

UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

INDIANA DEPARTMENT OF FINANCIAL INSTITUTIONS
INDIANAPOLIS, INDIANA

Written Agreement by and among

TOWER FINANCIAL CORPORATION
Fort Wayne, Indiana

TOWER BANK & TRUST COMPANY
Fort Wayne, Indiana

FEDERAL RESERVE BANK OF
CHICAGO
Chicago, Illinois

and

INDIANA DEPARTMENT OF FINANCIAL
INSTITUTIONS
Indianapolis, Indiana

Docket Nos. 10-051-WA/RB-HC
10-051-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of Tower Financial Corporation (“TFC”), Fort Wayne, Indiana, a registered bank holding company, and its subsidiary bank, Tower Bank & Trust Company, Fort Wayne, Indiana (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, TFC, the Bank, the Federal Reserve Bank of Chicago (the “Reserve Bank”), and the Indiana Department of Financial Institutions (the “Department”) have mutually agreed to enter into this Written Agreement (the “Agreement”) in connection with the report of examination of the Bank conducted by the

Reserve Bank and the Department that commenced on September 28, 2009 based on financial statements as of June 30, 2009 (the “Report of Examination”); and

WHEREAS, on April 20, 2010, TFC’s and the Bank’s boards of directors, at duly constituted meetings, adopted resolutions authorizing and directing Michael Cahill to consent to this Agreement on behalf of TFC and the Bank, and consenting to compliance with each and every applicable provision of this Agreement by TFC, the Bank, and their institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (the “FDI Act”)(12 U.S.C. §§ 1813(u) and 1818(b)(3)).

NOW, THEREFORE, TFC, the Bank, the Reserve Bank, and the Department agree as follows:

Source of Strength

1. The board of directors of TFC shall take appropriate steps to fully utilize TFC’s financial and managerial resources, pursuant to section 225.4(a) of Regulation Y of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. § 225.4(a)) to ensure that the Bank complies with this Agreement and any other supervisory action taken by the Bank’s federal regulators or the Department.

Board Oversight

2. Within 60 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank and the Department a written plan to increase the board’s participation in the affairs of the Bank and to strengthen the board’s oversight of the management and operations of the Bank. The plan shall, at a minimum, address, consider, and include:

(a) The actions that the board of directors will take to improve the Bank’s condition and maintain effective control over, and supervision of, the Bank’s major operations

and activities, including but not limited to, credit risk management, allowance for loan and lease losses (“ALLL”), capital, earnings, and funds management; and

(b) a description of the information and reports that will be regularly reviewed by the board of directors in its oversight of the operations and management of the Bank, including information on the Bank’s adversely classified assets, concentrations of credit, ALLL, capital, earnings, and funds management.

Lending and Credit Administration

3. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable enhanced written lending and credit administration program that shall, at a minimum, address, consider, and include:

(a) Loan policies and procedures regarding the use of interest reserves and the renewal, extension, and refinancing of loans with interest reserves;

(b) revised policies and procedures to ensure that current financial information on all borrowers and guarantors is obtained, and contacts with borrowers are documented in credit files;

(c) revised policies and procedures regarding the preparation of real estate evaluations and appraisals consistent with the Interagency Appraisal and Evaluation Guidelines, dated October 28, 1994, SR 94-55, and the requirements of Subpart G of Regulation Y of the Board of Governors (12 C.F.R. Part 225, Subpart G), made applicable to state member banks by section 208.50 of Regulation H of the Board of Governors (12 C.F.R. § 208.50); and

(d) enhancements to the Bank’s internal loan grading system to ensure timely and accurate risk ratings.

(e) provision for the retention of sufficient experienced staff to resolve problem credits.

Asset Improvement

4. (a) The Bank shall not, directly or indirectly, extend, renew, or restructure any credit to or for the benefit of any borrower, including any related interest of the borrower, whose loans or other extensions of credit are criticized in the Report of Examination or in any subsequent report of examination, without the prior approval of a majority of the full board of directors or a designated committee thereof. The board of directors or its committee shall document in writing the reasons for the extension of credit, renewal, or restructuring, specifically certifying that: (i) the Bank's risk management policies and practices for loan workout activity are acceptable; (ii) the extension of credit is necessary to improve and protect the Bank's interest in the ultimate collection of the credit already granted and maximize its potential for collection; (iii) the extension of credit reflects prudent underwriting based on reasonable repayment terms and is adequately secured; and all necessary loan documentation has been properly and accurately prepared and filed; (iv) the Bank has performed a comprehensive credit analysis indicating that the borrower has the willingness and ability to repay the debt as supported by an adequate workout plan, as necessary; and (v) the board of directors or its designated committee reasonably believes that the extension of credit will not impair the Bank's interest in obtaining repayment of the already outstanding credit and that the extension of credit or renewal will be repaid according to its terms. The written certification shall be made a part of the minutes of the meetings of the board of directors or its committee, as appropriate, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in the borrower's credit file for subsequent

supervisory review. For purposes of this Agreement, the term “related interest” is defined as set forth in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. § 215.2(n)).

5. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable written plan designed to improve the Bank’s position through repayment, amortization, liquidation, additional collateral, or other means on each loan or other asset in excess of \$500,000, including other real estate owned (“OREO”), that (i) is past due as to principal or interest more than 90 days as of the date of this Agreement; (ii) is on the Bank’s problem loan list; or (iii) was adversely classified in the Report of Examination. In developing the plan for each loan, the Bank shall, at a minimum, review, analyze, and document the financial position of the borrower, including source of repayment, repayment ability, and alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank’s collateral position.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$500,000, including OREO, that (i) becomes past due as to principal or interest for more than 90 days; (ii) is on the Bank’s problem loan list; or (iii) is adversely classified in any subsequent report of examination of the Bank, the Bank shall submit to the Reserve Bank and the Department an acceptable written plan to improve the Bank’s position on such loan or asset.

(c) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank and the Department to update each asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset and changes in the nature and value of supporting collateral, along with a copy of the Bank’s current problem loan list, a list of all loan renewals and extensions without full collection of interest in the last quarter, and past due/non-accrual report. The board of directors shall

review the progress reports before submission to the Reserve Bank and the Department and shall document the review in the minutes of the board of directors' meetings.

Allowance for Loan and Lease Losses

6. (a) Within 10 days of this Agreement, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "loss" in the Report of Examination that have not been previously collected in full or charged off. Thereafter the Bank shall, within 30 days from the receipt of any federal or state report of examination, charge off all assets classified "loss" unless otherwise approved in writing by the Reserve Bank and the Department.

(b) Within 60 days of this Agreement, the Bank shall review and revise its allowance for loan and lease losses ("ALLL") methodology consistent with relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 (SR 01-17 (Sup)) and December 13, 2006 (SR 06-17), and the findings and recommendations regarding the ALLL set forth in the Report of Examination, and submit a description of the revised methodology to the Reserve Bank and the Department. The revised ALLL methodology shall be designed to maintain an adequate ALLL and shall address, consider, and include, at a minimum, the reliability of the Bank's loan grading system, the volume of criticized loans, concentrations of credit, the current level of past due and nonperforming loans, past loan loss experience, evaluation of probable losses in the Bank's loan portfolio, including adversely classified loans, and the impact of market conditions on loan and collateral valuations and collectability.

(c) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable written program for the maintenance of an adequate

ALLL. The program shall include policies and procedures to ensure adherence to the revised ALLL methodology and provide for periodic reviews and updates to the ALLL methodology, as appropriate. The program shall also provide for a review of the ALLL by the board of directors on at least a quarterly calendar basis. Any deficiency found in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions. The board of directors shall maintain written documentation of its review, including the factors considered and conclusions reached by the Bank in determining the adequacy of the ALLL. During the term of this Agreement, the Bank shall submit to the Reserve Bank and the Department, within 30 days after the end of each calendar quarter, a written report regarding the board of directors' quarterly review of the ALLL and a description of any changes to the methodology used in determining the amount of ALLL for that quarter.

Capital Plan

8. Within 60 days of this Agreement, TFC and the Bank shall submit to the Reserve Bank and the Department an acceptable joint written plan to maintain sufficient capital at TFC on a consolidated basis and the Bank as a separate legal entity on a stand-alone basis. The plan shall, at a minimum, address, consider, and include:

(a) TFC's current and future capital requirements, including compliance with the Capital Adequacy Guidelines for Bank Holding Companies: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and D of Regulation Y of the Board of Governors

(12 C.F.R. Part 225, App. A and D);

(b) the Bank's current and future capital requirements, including compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and B of Regulation H of the Board of Governors

(12 C.F.R. Part 208, App. A and B);

(c) the adequacy of the Bank's capital, taking into account the volume of classified assets, concentrations of credit, the adequacy of the ALLL, current and projected asset growth, projected retained earnings, and anticipated and contingency funding needs;

(d) the source and timing of additional funds to fulfill TFC's and the Bank's future capital requirements; and

(e) the requirements of section 225.4(a) of Regulation Y of the Board of Governors (12 C.F.R. § 225.4(a)) that TFC serve as a source of strength to the Bank.

9. TFC and the Bank shall notify the Reserve Bank and the Department, in writing, no more than 30 days after the end of any calendar quarter in which any of TFC's consolidated capital ratios or the Bank's capital ratios (total risk-based, Tier 1, or leverage) fall below the approved capital plan's minimum ratios. Together with the notification, the TFC and the Bank shall submit an acceptable written plan that details the steps TFC or the Bank, as appropriate, will take to increase TFC's or the Bank's capital ratios to or above the approved capital plan's minimums.

Liquidity and Funds Management

10. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable written plan designed to enhance liquidity risk management. The plan shall, at a minimum, address, consider, and include:

(a) Measures to enhance monitoring, analysis, and reporting of the Bank's cash flow and liquidity position; and

(b) periodic review of risk limits to ensure that they remain commensurate with the Bank's liquidity risk profile.

11. Within 30 days of this Agreement, the Bank shall revise and submit to the Reserve Bank and the Department an acceptable written contingency funding plan that, at a minimum, includes adverse scenario planning and identifies and quantifies available sources of liquidity for each scenario.

Dividends and Distributions

12. (a) The Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Division of Banking Supervision and Regulation of the Board of Governors (the “Director”), and the Department.

(b) TFC shall not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director.

(c) TFC shall not take any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank and the Department.

(d) TFC and its nonbank subsidiary shall not make any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank and the Director.

(e) All requests for prior approval shall be received at least 30 days prior to the proposed dividend declaration date, proposed distribution on subordinated debentures, and required notice of deferral on trust preferred securities. All requests shall contain, at a minimum, current and projected information, as appropriate, on the parent’s capital, earnings, and cash flow; the Bank’s capital, asset quality, earnings, and ALLL needs; and identification of the sources of funds for the proposed payment or distribution. For requests to declare or pay dividends, TFC and the Bank, as appropriate, must also demonstrate that the requested

declaration or payment of dividends is consistent with the Board of Governors' Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323), and Indiana Code 28-13-4-3.

Debt and Stock Redemption

13. (a) TFC and its nonbank subsidiary, shall not, directly or indirectly, incur, increase, or guarantee any debt without the prior written approval of the Reserve Bank. All requests for prior written approval shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

(b) TFC shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

Compliance with Laws and Regulations

14. (a) In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, TFC and the Bank shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. § 1831i) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. §§ 225.71 *et seq.*) and also provide notice to the Department. TFC and the Bank shall not appoint any individual to TFC's or the Bank's board of directors or employ or change the responsibilities of any individual as a senior executive officer if the Reserve Bank or the Department notifies TFC or the Bank of disapproval within the time limits prescribed by Subpart H of Regulation Y.

(b) TFC and the Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. Part 359).

Compliance with Agreement

15. (a) Within 10 days of this Agreement, TFC and the Bank's boards of directors shall appoint a joint compliance committee (the "Compliance Committee") to monitor and coordinate TFC's and the Bank's compliance with the provisions of this Agreement. The Compliance Committee shall include a majority of outside directors who are not executive officers or principal shareholders of TFC and the Bank, as defined in sections 215.2(e)(1) and 215.2(m)(1) of Regulation O of the Board of Governors (12 C.F.R. §§ 215.2(e)(1) and 215.2(m)(1)). At a minimum, the Compliance Committee shall meet at least monthly, keep detailed minutes of each meeting, and report its findings to the boards of directors of TFC and the Bank.

Progress Reports

16. Within 30 days after the end of each calendar quarter following the date of this Agreement, the Bank shall submit to the Reserve Bank and the Department written progress reports detailing the form and manner of all actions taken to secure compliance with the provisions of this Agreement and the results thereof.

Approval and Implementation of Plans and Program

17. (a) TFC and the Bank shall submit written plans and programs that are acceptable to the Reserve Bank and the Department within the applicable time periods set forth in paragraphs 3, 5(a), 5(b), 6(c), 8, 9, 10, and 11 of this Agreement.

(b) Within 10 days of approval by the Reserve Bank and the Department, TFC and the Bank shall adopt the approved plans and program. Upon adoption, TFC and the Bank shall promptly implement the approved plans and program, and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans and program shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Department.

Communications

18. All communications regarding this Agreement shall be sent to:

- (a) Mr. Burl H. Thornton
Assistant Vice President
Supervision and Regulation Department
Federal Reserve Bank of Chicago
230 South LaSalle Street
Chicago, Illinois 60604
- (b) Mr. David H. Mills
Director
Indiana Department of Financial Institutions
30 South Meridian Street, Suite 300
Indianapolis, Indiana 46204
- (c) Mr. Michael D. Cahill
President
Tower Financial Corporation
Tower Bank & Trust Company
116 East Berry Street
Fort Wayne, Indiana 46802

Miscellaneous

19. Notwithstanding any provision of this Agreement, the Reserve Bank and the Department may, in their sole discretion, grant written extensions of time to TFC and the Bank to comply with any provision of this Agreement.

20. The provisions of this Agreement shall be binding upon TFC, the Bank, and their institution-affiliated parties, in their capacities as such, and their successors and assigns.

21. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank and the Department.

22. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the Department, or any other federal or state agency from taking any other action affecting TFC, the Bank, or any of their current or former institution-affiliated parties and their successors and assigns.

23. Pursuant to Section 50 of the FDI Act (12 U.S.C. § 1831aa), this Agreement is enforceable by the Board of Governors under Section 8 of the FDI Act (12 U.S.C. § 1818). In addition, this Agreement is enforceable by the Department under Section 28-11-4-10 of the Indiana Code.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 23rd day of April, 2010.

TOWER FINANCIAL CORPORATION

FEDERAL RESERVE BANK
OF CHICAGO

By: /s/ Michael D. Cahill
Michael D. Cahill
President

By: /s/ Mark H. Kawa
Mark H. Kawa
Vice President

TOWER BANK & TRUST
COMPANY

INDIANA DEPARTMENT OF
FINANCIAL INSTITUTIONS

By: /s/ Michael D. Cahill
Michael D. Cahill
President

By: /s/ David H. Mills
David H. Mills
Director