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**TOWER FINANCIAL CORPORATION REPORTS RECORD ANNUAL INCOME OF  
\$6.6 MILLION**

FORT WAYNE, INDIANA – JANUARY 26, 2012 –Tower Financial Corporation (NASDAQ: TOFC) reported record quarterly net income of \$3.4 million or \$0.71 per diluted share for the fourth quarter of 2011, compared with net income of \$884,000 or \$0.18 per diluted share, reported for the fourth quarter 2010. Year to date earnings were a record \$6.6 million, or \$1.36 per diluted share, compared to \$3.2 million, or \$0.69 per diluted share for 2010.

Our fourth quarter and annual highlights include:

- Record “Core” quarterly earnings of \$2.8 million and record “core” annual earnings of \$10.1 million. We define core earnings as income before taxes, loan loss provision, and unusual items not related to day to day operations (primarily securities sales, OREO (“other real estate owned”) related expenses, and timing of long-term incentives).
- Included in our fourth quarter and our 2011 annual results, is the reversal of the valuation allowance on our Deferred Tax Asset (“DTA”) with a positive tax-effected impact to income in the amount of \$2.7 million. The reversal of the valuation allowance was the result of eight consecutive quarters of positive net income. Our net income prior to the reversal was \$4.2 million, or \$0.87 per diluted share, which still represents the highest net income in our history. Fourth quarter net income prior to the reversal was \$1.0 million, or \$0.21 per diluted share, our third consecutive quarter in excess of \$1.0 million in earnings. (Note: The DTA impact is not included in “core” earnings discussed above.)
- Record annual revenues of \$30.9 million, including record annual fee income of \$8.2 million, led by \$3.6 million in Trust fees and \$1.1 million in Mortgage Brokerage fees.
- Our classified assets decreased \$22.0 million during 2011, or 43.9 percent, and now stand at 34.98 percent of Tier 1 capital plus Allowance for Loan Losses (“ALLL”).

- Our capital ratios continue to increase and remain well above the regulatory standards necessary to be considered “well-capitalized.” As of December 31, 2011, our leverage ratio was 11.0 percent and our Total Risked Based Capital ratio was 15.2 percent, compared to regulatory requirements of 5.0 percent and 10.0 percent, respectively.

“We are extremely pleased to report record net income during a time of industry and economic uncertainty. This is the result of a lot of hard work over a long period of time by our talented and dedicated team members. We believe the reversal of the valuation allowance on our DTA demonstrates the belief in Tower’s ability to be profitable in the years ahead,” Commented Michael D. Cahill, President and CEO. “While this is a significant milestone in Tower’s history, our work is by no means complete. We still have significant opportunities to expand our impact in our local communities, improve our service levels and efficiencies, and acquire new customers. We look forward to making continued progress for the benefit of all our stakeholders”.

### Capital

The Company’s regulatory capital ratios continue to remain above the “well-capitalized” levels of 6 percent for Tier 1 capital and 10 percent for Total risk-based capital. Tier 1 capital at December 31, 2011, increased to 13.9 percent, compared to 13.1 percent at December 31, 2010. Total risk-based capital at December 31, 2011, increased to 15.2 percent, compared to 14.3 percent at December 31, 2010. Leverage capital grew to 11.0 percent at December 31, 2011, more than double the regulatory requirement of 5 percent to be considered “well-capitalized”.

The following table shows the current capital position as of December 31, 2011 in both dollars and percentages, compared to the minimum amounts required per regulatory standards for “well-capitalized” institutions.

| <u>Minimum Dollar Requirements</u><br>(\$000's omitted) | Regulatory<br><u>Minimum (Well-Capitalized)</u> | Tower<br><u>12/31/11</u> | <u>Excess</u> |
|---|---|--------------------------|---------------|
| Tier 1 Capital / Risk Assets                            | \$31,652  | \$73,364                 | \$41,712      |
| Total Risk Based Capital / Risk Assets                  | \$52,753  | \$79,993                 | \$27,240      |
| Tier 1 Capital / Average Assets (Leverage)              | \$33,425  | \$73,364                 | \$39,939      |
| <u>Minimum Percentage Requirements</u>                  | Regulatory<br><u>Minimum (Well-Capitalized)</u> | Tower<br><u>12/31/11</u> |               |
| Tier 1 Capital / Risk Assets                            | 6% or more                                      | 13.91%                   |               |
| Total Risk Based Capital / Risk Assets                  | 10% or more                                     | 15.16%                   |               |
| Tier 1 Capital / Quarterly Average Assets               | 5% or more                                      | 10.97%                   |               |

## Asset Quality

Our nonperforming assets plus delinquencies were \$17.1 million, or 2.5 percent of total assets as of December 31, 2011. This compares with \$ 16.9 million, or 2.6 percent of total assets at September 30, 2011 and \$27.8 million, or 4.2 percent of total assets at December 31, 2010. Our net charge-offs were \$1.6 million for the fourth quarter 2011, or 1.4 percent of average loan outstandings for the quarter. This compares to net charge-offs of \$2.8 million, or 2.3 percent of average loans for the third quarter 2011 and \$332,000, or 0.3 percent of average loans for the fourth quarter of 2010. Net charge-offs during the fourth quarter related primarily to two loan relationships. Net charge-offs for 2011 were 7.3 million, or 1.5 percent of average loans compared to \$3.9 million, or 0.8 percent of average loans for 2010. Our loan loss provision for 2011 was \$4.2 million compared to \$4.7 million for 2010.

The current and historical breakdown of our non-performing assets is as follows:

| (\$000's omitted)                  | 12/31/11      | 9/30/11       | 6/30/11       | 3/31/11       | 12/31/10      |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Non-Accrual loans                  |               |               |               |               |               |
| Commercial                         | 5,020         | 5,978         | 5,983         | 7,338         | 6,155         |
| Acquisition & Development          | 2,134         | 2,464         | 1,802         | 3,305         | 3,489         |
| Commercial Real Estate             | 977           | 1,078         | 1,233         | 1,443         | 2,452         |
| Residential Real Estate            | 551           | 393           | 645           | 652           | 843           |
| Total Non-accrual loans            | 8,682         | 9,913         | 9,663         | 12,738        | 12,939        |
| Trouble-debt restructured (TDR)    | 1,805         | 1,810         | 1,822         | 2,119         | 7,502         |
| OREO                               | 3,129         | 3,827         | 3,729         | 4,741         | 4,284         |
| Delinquencies greater than 90 days | 3,230         | 1,028         | 2,123         | 2,873         | 2,688         |
| Impaired Securities                | 331           | 332           | 386           | 402           | 422           |
| <b>Total Non-Performing Assets</b> | <b>17,177</b> | <b>16,910</b> | <b>17,723</b> | <b>22,873</b> | <b>27,835</b> |
| Allowance for Loan Losses (ALLL)   | 9,408         | 10,065        | 12,017        | 11,908        | 12,489        |
| ALLL / Non-accrual loans           | 108.4%        | 101.5%        | 124.4%        | 93.5%         | 96.5%         |
| Classified Assets                  | 28,269        | 35,475        | 41,598        | 46,027        | 50,115        |

The non-performing troubled-debt restructured ("TDR") category consists of two loan relationships. These two relationships are separate parts of a larger land development project. Due to the project being primarily collateral dependent with limited activity in the last year, we renewed the matured notes and allowed a period of several months to pay interest only.

Our delinquencies greater than 90 days have increased by \$2.2 million from the third quarter 2011. The increase is due to the addition of an accruing \$1.2 million commercial loan and a 1.2 million residential mortgage loan. The category consists of two commercial real estate loans totaling \$430,000, one commercial loan totaling \$1.2 million, four residential first mortgages totaling \$1.3 million, and several consumer loans totaling \$234,000.

Our non-accrual commercial and industrial loan category decreased by \$958,000 during the fourth quarter of 2011. The primary reasons for the decrease were payments totaling \$1.3 million received on two loans and the return to accruing status of a loan in the amount of \$259,000. One new relationship was added to non-accrual in this category in the amount of \$740,000. At December 31, 2011, there were nine relationships within this category, with four relationships comprising 78.0 percent of the total.

Our non-accrual commercial real estate category decreased by \$101,000 during the fourth quarter due to upgrading a \$100,000 relationship to an accruing substandard loan. No loans were added to this category during the fourth quarter and it comprised of four relationships as of December 31, 2011.

Our non-accrual acquisition and development category decreased by \$330,000 during the fourth quarter. The decrease was the result of one loan sale of \$1.5 million offset by the addition of a new relationship in the amount of \$1.2 million. There are three remaining relationships in this category as of December 31, 2011.

Our non-accrual residential category increased by \$158,000 during the fourth quarter. This was the result of three small loans being added to the list. In total there are seven relationships that currently comprise the balance in this category.

Classified assets are comprised of substandard and non-accrual loans, along with impaired investments and OREO. Classified assets reached their peak at the end of the second quarter of 2009 at \$63.0 million. We have made steady progress to reduce these assets by \$34.9 million, or 55.4 percent since the end of the second quarter of 2009. As of December 31, 2011, classified assets totaled \$28.1 million and comprised 34.98 percent of Tier 1 capital plus the Allowance for Loan Losses ("ALLL").

The allowance for loan losses decreased \$657,000 during the fourth quarter of 2011 and was 2.03 percent of total loans at December 31, 2011, a decrease from 2.14 percent at September 30, 2011 and from 2.56 percent at December 31, 2010. The allowance for loan losses has decreased by \$3.1 million from December 31, 2010, as a result of loan provision of \$4.2 million, offset by \$7.3 million of net charge-offs. We continue to maintain an allowance for loan loss balance at more than 100% of our non-accrual loans.

### **Balance Sheet**

Company assets were \$700.7 million at December 31, 2011, an increase of \$40.8, or 6.2 percent from December 31, 2010. The significant increase stems from two large December deposits that increased our balance sheet by approximately \$48 million as of the end of the year. The deposits are short-term and we expect them to leave the bank by the end of January 2012. Taking these short-term deposits into account, our assets decreased by approximately \$7.2 million during 2011. The decrease was primarily the net result of a \$24.4 million decrease in our loan outstandings, offset by an increase of \$18.5 million in our investment portfolio.

Our total loans at December 31, 2011 were \$462.6 million, compared to \$486.9 million at December 31, 2010. The year to date decrease in loans came primarily from the Commercial and Industrial portfolio, which declined by \$17.9 million. Our home equity loans have decreased by \$3.8 million. Our consumer loans have decreased by \$2.2 million, and our commercial real estate loans have decreased by \$1.9 million. These loan decreases are offset by growth of \$1.8 million in our residential mortgage portfolio. The majority of this decrease in loans relates directly to the \$20.7 million reduction in 'classified loans' during 2011. The lending environment has been challenging, but aside from our purposeful reductions from our focus on asset quality, we have been successful in replacing the amortization and payoff of existing loans with new opportunities.

Our long term investments at December 31, 2011 were \$128.6 million, an increase of \$18.5 million from December 31, 2010. Sales within our investment portfolio generated \$777,000 of income during 2011, as restructuring opportunities within the market allowed us to monetize some gains and reinvest the proceeds with minimal impact to the portfolio yield. Long-term investments now comprise 18.4 percent of total assets as we continue to expand our investment portfolio to enhance liquidity and yield opportunities, bring a more purposeful balance to our balance sheet asset allocation, and offset loan growth challenges within the local economy.

Our total deposits at December 31, 2011 were \$602.0 million compared to \$576.4 million at December 31, 2010. As mentioned above, we received two large, short-term, deposits of approximately \$48 million in December 2011 that increased our balance sheet. Therefore, our adjusted deposits at December 31, 2011 were \$554.0 million. This represents a decrease of approximately \$22 million from December 31, 2010. The decrease came primarily from a reduction in certificates of deposit, which decreased \$30.4 million, and brokered certificate of deposit, which decreased \$2.9 million. These decreases were offset by growth in our health savings account portfolio of \$15.1 million. Our core deposits at December 31, 2011 were \$473.6 million and comprised 78.7 percent of total deposits. Our cost of interest-bearing deposits was 0.92 percent for the fourth quarter 2011, a reduction from the 1.09 percent posted for the third quarter 2011. For 2011, the cost of interest-bearing deposits was 1.07 percent, compared to 1.36 percent for 2010.

Our borrowings were \$29.5 million at December 31, 2011 and were comprised of \$17.5 million in trust preferred debt and \$12.0 million in fixed term borrowings from the Federal Home Loan Bank of Indianapolis ("FHLBI"). The fixed term debt with the FHLBI does not mature until 2012 and 2013.

Shareholders' equity was \$62.1 million at December 31, 2011, an increase of 16.9 percent from the \$53.1 million reported at December 31, 2010. Affecting the year to date increase in stockholders' equity was net income of \$6.6 million (of which approximately \$2.7 million was derived from the reversal of the valuation allowance on our DTA), \$45,000 of additional paid in capital from the accounting treatment for stock options and restricted stock vesting, and an increase of \$2.3 million in unrealized gains, net of tax, on securities available for sale. Current common shares outstanding are 4,853,761.

### **Operating Statement**

Our total revenue, consisting of net interest income and noninterest income, was \$7.8 million for the fourth quarter 2011, a decrease of \$290,000 from the third quarter. Total revenue for 2011 was \$30.9 million, compared to \$30.1. The 2011 total represents the highest revenue in our history. Fourth quarter 2011 net interest income was \$5.7 million a slight increase of \$23,000 from the third quarter 2011. Year to date net interest income was \$22.8 million, compared to \$22.3 million in 2010. This also represents the highest mark in our history. The annual increase in our net interest income was the result of a 15 basis point improvement in our net interest margin. The increase came from a reduction in our cost of funds, which dropped from 1.56 percent in 2010 to 1.21 percent in 2011. This more than offset the decrease in our earning asset yield from 5.02 percent in 2010 to 4.86 percent in 2011. The current low interest rate environment provides challenges as we reinvest the cash flows and maturities from our investment and loan portfolios. We have been able to offset this with a reduction in our deposit rates and repositioning the mix of our deposits to lower our interest expense.

Non-interest income was \$2.1 million for the fourth quarter 2011, which represented 26.5 percent of total revenue. This is a decrease of \$313,000 from the third quarter. The decrease stems from our \$331,000 of gains on sales of securities during the third quarter. We did not sell any of our investment securities during the fourth quarter. Mortgage brokerage fees decreased by \$302,000, primarily the result of an adjustment in accounting treatment for the fair value of rate locks on mortgage loans originated for sale that have not yet been closed. This adjustment caused a \$175,000 decrease in the fair value since the majority of the unclosed loans at September 30, 2011 closed during the fourth quarter. This decrease was offset by a \$245,000 increase in trust fees, as our trust fees topped \$1.0 million for the first time in our history. Year to date non-interest income was \$8.2 million compared to \$7.8 million in 2010. The increase came primarily from Mortgage Brokerage fees, which increased \$306,000, and Debit Card interchange fees, which increased \$211,000. These increases were offset by a reduction in gains on sale from our securities portfolio of \$333,000.

Non-interest expenses were \$5.8 million, an increase of \$418,000 from the third quarter 2011. The primary reasons for the increase stemmed from an increase in Other Real Estate Owned ("OREO") expenses of \$138,000, an increase in employment expenses of \$360,000, and an increase in occupancy and equipment expenses of \$68,000. The increase in OREO expenses related to the reduction in the value of certain assets in the portfolio. The increase in employment expenses related primarily to incentives earned based on our successful year and improvement of our asset quality metrics. Salary expense remained relatively flat quarter over quarter.

Year to date non-interest expenses were \$21.6 million, an increase of \$376,000 from 2010. This was the net result of a decrease in FDIC insurance premiums of \$692,000 and a decrease in OREO expenses of \$646,000; offset by an increase in employment expenses of \$1.6 million. \$400,000 of increase in employment expenses relates to salaries, which increased by 5.7 percent from 2010. \$625,000 of the increase relates to incentive programs specific to 2011, while \$172,000 relates to an increase in our profit sharing expense as a result of our increased profitability. The remainder relates to increases in payroll taxes and benefits. All other expense categories remained relatively flat from 2010.

## **ABOUT THE COMPANY**

Headquartered in Fort Wayne, Indiana, Tower Financial Corporation is a financial services holding company with one subsidiary; Tower Bank & Trust Company (Tower Bank), a community bank headquartered in Fort Wayne. Tower Bank provides a wide variety of financial services to businesses and consumers through its six full-service financial centers in Fort Wayne, and one in Warsaw, Indiana. Tower Bank has a wholly-owned subsidiary, Tower Trust Company, which is a state-chartered wealth services firm doing business as Tower Private Advisors. Tower Bank also markets under the HSA Authority brand, which provides Health Savings Accounts to clients in 48 states. Tower Financial Corporation's common stock is listed on the NASDAQ Global Market under the symbol "TOFC." For further information, visit Tower's web site at [www.towerbank.net](http://www.towerbank.net)

## **FORWARD-LOOKING STATEMENTS**

This news release contains forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy, and about the Corporation and the Bank.

These forward-looking statements are intended to be covered by the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Actual results and outcomes may differ materially from what may be expressed or forecasted in the forward-looking statements. Future factors include changes in banking regulation; changes in governmental and regulatory policy or enforcement; changes in the national and local economy; changes in interest rates and interest-rate relationships; demand for products and services; the degree of competition by traditional and non-traditional competitors; changes in tax laws; changes in prices; the impact of technological advances; the outcomes of contingencies, trends in customer behavior and their ability to repay loans; changes in local real estate values; and other factors, including various risk factors identified and described in the Corporation's Annual Report on Form 10-K, quarterly reports of Form 10-Q and in other periodic reports we file from time to time with the Securities and Exchange Commission. These reports are available on the Commission's website at [www.sec.gov](http://www.sec.gov), as well as on our website at [www.towerbank.net](http://www.towerbank.net)

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## Tower Financial Corporation

**Consolidated Balance Sheets**

At December 31, 2011 and December 31, 2010

|   | (unaudited)           |                       |
|---|-----------------------|-----------------------|
|   | December 31           | December 31           |
|   | 2011                  | 2010                  |
| <b>ASSETS</b>   |                       |                       |
| Cash and due from banks   | \$ 60,753,268         | \$ 24,717,935         |
| Short-term investments and interest-earning deposits  | 3,260,509             | 3,313,006             |
| Federal funds sold  | 3,258,245             | 1,648,441             |
| Total cash and cash equivalents   | <u>67,272,022</u>     | <u>29,679,382</u>     |
| Interest bearing deposits   | 450,000               | 996,000               |
| Securities available for sale, at fair value  | 128,619,951           | 110,108,656           |
| FHLBI and FRB stock   | 3,807,700             | 4,075,100             |
| Loans Held for Sale   | 4,930,368             | 2,140,872             |
| Loans   | 462,561,174           | 486,914,115           |
| Allowance for loan losses   | (9,408,013)           | (12,489,400)          |
| Net loans   | <u>453,153,161</u>    | <u>474,424,715</u>    |
| Premises and equipment, net   | 9,062,817             | 8,329,718             |
| Accrued interest receivable   | 2,675,870             | 2,391,953             |
| Bank Owned Life Insurance   | 17,084,858            | 13,516,789            |
| Other Real Estate Owned   | 3,129,231             | 4,284,263             |
| Prepaid FDIC Insurance  | 1,551,133             | 2,864,527             |
| Other assets  | 8,944,145             | 7,116,280             |
| Total assets  | <u>\$ 700,681,256</u> | <u>\$ 659,928,255</u> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                       |                       |
| <b>LIABILITIES</b>  |                       |                       |
| Deposits:   |                       |                       |
| Noninterest-bearing   | \$ 169,757,998        | \$ 92,872,957         |
| Interest-bearing  | 432,278,838           | 483,483,179           |
| Total deposits  | <u>602,036,836</u>    | <u>576,356,136</u>    |
| Fed Funds Purchased   | -                     | -                     |
| Federal Home Loan Bank advances   | 12,000,000            | 7,500,000             |
| Junior subordinated debt  | 17,527,000            | 17,527,000            |
| Accrued interest payable  | 2,148,424             | 1,415,713             |
| Other liabilities   | 4,871,924             | 4,000,654             |
| Total liabilities   | <u>638,584,184</u>    | <u>606,799,503</u>    |
| <b>STOCKHOLDERS' EQUITY</b>   |                       |                       |
| Preferred stock, no par value, 4,000,000 shares authorized;<br>no shares issued and outstanding   | -                     | 757,213               |
| Common stock and paid-in-capital, no par value, 6,000,000<br>shares authorized; 4,918,761 and 4,789,023 shares issued at December 31, 2011<br>and December 31, 2010, respectively; and 4,853,761 and 4,724,023 shares<br>outstanding at December 31, 2011 and December 31, 2010, respectively | 44,542,795            | 43,740,155            |
| Treasury stock, at cost, 65,000 shares at December 31, 2011 and<br>December 31, 2010  | (884,376)             | (884,376)             |
| Retained earnings   | 15,070,115            | 8,450,579             |
| Accumulated other comprehensive income (loss), net of tax<br>of \$1,735,307 at December 31, 2011 and \$548,730<br>at December 31, 2010  | 3,368,538             | 1,065,181             |
| Total stockholders' equity  | <u>62,097,072</u>     | <u>53,128,752</u>     |
| Total liabilities and stockholders' equity  | <u>\$ 700,681,256</u> | <u>\$ 659,928,255</u> |

Tower Financial Corporation  
**Consolidated Statements of Operations**  
For the three months and year ended December 31, 2011 and 2010  
(unaudited)

|   | For the Three Months Ended |              | For the Year ended |               |
|---|----------------------------|--------------|--------------------|---------------|
|   | 31-Dec                     |              | 31-Dec             |               |
|   | 2011                       | 2010         | 2011               | 2010          |
| <b>Interest income:</b>   |                            |              |                    |               |
| Loans, including fees   | \$ 5,990,191               | \$ 6,466,670 | \$ 24,828,298      | \$ 26,847,111 |
| Securities - taxable  | 538,561                    | 606,566      | 2,295,838          | 2,502,200     |
| Securities - tax exempt   | 498,937                    | 301,658      | 1,730,535          | 1,071,876     |
| Other interest income   | 13,436                     | 12,781       | 39,041             | 31,334        |
| Total interest income   | 7,041,125                  | 7,387,675    | 28,893,712         | 30,452,521    |
| <b>Interest expense:</b>  |                            |              |                    |               |
| Deposits  | 1,076,737                  | 1,502,196    | 5,090,715          | 6,566,581     |
| Fed Funds Purchased   | 26                         | 8            | 638                | 138           |
| FHLB advances   | 45,501                     | 68,902       | 230,713            | 465,756       |
| Trust preferred securities  | 211,745                    | 296,349      | 816,852            | 1,158,956     |
| Total interest expense  | 1,334,009                  | 1,867,455    | 6,138,918          | 8,191,431     |
| Net interest income   | 5,707,116                  | 5,520,220    | 22,754,794         | 22,261,090    |
| Provision for loan losses   | 975,000                    | 805,000      | 4,220,000          | 4,745,000     |
| Net interest income after provision<br>for loan losses                    | 4,732,116                  | 4,715,220    | 18,534,794         | 17,516,090    |
| <b>Noninterest income:</b>  |                            |              |                    |               |
| Trust and brokerage fees  | 1,048,264                  | 939,864      | 3,553,965          | 3,604,907     |
| Service charges   | 278,968                    | 281,103      | 1,092,260          | 1,125,707     |
| Mortgage banking income   | 227,937                    | 200,619      | 1,026,711          | 720,615       |
| Gain/(Loss) on sale of securities   | -                          | 175,136      | 776,753            | 1,109,743     |
| Net debit card interchange income   | 158,469                    | 92,548       | 612,143            | 400,648       |
| Bank owned life insurance income  | 147,028                    | 117,401      | 568,070            | 470,216       |
| Impairment on AFS securities  | -                          | (128,169)    | (149,045)          | (158,303)     |
| Other fees  | 198,749                    | 146,859      | 670,294            | 540,571       |
| Total noninterest income  | 2,059,415                  | 1,825,361    | 8,151,151          | 7,814,104     |
| <b>Noninterest expense:</b>   |                            |              |                    |               |
| Salaries and benefits   | 3,145,882                  | 2,509,822    | 11,185,034         | 9,578,932     |
| Occupancy and equipment   | 677,006                    | 644,037      | 2,494,913          | 2,533,688     |
| Marketing   | 100,095                    | 55,689       | 431,833            | 423,443       |
| Data processing   | 322,892                    | 369,669      | 1,335,034          | 1,128,096     |
| Loan and professional costs   | 370,687                    | 411,701      | 1,612,321          | 1,629,582     |
| Office supplies and postage   | 58,264                     | 53,190       | 228,281            | 245,938       |
| Courier service   | 58,061                     | 55,222       | 224,987            | 221,756       |
| Business Development  | 138,379                    | 128,695      | 464,807            | 406,775       |
| Communication Expense   | 49,131                     | 46,067       | 192,520            | 186,164       |
| FDIC Insurance Premiums   | 249,209                    | 525,878      | 1,367,622          | 2,059,524     |
| OREO Expenses   | 419,370                    | 293,221      | 1,057,503          | 1,703,791     |
| Other expense   | 236,616                    | 251,894      | 1,023,585          | 1,125,007     |
| Total noninterest expense   | 5,825,592                  | 5,345,085    | 21,618,440         | 21,242,696    |
| Income/(loss) before income taxes/(benefit)                               | 965,939                    | 1,195,496    | 5,067,505          | 4,087,498     |
| Income taxes expense/(benefit)  | (2,456,540)                | 311,917      | (1,552,031)        | 923,727       |
| Net income/(loss)   | \$ 3,422,479               | \$ 883,579   | \$ 6,619,536       | \$ 3,163,771  |
| Less: Preferred Stock Dividends   | -                          | -            | -                  | -             |
| Net income/(loss) available to common shareholders                        | \$ 3,422,479               | \$ 883,579   | \$ 6,619,536       | \$ 3,163,771  |
| Basic earnings/(loss) per common share                                    | \$ 0.71                    | \$ 0.19      | \$ 1.37            | \$ 0.73       |
| Diluted earnings/(loss) per common share                                  | \$ 0.71                    | \$ 0.18      | \$ 1.36            | \$ 0.69       |
| Average common shares outstanding   | 4,853,761                  | 4,720,159    | 4,824,660          | 4,334,084     |
| Average common shares and dilutive<br>potential common shares outstanding | 4,853,761                  | 4,852,759    | 4,853,160          | 4,558,918     |
| Total Shares outstanding at end of period                                 | 4,853,761                  | 4,724,023    | 4,853,761          | 4,724,023     |
| Dividends declared per common share                                       | \$ -                       | \$ -         | \$ -               | \$ -          |

Tower Financial Corporation  
Consolidated Financial Highlights

(unaudited)

|  | Year-To-Date    |                 |                 |                 |                 |                 |                 |                 |           |           |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------|-----------|
|  | 4th Qtr<br>2011 | 3rd Qtr<br>2011 | 2nd Qtr<br>2011 | 1st Qtr<br>2011 | 4th Qtr<br>2010 | 3rd Qtr<br>2010 | 2nd Qtr<br>2010 | 1st Qtr<br>2010 | 2011      | 2010      |
| <i>(\$ in thousands except for share data)</i> |                 |                 |                 |                 |                 |                 |                 |                 |           |           |
| <b>EARNINGS</b>                                |                 |                 |                 |                 |                 |                 |                 |                 |           |           |
| Net interest income                            | \$ 5,707        | 5,684           | 5,721           | 5,643           | 5,521           | 5,580           | 5,597           | 5,563           | 22,755    | 22,261    |
| Provision for loan loss                        | \$ 975          | 900             | 1,125           | 1,220           | 805             | 1,500           | 1,100           | 1,340           | 4,220     | 4,745     |
| NonInterest income                             | \$ 2,059        | 2,372           | 2,072           | 1,647           | 1,825           | 2,657           | 1,734           | 1,598           | 8,150     | 7,814     |
| NonInterest expense                            | \$ 5,826        | 5,408           | 5,292           | 5,093           | 5,345           | 5,350           | 5,642           | 4,905           | 21,619    | 21,242    |
| Net income/(loss)                              | \$ 3,422        | 1,325           | 1,090           | 783             | 884             | 1,045           | 514             | 721             | 6,620     | 3,164     |
| Basic earnings per share                       | \$ 0.71         | 0.27            | 0.23            | 0.16            | 0.19            | 0.24            | 0.13            | 0.18            | 1.37      | 0.74      |
| Diluted earnings per share                     | \$ 0.71         | 0.27            | 0.22            | 0.16            | 0.18            | 0.22            | 0.12            | 0.17            | 1.36      | 0.69      |
| Average shares outstanding                     | 4,853,761       | 4,852,761       | 4,835,510       | 4,754,892       | 4,720,159       | 4,427,370       | 4,090,432       | 4,090,432       | 4,824,660 | 4,334,084 |
| Average diluted shares outstanding             | 4,853,761       | 4,852,761       | 4,853,035       | 4,852,759       | 4,852,759       | 4,669,965       | 4,394,419       | 4,394,419       | 4,853,160 | 4,558,918 |
| <b>PERFORMANCE RATIOS</b>                      |                 |                 |                 |                 |                 |                 |                 |                 |           |           |
| Return on average assets *                     | 2.02%           | 0.80%           | 0.66%           | 0.48%           | 0.53%           | 0.63%           | 0.31%           | 0.43%           | 1.00%     | 0.48%     |
| Return on average common equity *              | 23.22%          | 9.24%           | 7.92%           | 5.92%           | 6.56%           | 8.17%           | 4.26%           | 6.17%           | 11.81%    | 6.33%     |
| Net interest margin (fully-tax equivalent)     | 3.93%           | 3.80%           | 3.83%           | 3.83%           | 3.72%           | 3.69%           | 3.72%           | 3.66%           | 3.85%     | 3.70%     |
| Efficiency ratio                               | 75.02%          | 67.13%          | 67.91%          | 69.85%          | 72.76%          | 64.95%          | 76.96%          | 68.50%          | 69.95%    | 70.63%    |
| Full-time equivalent employees                 | 150.75          | 158.50          | 157.00          | 150.75          | 150.75          | 149.25          | 145.75          | 150.25          | 150.75    | 150.75    |
| <b>CAPITAL</b>                                 |                 |                 |                 |                 |                 |                 |                 |                 |           |           |
| Equity to assets                               | 8.86%           | 8.80%           | 8.47%           | 8.19%           | 8.05%           | 8.09%           | 7.44%           | 7.12%           | 8.86%     | 8.05%     |
| Regulatory leverage ratio                      | 10.97%          | 11.09%          | 10.82%          | 10.59%          | 10.55%          | 10.35%          | 9.50%           | 9.20%           | 10.97%    | 10.55%    |
| Tier 1 capital ratio                           | 13.91%          | 14.02%          | 13.66%          | 13.27%          | 13.10%          | 12.73%          | 11.62%          | 11.14%          | 13.91%    | 13.10%    |
| Total risk-based capital ratio                 | 15.16%          | 15.28%          | 14.92%          | 14.53%          | 14.30%          | 13.98%          | 13.11%          | 12.66%          | 15.16%    | 14.30%    |
| Book value per share                           | \$ 12.79        | 11.97           | 11.54           | 11.11           | 11.09           | 11.15           | 11.53           | 11.30           | 12.79     | 11.09     |
| Cash dividend per share                        | \$ 0.000        | 0.000           | 0.000           | 0.000           | 0.000           | 0.000           | 0.000           | 0.000           | 0.000     | 0.000     |
| <b>ASSET QUALITY</b>                           |                 |                 |                 |                 |                 |                 |                 |                 |           |           |
| Net charge-offs                                | \$ 1,632        | 2,852           | 1,015           | 1,802           | 332             | 2,202           | 531             | 789             | 7,301     | 3,854     |
| Net charge-offs to average loans *             | 1.38%           | 2.34%           | 0.84%           | 1.49%           | 0.27%           | 1.74%           | 0.41%           | 0.61%           | 1.51%     | 0.76%     |
| Allowance for loan losses                      | \$ 9,408        | 10,065          | 12,017          | 11,908          | 12,489          | 12,016          | 12,718          | 12,150          | 9,408     | 12,489    |
| Allowance for loan losses to total loans       | 2.03%           | 2.14%           | 2.46%           | 2.43%           | 2.56%           | 2.43%           | 2.50%           | 2.32%           | 2.03%     | 2.56%     |
| Other real estate owned (OREO)                 | \$ 3,129        | 3,827           | 3,729           | 4,741           | 4,284           | 3,843           | 6,477           | 4,443           | 3,129     | 4,284     |
| Non-accrual Loans                              | \$ 8,682        | 9,913           | 9,663           | 12,738          | 12,939          | 10,768          | 10,360          | 13,974          | 3,129     | 12,939    |
| 90+ Day delinquencies                          | \$ 3,230        | 1,028           | 2,123           | 2,873           | 2,688           | 3,175           | 2,213           | 3,223           | 8,682     | 2,688     |
| Restructured Loans                             | \$ 1,805        | 1,810           | 1,822           | 2,120           | 7,502           | 1,761           | 1,862           | 1,997           | 1,805     | 7,502     |
| Total Nonperforming Loans                      | 13,717          | 12,751          | 13,608          | 17,731          | 23,129          | 15,704          | 14,435          | 19,194          | 13,717    | 23,129    |
| Impaired Securities (Market Value)             | 331             | 332             | 386             | 402             | 422             | 437             | 489             | 440             | 331       | 422       |
| Total Nonperforming Assets                     | 17,177          | 16,910          | 17,723          | 22,874          | 27,835          | 19,984          | 21,401          | 24,077          | 17,177    | 27,835    |
| NPLs to Total loans                            | 2.97%           | 2.71%           | 2.78%           | 3.62%           | 4.75%           | 3.17%           | 2.83%           | 3.67%           | 2.97%     | 4.75%     |
| NPAs (w/o 90+) to Total assets                 | 1.99%           | 2.41%           | 2.36%           | 3.01%           | 3.81%           | 2.55%           | 2.91%           | 3.09%           | 1.99%     | 3.81%     |
| NPAs+90 to Total assets                        | 2.45%           | 2.56%           | 2.68%           | 3.44%           | 4.22%           | 3.03%           | 3.25%           | 3.57%           | 2.45%     | 4.22%     |
| <b>END OF PERIOD BALANCES</b>                  |                 |                 |                 |                 |                 |                 |                 |                 |           |           |
| Total assets                                   | \$ 700,681      | 659,725         | 661,015         | 664,117         | 659,928         | 660,141         | 658,327         | 674,152         | 700,681   | 659,928   |
| Total earning assets                           | \$ 606,438      | 601,841         | 621,981         | 621,273         | 609,196         | 613,286         | 611,996         | 626,197         | 606,438   | 609,196   |
| Total loans                                    | \$ 462,561      | 470,877         | 488,694         | 489,250         | 486,914         | 494,818         | 509,656         | 523,437         | 462,561   | 486,914   |
| Total deposits                                 | \$ 602,037      | 565,937         | 547,896         | 575,525         | 576,356         | 577,094         | 564,988         | 559,291         | 602,037   | 576,356   |
| Stockholders' equity                           | \$ 62,097       | 58,071          | 56,015          | 54,413          | 53,129          | 53,382          | 48,950          | 48,002          | 62,097    | 53,129    |
| <b>AVERAGE BALANCES</b>                        |                 |                 |                 |                 |                 |                 |                 |                 |           |           |
| Total assets                                   | \$ 671,384      | 656,408         | 660,860         | 664,564         | 657,397         | 658,898         | 663,825         | 677,967         | 663,304   | 664,522   |
| Total earning assets                           | \$ 602,511      | 616,024         | 620,723         | 618,266         | 605,306         | 614,742         | 617,060         | 629,582         | 614,381   | 616,673   |
| Total loans                                    | \$ 467,932      | 483,442         | 486,360         | 489,999         | 485,125         | 503,334         | 514,962         | 526,814         | 481,933   | 507,559   |
| Total deposits                                 | \$ 576,898      | 559,615         | 558,198         | 577,654         | 574,072         | 561,966         | 569,759         | 564,238         | 568,091   | 567,509   |
| Stockholders' equity                           | \$ 58,468       | 56,914          | 55,213          | 53,662          | 53,438          | 50,744          | 48,404          | 47,421          | 56,064    | 50,002    |

\* annualized for quarterly data