

TOWER FINANCIAL
CORPORATION
ANNUAL REPORT 2012



MISSION STATEMENT

Tower Bank is passionate about serving our team members, customers, community and shareholders with integrity, respect, understanding and appreciation the rest will follow:

For our Team Members...

loyalty, opportunity and rewards.

For our Customers...

personalized solutions to meet your needs.

For the Community...

leadership, economic growth and philanthropy.

For our Shareholders...

financial gain.

Pictured left to right: Keith E. Busse,
Chairman; Michael D. Cahill,
President and CEO

DEAR FELLOW SHAREHOLDER,

By formal definition, a business model is a mechanism through which a business generates revenue and profit. Since our inception in 1999, we have found the most significant way to produce these results is through long-term growth. We knew our model for growth would be successful if wrapped in a philosophy of differentiation through service, community dedication and product innovation.

We thoughtfully and purposely designed our model with a long-term focus. We concentrated on creating shareholder value rather than chasing immediate profit, and on sustainable growth to support expansion. While this strategy made for upfront expenses, the impact to the bottom line is justified by measurable long-term growth.

Over time, dedication to our model paid off as we exceeded our milestones year after year, and we have been consistently proud of our results. We saw our seventh record-setting year in 2012 with robust loan growth and significant increases in net interest income as well as non-interest income. And we want to ensure that we sustain our momentum to carry us into the immediate future and beyond.

In order to do this, we took a look at our revenue stream. Like many community banks approaching the \$1 billion mark, Tower relies on steady net interest income to substantiate the bottom line. Many community banks rely on net interest income for upwards of 85 to 90 percent of their revenue. Tower currently relies on interest income for only 80 percent of our annual revenue stream. While this is a favorable position, we'd like to do even better for several reasons.

- Net interest income is directly tied to the interest rate environment. Banks have little control over the economy but must respond to market demand for competitive rates, often to the detriment of profitability.

- Consolidation in the banking industry has created behemoth organizations with grand economies of scale. Their size, along with the elimination of true customer service, allows them to position their rates advantageously, placing additional pressure on interest margins.

- A flat yield curve is depleting the margin between cost of deposits and profit on loans that banks have traditionally relied upon.

Through just a few adjustments to our core business model during 2012, Tower is well positioned to minimize the impact to our overall revenue from fluctuations in net interest income profitability. Realigned strategies for fee income and growth goals customized for our new markets are both expected to position us well for the future.

The beginning of the year marked the creation of an exciting new entity Tower Trust Company. The Tower trust organization has grown steadily over the years and garnered an impressive client base. Not only did this move allow us to create a very specific service identity for these valuable clients, it created an avenue for a substantial source of fee income.

Known as Tower Private Advisors, the trust group operates under the governance of its own board of directors with expertise particularly pertinent to the business of investment management as well as trust and estate planning. We are proud to

say that Tower Private Advisors, net income grew by 136 percent over 2011 pro forma net income, achieving a record-setting \$521 thousand for 2012.

The latter half of 2012 brought another exciting development with Tower's expansion into the

operate with local decision-making authority both of which have been key to our success in developing relationships. Tower Bank of as shareholders, we should be pleased with our results and embrace this year with excitement and confidence as Tower continues to Model the Way in 2013. We will continue to build and

"WE ARE PROUD TO SAY THAT TOWER PRIVATE ADVISORS, NET INCOME GREW BY 136 PERCENT OVER 2011 PRO FORMA NET INCOME, ACHIEVING A RECORD-SETTING \$521 THOUSAND FOR 2012."

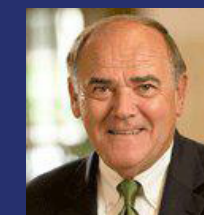
Indianapolis-area market. We filed a new bank charter with the Indiana Department of Financial Institutions in the third quarter of 2012. Once approved and operational, we expect that Tower Bank of Central Indiana will be able to broaden our footprint outside of the northeastern Indiana cities of Fort Wayne, Angola and Warsaw, and expand our brand in promising markets. Positioned to capitalize on the Tower brand of premium level service, the new bank will initially target business and private banking clients.

We believe that Tower Bank of Central Indiana will benefit from Tower Bank's proven business model and from our experience. We plan to staff the new bank with a seasoned team of Indianapolis banking professionals. The new organization will also have the dedication of its own board of highly respected directors and will

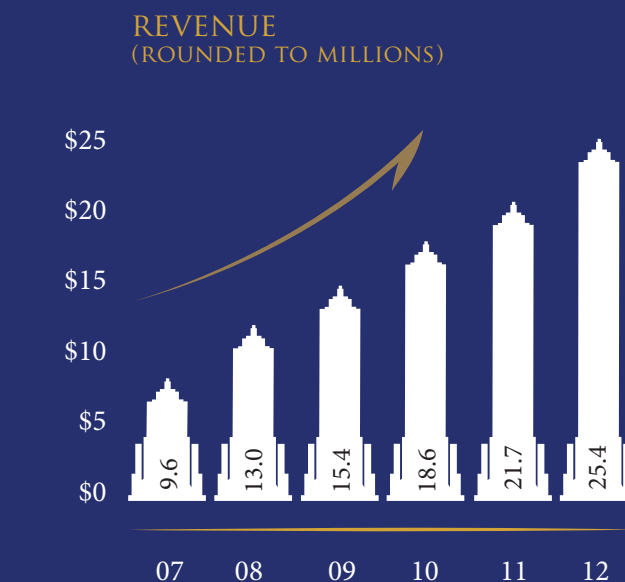
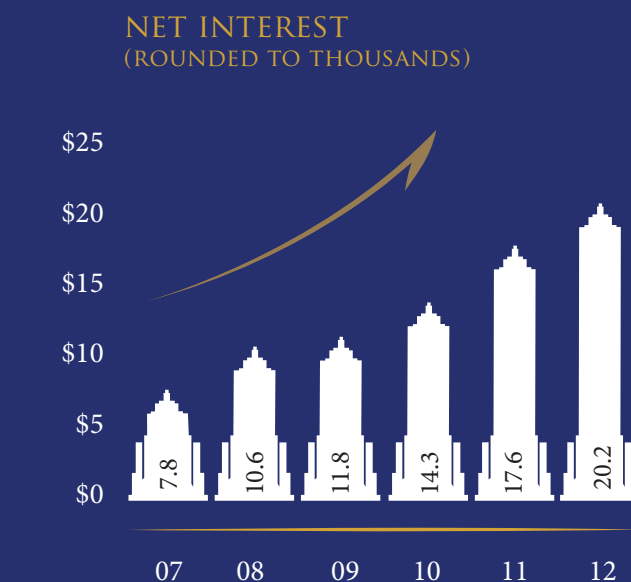
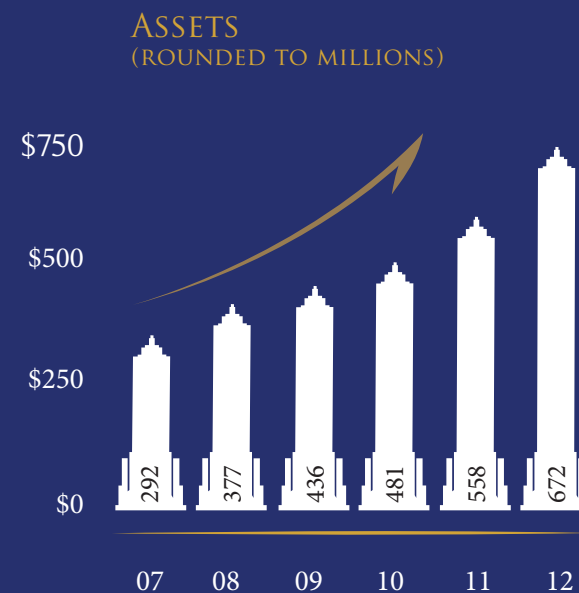
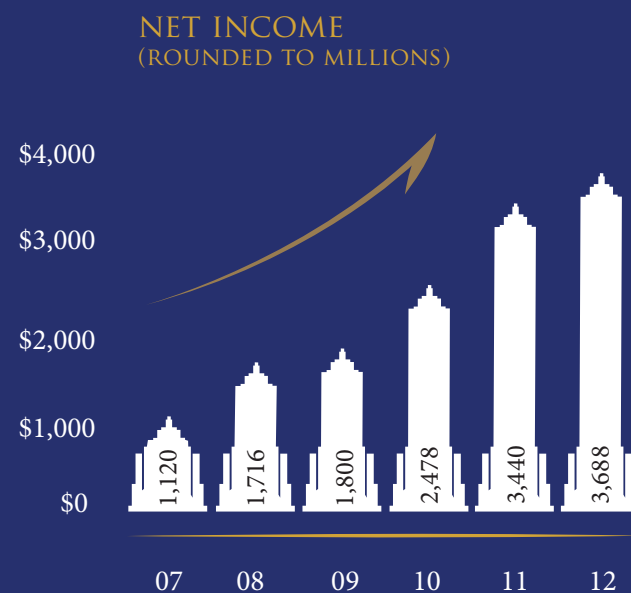
expand the company in a financially responsible way to build long-term shareholder value. If we do that, the rest will follow, which means rewards for our shareholders, team members, clients and communities. I know I speak for the entire team when I thank you for your continued support of Tower Financial Corporation.

Best regards,

Donald F. Schenkel



Donald F. Schenkel
Chairman, President & CEO
Tower Financial Corporation



When Tower Financial Corporation was founded in 1998, much was changing in the financial services industry. Hundreds of locally owned community banks were being swallowed by big banks and clients saw personalized service disappear.

resources from trusts and wills to disability insurance into one relationship. Tower's management believed wholeheartedly in the long proven, high-touch relationship-based wealth management business model. That belief, together with the phenomenal shifts occurring in the financial services industry, led

TOWER TRUST COMPANY

A BUSINESS MODEL FOR WEALTH MANAGEMENT SERVICES

Many larger banks were consolidating operations and eliminating most of their relationship management services, thus relegating all but the wealthiest clients to automated telephone systems. This dial-a-banker approach led to a wave of dissatisfaction in the marketplace, and many long-standing clients began shopping for new banks.

During that time, the investment management industry was migrating from a sales-focused, commission-based, transactional business to a fee-based consultative model. This shift caused brokerage clients to expect more from their broker relationships and in many cases look for new advisors with whom they could partner to build long-term comprehensive portfolios. Clients came to understand the value of consolidating all their wealth management

Tower to launch its wealth management services organization in the fall of 1999.

Tower's wealth management group immediately attracted clients and, true to its model, experienced strong, consistent growth. In 2004, wealth group services were branded with their own identity and became known as Tower Private Advisors.

In a strategic move to further capitalize on this remarkable asset growth, Tower separated Tower Private Advisors from the bank enterprise. On January 1, 2012, Tower Trust Company was formed to maximize the exceptional performance of the trust and investment. Management efforts.

The trust company's separate financial reporting allows shareholders to fully appreciate the

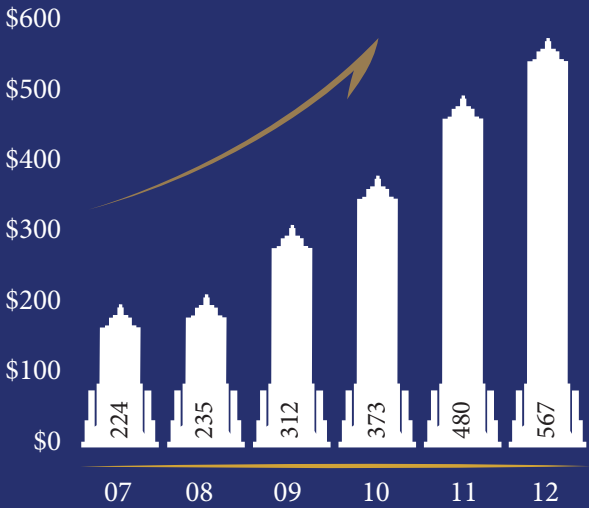
financial contribution Tower Private Advisors makes to the corporate bottom line. Additionally, the new entity is governed by its own board of directors who shepherd the organization with a strong focus on wealth management strategies and a deep understanding of the critical issues regarding trust company governance. Under their stewardship, Tower Private Advisors is well positioned to continue its record of both asset and revenue growth.

As Don Schenkel, chairman, president and CEO of Tower Financial Corporation said, "We have seen our wealth services group start from scratch and grow assets to \$567 million in just seven years. The revenue generated by this kind of growth has a remarkable impact on the bottom line. Not only can we attribute this success to our wealth management service model, but also to our tremendous staff of experts who serve this audience with incredible care and integrity. Tower Private Advisors is poised to continue its history of contributing significantly to the corporation's bottom line."

Tower Private Advisors' growing reputation as the provider of choice bodes well for the company to advise today's clients and future generations. Premier relationships and an increasing stream of referrals from clients and business partners indicate steady growth in the near term. Expansion in Angola, Indiana and Warsaw, Indiana, has produced favorable results and continued exposure in those communities is planned.

Additional growth opportunities present themselves as the enormous transfer of wealth affecting the Baby Boomer generation takes hold. Tower is prepared to capture multiple

ASSETS UNDER MANAGEMENT
(ROUNDED TO MILLIONS)



Setting the standard for service and expertise, Tower Private Advisors' assets under management grew steadily from \$32 million for the three months ending in December 1999 to more than \$550 million by year-end 2006.

segments of this market with a broad range of solutions to support clients throughout their life stages, from financial plans to 529s for college savings to long-term care and beyond.

Tower Private Advisors' mission is to serve as the trusted advisor clients call first to satisfy their financial needs to be the "provider of choice." Tower enjoys relationships with a wide range of clients, including individuals, multigenerational families and foundations, as well as charitable and civic organizations, all of whom value service and appreciate expertise.



Tower Trust Company, left to right: Gary D. Shearer, President; Kathryn D. Callen, Director; Debra A. Niezer, Director; Donald R. Willis, Director; Kathleen M. Summers, Director; Kim T. Stacey, Director; Donald F. Schenkel, Chairman.

"TOWER ENJOYS RELATIONSHIPS WITH A WIDE RANGE OF CLIENTS, INCLUDING INDIVIDUALS, MULTIGENERATIONAL FAMILIES AND FOUNDATIONS, AS WELL AS CHARITABLE AND CIVIC ORGANIZATIONS, ALL OF WHOM VALUE SERVICE AND APPRECIATE EXPERTISE."



Tower Financial Corporation has built two strong companies, Tower Trust Company, a premier provider of wealth services, and Tower Bank, a company differentiated by a passion for service. In the beginning, only those immediately involved with the new company understood the significance of the Tower Bank business model. The model reintroduced a timeless, fundamental concept that had all but disappeared from the banking industry in our region.

only do these bankers support all manner of business banking needs, they also design and implement a wide variety of innovative and flexible products and services, including cash management solutions and financing alternatives.

Last year product development efforts featured an advanced sweep program that eliminated the need to transfer assets nightly thereby retaining them on the balance sheet increasing core deposits and revenue for the bank. Additionally, Tower refocused its efforts on accounts

bank focused its 2006 retail efforts on expansion of its distribution outlets. Tower chose the communities of Angola and Warsaw for their demographics and the availability of local, well-respected professionals to staff the new offices. Banking is a people business and with the right people in place, Tower expects these markets will respond favorably to it's service-based culture.

The pace of last year's growth was impressive. With expansion strategies in place and commitment to the model and mission that got them here, Tower plans to remain ahead of the competition

TOWER BANK & TRUST COMPANY

A BUSINESS MODEL FOR GROWTH

"A STANDARD OF SERVICE THAT INCLUDED A HIGH DEGREE OF PERSONAL INTERACTION, ACCESSIBILITY TO INFORMATION, QUICK, LOCAL DECISION-MAKING AND A CULTURE OF RESPECT AND PROFESSIONALISM."

Immediate, significant growth proved the value of the Tower approach. Business owners quickly became accustomed to Tower's premium level of dedication to each relationship. They appreciated a standard of service that included a high degree of personal interaction, accessibility to information, quick, local decision-making and a culture of respect and professionalism.

Growth continued steadily upward and gained significant momentum late in 2004. During 2012, Tower achieved \$100 million in loan growth, while concurrently reducing its net charge-offs, improving the bank's overall asset quality.

Growth has enabled the organization to build a preeminent staff of corporate bankers with hundreds of years of combined experience. Not

receivables financing with its new third-party solution, CustomFi. Primarily designed for the healthcare industry, CustomFi is a promising source of interest income without the usual underwriting risk involved in the consumer loan process.

Corporation (FDIC) Summary of Deposits report, Tower increased core deposits by \$80 million, the largest increase in deposits among its key competitors. Pulling largely from "the big three" national banks, Tower increased its Allen County share of deposits by 18.5 percent at a time when the total county deposit market share grew by just 4.0 percent. Tower finished 2012 with \$587 million in deposits, an increase of \$125 million, or 27 percent over year-end 2005. In a desire to fuel future deposit growth, the

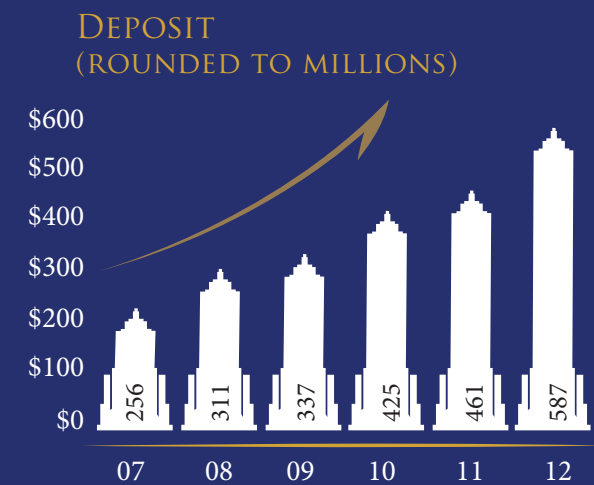
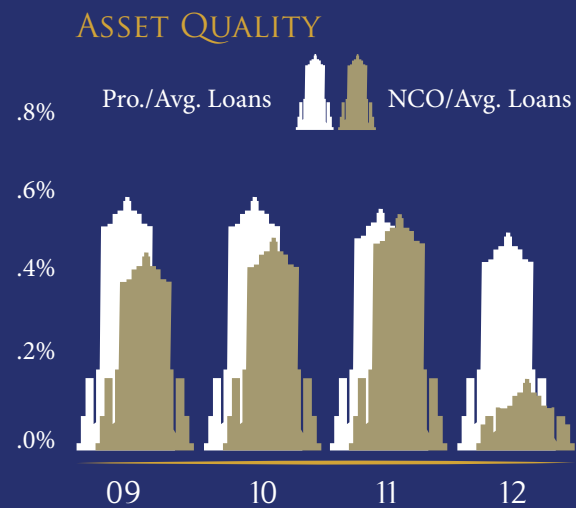
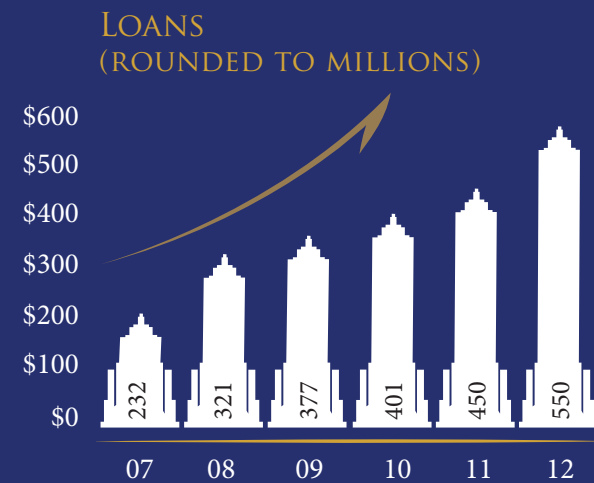


Pictured (left) from left to right: Gary D. Shearer, President and CEO, Tower Trust Company; Donald F. Schenkel, Chairman, President and CEO, Tower Financial Corporation; Michael D. Cahill, President and CEO, Tower Bank & Trust Company

Pictured (left): Deco art from the lobby at Tower Bank that represents the hard work that Tower Bank has been providing to the community for years

Pictured (right): Deco art from the lobby at Tower Bank that represents how Tower Bank is dedicated to the unity of the community





FINANCIAL HIGHLIGHTS

AT OR YEAR ENDED DECEMBER 31,	2012	2011	% CHANGE
Results Of Operations:			
Interest Income	\$41,057	\$29,056	41.30%
Interest Expense	20,787	11,493	80.87
Net Interest Income	20,270	17,563	15.41
Provision for Loan Losses	2,195	2,392	8.24
Noninterest Income	5,126	4,184	22.51
Noninterest Expense	18,090	14,082	28.45
Income before Income Taxes	5,110	5,273	3.05
Income Expense	1,423	1,835	22.40
Net Income	3,687	3,438	7.27
Per Common Share Data:			
Basic Net Income	\$0.92	\$0.86	6.98%
Diluted Net Income	0.89	0.84	5.95
Book Value at End of Period	12.60	11.79	6.87
Cash Dividends Declared	0.16	n/a	n/a
Periods End Totals:			
Total Assets	\$671,155	\$557,821	20.32%
Total Loans	550,450	450,391	22.22
Allowance for Loan Losses	6,870	5,645	21.70
Total Deposits	586,780	460,951	7.81
Common Shares Outstanding	4,043,882	4,007,936	.90
Average Totals:			
Total Assets	\$606,272	\$504,470	20.18%
Total Earnings Assets	573,714	481,695	19.10
Total Loans	502,665	425,626	18.10
Total Deposits	514,311	424,832	21.06
Stockholders' Equity	48,731	45,726	6.57
Common Shares Outstanding	4,020,004	4,006,170	0.35
Performance Ratios:			
Return on Average Assets	0.61%	0.68%	(10.29)%
Return on Average Stock Holders' Equity	7.57	7.52	0.66
Net in Margin	3.58	3.70	(3.24)
Efficiency Ratio	71.23	64.75	10.01
Asset Quality Ratios:			
Nonperforming Loans to Total Loans	0.72%	0.37%	94.59%
Nonperforming Assests to Total Assets	0.65	0.35	85.71
Net Charge-offs to Average Loans	0.19	0.55	(65.45)
Allowance for Loan Losses to Total Loans	1.25	1.25	0.00
Liquidity and Capital Ratios:			
Loan to Deposit Ratio	93.81%	97.71%	(3.99)%
Total Stockholders' Equity to Total Assets	7.59	8.47	(10.39)
Total Risk-based Capital	13.06	13.24	(1.36)
Tier 1 Risk-based Capital	11.94	12.16	(1.81)
Tier 1 Leverage Capital	10.46	11.08	(5.60)
n/a – not applicable			

With an eye toward business services and a continued focus on deposit growth, Tower Bank entered the new Health Savings Account market in 2004. HSAs, when combined with high deductible health plans, provide an incredible opportunity for employers and employees alike to reduce medical expenses. In addition, employees can make informed decisions about

that the administrative components were much like IRAs but the accounts themselves were structured like checking accounts. There was no software support for this new hybrid product. Tower invested in technology in 2010 to bridge operational challenges and to keep ahead of the competition. The solution was HSA eProcess and the statistics show the technology investment paid



THE HSA AUTHORITY

A BUSINESS MODEL FOR HEALTH SAVINGS ACCOUNTS

“TOWER QUICKLY ESTABLISHED ITSELF AS AN AUTHORITY IN THE INDUSTRY BY EDUCATING EMPLOYERS, EMPLOYEES AND INSURANCE PROFESSIONALS ON THE INTRICACIES OF THIS REVOLUTIONARY HEALTHCARE OPTION.”

their healthcare spending and accumulate funds for future expenses. Seeing the potential in this market, Tower quickly established itself as an authority in the industry by educating employers, employees and insurance professionals on the intricacies of this revolutionary healthcare option.

Tower experienced tremendous growth in its HSA business last year, snowballing the number of accounts to 7,500. This explosion in the number of new HSA clients and business relationships is particularly valuable as it represents organic growth, and provides a generous pool of qualified prospects for deeper bank relationships in the future.

This exponential growth can be attributed to a variety of factors, including Tower’s proprietary software development. Tower quickly recognized

off. In 2012 Tower more than tripled its number of Health Savings Accounts.

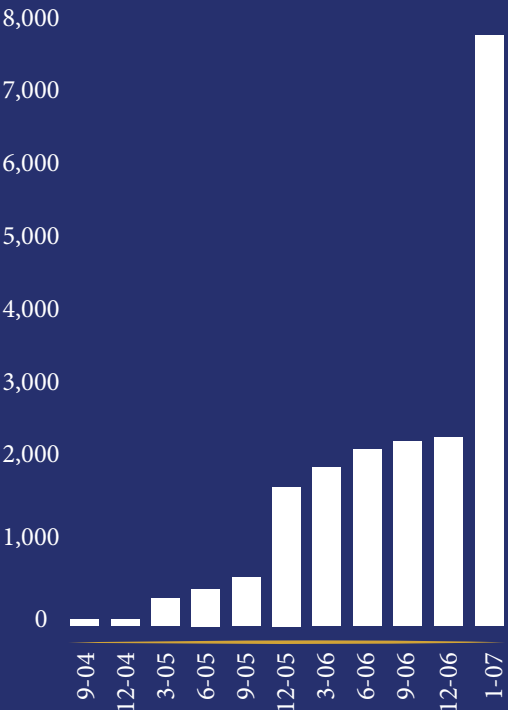
HSA eProcess helps ease the employer’s administrative burden and brings the contributions to employees faster than any other provider in the market today. While some providers are taking up to two weeks to process contributions and distributions, at Tower, these transactions are recorded the same day.

In addition, 2006 saw the launch of an innovative software solution online enrollment. This technology allows employees the convenience of 24/7 new account availability. This solution significantly reduced the bank’s administrative costs through faster and more efficient processing of new accounts.

Authority. Campaign components included television spots, a mailing campaign and a seminar series that all delivered successful results. Favorable changes to healthcare legislation in January of 2013 are expected to bring even more attention to HSA programs and their potential this year.

HSAs are valuable to the bank’s bottom line. Federal parameters keep transaction volume to a minimum and monthly fees contribute to bank revenue and assist with the diversification of non-interest income.

Tower’s foresight regarding the HSA market has positioned the bank well to continue as a leading service provider. Federal legislation and healthcare industry trends are creating a healthcare revolution. Tower believes that Health Savings Accounts are an integral part of the related, new consumerdriven choices.



From the service they provide to the communities they enhance, people are the foundation of Tower Bank. Team members demonstrate enthusiasm for the Tower mission every day. In return Tower provides an atmosphere of respectful professionalism not always found in today's workplace environments.

Tower team members can count on a corporate commitment to their personal and professional well-being. Employees routinely benefit from training and development, formalized career progression, tuition

Community Vision Statement

Tower Bank, making a positive impact in our communities. Dedicated to our communities' future, Tower Bank will provide our citizens and our communities with superior financial services and will support these communities through business and civic endeavors.

support and open communication with management. Employee involvement is highly valued at Tower and in support of that effort, management recently instituted a matching gift program for team members donating to 501c-3 organizations.

The philosophy of prizing people extends well beyond the bank. Tower not only provides corporate time, talent and treasury but also steadfastly supports like efforts made by individual employees. The bank recognizes remarkable community volunteerism through membership in its elite Towering Force Council and provides extensive financial donations to a wide variety of charitable entities.

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COMPANY INFORMATION

TOWER FINANCIAL CORPORATION DIRECTORS

Keith E. Busse, President and CEO, Steel Dynamics, Inc.
Kathryn D. Callen, Trustee, University of Saint Francis
Michael S. Gouloff, Chairman and CEO, Schenkel Shultz, Inc.
Jerome F. Henry, Jr., President, Midwest Pipe and Steel Corporation
R. V. Prasad Mantravadi, M.D., Partner, Radiation Oncology Associates, P.C.
Debra A. Niezer, COO and Treasurer, AALCO Distributing Company, Inc.
William G. Niezer, Managing Executive, Fort Wayne operations of Acordia of Indiana LLC
Joseph D. Ruffolo, Member, Ruffolo Benson LLC
Donald F. Schenkel, Chairman, President and CEO
John V. Tippmann, Sr., Chairman, Tippmann Group
Irene A. Walters, Executive Director of University Relations and Communications, IPFW
Donald R. Willis, Chairman, FourthWave LLC
Donald F. Schenkel, Chairman, President and Chief Executive Officer

OFFICERS

Michael D. Cahill, Executive Vice President, Chief Operating Officer, Chief Financial Officer and Secretary
Darrell L. Jaggars, Executive Vice President and Chief Loan Officer
Gary D. Shearer, Executive Vice President
Jay D. Biehl, Vice President
Tina S. DeMeritt, Vice President
W. Elaine Furnish, Vice President
Richard R. Sawyer, Vice President

TOWER BANK & TRUST COMPANY DIRECTORS

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R. V. Prasad Mantravadi, M.D., Partner, Radiation Oncology Associates P.C.
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Joseph D. Ruffolo, Member, Ruffolo Benson LLC
Donald F. Schenkel, Chairman
Irene A. Walters, Executive Director of University Relations and Communications, IPFW

OFFICERS

Michael D. Cahill, President and Chief Executive Officer
Darrell L. Jaggars, Executive Vice President and Chief Lending

SENIOR VICE PRESIDENTS

Richard L. Belser, Senior Credit Officer
Jay D. Biehl, Chief Operating Officer
Wendell L. Bontrager, Senior Vice President and Chief Deposit Officer
William H. Olds, Jr., Senior Vice President and Indianapolis Market President
James E. Underwood, Senior Vice President, Specialty Products and Corporate Development

FIRST VICE PRESIDENTS

Trois K. Hart, Marketing Director
Daniel C. Kelker, Small Business Services
Thomas G. Obergfell, Corporate Services
Michael A. Rice, Technology and Chief Information Officer
Randall S. Steiner, Senior Credit Manager
David W. Waggoner, Retail Services

VICE PRESIDENTS

Thomas W. Craig, Corporate Services
Tina S. DeMeritt, Human Resources
Marie A. Doty, Compliance
Tina M. Farrington, Private Banking
W. Elaine Furnish, Treasury
Gregory J. Griffin, Corporate Services
Deborah A. Grindstaff, Mortgage Services
Steven R. Habig, Credit Manager

Douglas W. Hinds, Corporate Services
Lori B. Hoffman, Retail Administration
Kathy Kast, Corporate Services
Seth P. Keirns, Controller
Jeffrey L. Krivacs, Downtown Financial Center
Richard R. Sawyer, Chief Financial Officer
Susan J. Schenkel, Small Business Services
Robert J. Slusser, Corporate Services
Stephen D. Smith, Collections
Douglas E. Stephens, Private Banking Services
Gerald L. Thompson, Commercial Real Estate
John H. Warren, Warsaw Community President

TOWER TRUST COMPANY DIRECTORS

Kathryn D. Callen, Trustee, University of Saint Francis
Debra A. Niezer, COO and Treasurer, AALCO Distributing Company, Inc.
Donald F. Schenkel, Chairman
Gary D. Shearer, President and CEO
Kim T. Stacey, President, Fort Wayne Park Foundation
Kathleen M. Summers, Board Member, Canterbury School Foundation
Donald R. Willis, Chairman, Fourth Wave LLC

OFFICERS

Gary D. Shearer, President and Chief Executive Officer
David A. Fee, First Vice President and Senior Trust Officer
Kevin T. Noll, First Vice President and Senior Investment Officer

VICE PRESIDENTS

Timothy L. Frey, Trust Investments
Jo Ellen Gustin, Trust Operations
Rebecca A. Hillyard, Trust Administration
Robert F. Nicholas, Investment Executive
Sharon J. Peters, Trust Administration
Richard R. Sawyer, Chief Financial Officer and Treasurer
Graig P. Stettner, Trust Investments

SHAREHOLDER INFORMATION

Annual Meeting
The Company's Annual Meeting of Shareholders will be held on Tuesday, May 15, 2007, at Tower Bank, 116 East Berry Street, Fort Wayne, Indiana 46802, at 5:30 p.m. EST.

Administrative Headquarters
116 East Berry Street
Fort Wayne, Indiana 46802
260.427.7000
TOFC.net

Legal Counsel
Barrett & McNagny LLP
215 East Berry Street
Fort Wayne, Indiana 46802

Independent Registered Public Accounting Firm
Crowe Chizek and Company LLC
9910 Dupont Circle Drive East Suite 230
Fort Wayne, Indiana 46825

Common Stock Listing
Nasdaq Global Market
Symbol: TOFC

Stock Registrar & Transfer Agent
Computershare Trust Company, N.A.
P.O. Box 43023
Providence, Rhode Island 02940-3023
877.282.1168
www.computershare.com

This annual report to shareholders includes a copy of Item 7, management's discussion and analysis, and Item 8, financial statements and footnotes from the Company's annual report on Form 10-K. A complete copy of the Form 10-K, excluding exhibits, may be obtained upon written request of any shareholder of the Company to Michael D. Cahill, Secretary of Tower Financial Corporation, 116

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TOWERbank™