u>Net Interest Income</u>	<u>Net Income (Loss)</u>	<u>Earnings (Loss) Per Share Basic and Diluted</u>
<u>2009</u>				
First quarter	\$4,637	\$ 2,510	\$ 490	\$ 0.11
Second quarter	4,634	2,519	502	0.11
Third quarter	4,799	2,785	589	0.13
Fourth quarter	4,930	2,921	931 <sup>1</sup>	0.21
<u>2008</u>				
First quarter	\$5,028	\$ 2,409	\$ 162 <sup>2</sup>	\$ 0.04
Second quarter	4,868	2,489	406	0.09
Third quarter	4,834	2,574	(1,051) <sup>3</sup>	(0.23)
Fourth quarter	4,627	2,453	83 <sup>4</sup>	0.02

<sup>1</sup> Net income for the fourth quarter of 2009 included \$441 tax-exempt income from death benefit proceeds from two insurance policies as a part of the Company's bank owned life insurance plans.

<sup>2</sup> Net income for the first quarter of 2008 included a \$142 other than temporary impairment loss on certain investment securities, or \$94 net of tax.

<sup>3</sup> Net loss for the third quarter of 2008 included a \$374 provision for loan losses, or \$247 net of tax, and a \$1,490 other than temporary impairment loss on certain investment securities, or \$1,327 net of tax.

<sup>4</sup> Net income for the fourth quarter of 2008 included a \$659 provision for loan losses, or \$435 net of tax.



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**LAPORTE BANCORP, INC**  
**FORM 10-K**

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**Exhibit 21**

**Subsidiaries of the Registrant**

Name

The LaPorte Savings Bank

State/Location of Incorporation

Indiana (direct)



snap0003

**EXHIBIT 23**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-148709 on Form S-8 of our report dated March 22, 2010 which is incorporated by reference in the Annual Report on Form 10-K of LaPorte Bancorp, Inc. for the year ended December 31, 2009.

*Crowe Horwath LLP*  
Crowe Horwath LLP

South Bend, Indiana  
March 22, 2010



**Exhibit 31.1**

**CERTIFICATION**

I, Lee A. Brady, certify that:

1. I have reviewed this annual report on Form 10-K of LaPorte Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15)(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 22, 2010

/s/ Lee A. Brady

Lee A. Brady

President and Chief Executive Officer



**Exhibit 31.2**

**CERTIFICATION**

I, Michele M. Thompson, certify that:

1. I have reviewed this annual report on Form 10-K of LaPorte Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 22, 2010

/s/ Michele M. Thompson

Michele M. Thompson

Executive Vice President and Chief Financial Officer



Exhibit 32

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

Lee A. Brady, President and Chief Executive Officer and Michele M. Thompson, Executive Vice President and Chief Financial Officer of LaPorte Bancorp, Inc. (the "Company") each certify in their capacity as an officer of the Company that they have reviewed the annual report of the Company on Form 10-K for the fiscal year ended December 31, 2009 and that to the best of their knowledge:

- (1) the report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The purpose of this statement is solely to comply with Title 18, Chapter 63, Section 1350 of the United States Code, as amended by Section 906 of the Sarbanes-Oxley Act of 2002.

Date: March 22, 2010

/s/ Lee A. Brady

Lee A. Brady  
President and Chief Executive Officer

Date: March 22, 2010

/s/ Michele M. Thompson

Michele M. Thompson  
Executive Vice President and Chief Financial Officer