

Hartwick Kenneth Michael
 Form 4
 September 01, 2011

FORM 4

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549**

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
 Hartwick Kenneth Michael

(Last) (First) (Middle)

C/O ATLANTIC POWER CORPORATION, 200 CLARENDON ST., FLOOR 25

(Street)

BOSTON, MA 02116

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
 ATLANTIC POWER CORP [AT]

3. Date of Earliest Transaction (Month/Day/Year)
 08/31/2011

4. If Amendment, Date Original Filed (Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director 10% Owner
 Officer (give title below) Other (specify below)

6. Individual or Joint/Group Filing (Check Applicable Line)

Form filed by One Reporting Person
 Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)		
				(A) or (D)	Code	V	Amount	(D)	Price

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative	2. Conversion	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if	4. Transaction	5. Number of	6. Date Exercisable and Expiration Date	7. Title and Amount of Underlying Securities	8. Price
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Security (Instr. 3)	or Exercise Price of Derivative Security	any (Month/Day/Year)	Code (Instr. 8)	Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	(Month/Day/Year)	(Instr. 3 and 4)	Security (Instr.)	
			Code V	(A) (D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Dividend Equivalent Rights	(1)	08/31/2011	A	343	(1)	(1)	Common Share	343

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Hartwick Kenneth Michael C/O ATLANTIC POWER CORPORATION 200 CLARENDON ST., FLOOR 25 BOSTON, MA 02116	X			

Signatures

Barry E. Welch,
attorney-in-fact

09/01/2011

__Signature of Reporting Person Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
 - ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) The dividend equivalent rights accrued on the deferred share units granted under the Company's Deferred Share Unit Plan, which provides for the payment of all accrued deferred share units and dividend equivalent rights to the reporting person following his or her termination as a director. Each deferred share unit and each dividend equivalent right is equal to the economic equivalent of one common share.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. m" bgcolor="#CCEEFF" style="background:#CCEEFF;padding:0in 0in 0in 0in; width:13.34%;">

Traditional

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	124,576
	124,576
Jumbo	
	66,973
	66,973
Home Equity	
	209,311
	209,311
Consumer	
	27,140

27,140

Unallocated

88,698

88,698

Total

\$

1,967,569

\$

6,321,075

\$

8,288,644

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Loans:

Commercial

\$

12,011,267

\$

198,361,867

\$

210,373,134

Commercial Real Estate

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Construction

3,980,626

27,003,008

30,983,634

Other

753,136

81,784,775

82,537,911

Residential Real Estate

Traditional

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	54,120,324
	54,120,324
Jumbo	
	1,399,283
	27,696,123
	29,095,406
Home Equity	
	33,264,786
	33,264,786
Consumer	
	11,506,816
	11,506,816

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Unallocated

Total			
\$			18,144,312
\$			433,737,699
\$			451,882,011

December 31, 2011	Individually evaluated for impairment	Collectively evaluated for impairment	Total
Allowance for loan losses:			
Ending allowance balance attributable to loans:			
Commercial	\$ 724,605	\$ 3,238,673	\$ 3,963,278
Commercial Real Estate			
Construction	1,765,000	762,094	2,527,094
Other	341,000	1,837,854	2,178,854
Residential Real Estate			
Traditional		191,662	191,662
Jumbo	290,000	98,909	388,909
Home Equity	5,000	71,923	76,923
Consumer		19,028	19,028
Unallocated		62,265	62,265
Total	\$ 3,125,605	\$ 6,282,408	\$ 9,408,013

Explanation of Responses:

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Loans:						
Commercial	\$	8,818,710	\$	206,084,106	\$	214,902,816
Commercial Real Estate						
Construction		5,742,203		26,379,914		32,122,117
Other		1,468,978		84,932,468		86,401,446
Residential Real Estate						
Traditional				54,112,445		54,112,445
Jumbo		1,214,846		26,710,303		27,925,149
Home Equity		340,313		34,477,182		34,817,495
Consumer				13,972,956		13,972,956
Unallocated						
Total	\$	17,585,050	\$	446,669,374	\$	464,254,424

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The following tables present loans individually evaluated for impairment by class of loans as of December 31, 2012 and December 31, 2011:

December 31, 2012	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Commercial	\$ 2,732,989	\$ 2,473,705	\$
Commercial Real Estate			
Construction	6,562,426	3,339,120	
Other	872,074	753,136	
Residential Real Estate			
Traditional			
Jumbo	1,930,616	1,399,283	
Home Equity			
Consumer			
	12,098,105	7,965,244	
With related allowance recorded:			
Commercial	9,638,777	9,537,562	1,863,569
Commercial Real Estate			
Construction	641,577	641,506	104,000
Other			
Residential Real Estate			
Traditional			
Jumbo			
Home Equity			
Consumer			
	10,280,354	10,179,068	1,967,569
	\$ 22,378,459	\$ 18,144,312	\$ 1,967,569

December 31, 2011	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Commercial	\$ 5,580,204	\$ 5,485,888	\$
Commercial Real Estate			
Construction	2,133,547	2,134,090	
Other	267,610	267,509	
Residential Real Estate			
Traditional			
Jumbo			
Home Equity			
Consumer			
	7,981,361	7,887,487	
With related allowance recorded:			
Commercial	3,328,648	3,332,822	724,605
Commercial Real Estate			
Construction	3,597,546	3,608,113	1,765,000
Other	1,198,072	1,201,469	341,000
Residential Real Estate			
Traditional			
Jumbo	1,174,022	1,214,846	290,000
Home Equity	337,833	340,313	5,000
Consumer			
	9,636,121	9,697,563	3,125,605

Explanation of Responses:

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\$ 17,617,482 \$ 17,585,050 \$ 3,125,605

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For the tables directly above, the recorded investment in loans includes accrued interest receivable and loan origination fees, net. For purposes of this disclosure, the unpaid principal balance is not reduced for net charge-offs.

The following tables present the average impaired loans, interest recognized on impaired loans, and cash-basis interest income recognized on impaired loans for years ended December 31, 2012 and December 31, 2011:

For the year ended	December 31, 2012	December 31, 2011
Average impaired loans during the period:		
Commercial	\$ 8,829,027	\$ 10,380,885
Commercial Real Estate		
Construction	3,314,674	6,946,998
Other	2,045,886	6,394,974
Residential Real Estate		
Traditional		
Jumbo	1,394,301	234,804
Home Equity	229,187	67,567
Interest recognized on impaired loans:		
Commercial	246,693	448,639
Commercial Real Estate		
Construction	192,120	373,517
Other	83,527	228,811
Residential Real Estate		
Traditional		
Jumbo	7,459	20,460
Home Equity	5,699	2,499
Cash-basis interest income recognized:		
Commercial	224,088	436,937
Commercial Real Estate		
Construction	183,511	354,967
Other	76,647	216,200
Residential Real Estate		
Traditional		
Jumbo	2,333	
Home Equity	472	2,499

For the year ended	December 31, 2010
Average impaired loans during the period	\$ 24,344,233
Interest recognized on impaired loans	1,107,073
Cash-basis interest income recognized	1,070,328

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The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2012 and December 31, 2011:

December 31, 2012	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
Commercial	\$ 8,899,434	\$
Commercial Real Estate		
Construction	2,789,835	
Other	753,136	
Residential Real Estate		
Traditional	1,055,284	109,768
Jumbo	1,399,283	
Home Equity	84,611	
Consumer		2,681
Total	\$ 14,981,583	\$ 112,449

December 31, 2011	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
Commercial	\$ 5,018,472	\$
Commercial Real Estate		
Construction	2,134,090	285,123
Other	977,324	149,409
Residential Real Estate		
Traditional	520,998	169,168
Jumbo		1,214,846
Home Equity	29,961	195,459
Consumer		41,473
Total	\$ 8,680,845	\$ 2,055,478

The following tables present the aging of the recorded investment in past due loans as of December 31, 2012 and December 31, 2011:

December 31, 2012	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Loans Not Past Due
Commercial	\$ 811,194	\$ 298,560	\$ 6,625,351	7,735,105	\$ 202,638,029
Commercial Real Estate					
Construction		1,190,791	1,203,867	2,394,658	28,588,976
Other	3,885,019		624,585	4,509,604	78,028,307
Residential Real Estate					
Traditional	294,459	355,134	1,165,052	1,814,645	52,305,679
Jumbo			1,399,283	1,399,283	27,696,123
Home Equity	8,757	9,082	84,611	102,450	33,162,336
Consumer	122,580	30,697	2,681	155,958	11,350,858
Total	\$ 5,122,009	\$ 1,884,264	\$ 11,105,430	\$ 18,111,703	\$ 433,770,308

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December 31, 2011	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Loans Not Past Due
Commercial	\$ 1,633,467	\$ 3,804,642	\$ 2,396,430	7,834,539	\$ 207,068,277
Commercial Real Estate					
Construction		63,517	1,280,115	1,343,632	30,778,485
Other			1,126,733	1,126,733	85,274,713
Residential Real Estate					
Traditional	519,241	81,550	690,166	1,290,957	52,821,488
Jumbo			1,214,846	1,214,846	26,710,303
Home Equity	742,025		225,420	967,445	33,850,050
Consumer	261,922	47,402	41,473	350,797	13,622,159
Total	\$ 3,156,655	\$ 3,997,111	\$ 6,975,183	\$ 14,128,949	\$ 450,125,475

Troubled Debt Restructurings:

The Company has allocated \$260,000 and \$1.0 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2012 and December 31, 2011. The Company has committed to lend additional amounts totaling up to \$0 and \$51,727 as of December 31, 2012 and December 31, 2011, respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

During the year ending December 31, 2012, there were four loans modified that met the definition of a troubled debt restructuring. The modification of the terms of these loans included extending the maturity date on a commercial loan for a customer that was experiencing financial difficulty in the amount of \$360,315, decreasing the collateral release price from the original collateral release schedule for a commercial real estate construction loan in the amount of \$1,034,993, and renewing collateral deficient commercial loans for two different customers, which totaled \$1,651,493. During the year ending December 31, 2011, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included allowing an interest only period for twelve months and/or reducing the interest rate, which totaled \$2,242,770.

The following tables present the recorded investment in loans by class modified as troubled debt restructurings that occurred during the years ending December 31, 2012 and December 31, 2011:

	Number of Loans	For the year ending December 31, 2012	
		Pre-Modification Outstanding Recorded Investment*	Post-Modification Outstanding Recorded Investment*
Commercial	3	\$ 2,007,343	\$ 2,011,808
Commercial Real Estate			
Construction	1	\$ 1,034,993	\$ 1,034,993

*Note: Pre-modification and post-modification recorded investment balances above represent balances prior to the modification and the balance as a result of the modification.

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		For the year ending December 31, 2011	
	Number of Loans	Pre-Modification Outstanding Recorded Investment*	Post-Modification Outstanding Recorded Investment*
Commercial	1	\$ 390,652	\$ 390,652
Commercial Real Estate:			
Construction	2	1,363,790	1,363,790
Other	2	488,328	488,328

**Note: Pre-modification and post-modification recorded investment balances above represent balances prior to the modification and the balance as a result of the modification.*

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The troubled debt restructurings described above increased the allowance for loan losses by \$260,000 and resulted in \$30,086 of charge offs during the year ending December 31, 2012, and increased the allowance for loan losses by \$1.0 million and resulted in no charge offs during the year ending December 31, 2011.

The following table presents the recorded investment by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the year ending December 31, 2012 and 2011:

	December 31, 2012		December 31, 2011	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Commercial	1	\$ 362,623		\$
Commercial Real Estate:				
Construction	2	354,894	2	1,321,536
Other	2	358,218	2	491,654

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

In 2012, the troubled debt restructurings that subsequently defaulted described above reduced the allowance for loan losses by \$1.0 million as a result of charge offs during the year ending December 31, 2012. The \$1.0 million in charge offs taken during the period were reserved in full as of December 31, 2011. Excluding the \$1.0 million in charge offs and their impact to the allowance for loan losses aforementioned, the five loans included in the table above had no other impact on the allowance for loans losses and resulted in no other charge offs as of December 31, 2012. For the year ending December 31, 2011, the trouble debt restructurings that subsequently defaulted described above increased the allowance for loan losses by \$1.0 million and resulted in no charge offs.

The terms of certain other loans were modified during the year ending December 31, 2012 and 2011 that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of December 31, 2012 and 2011 of \$73.7 million and \$62.9 million, respectively, for the year ending. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the company's internal underwriting policy.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes non-homogeneous

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loans, such as commercial and commercial real estate loans. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

Pass: Loans classified as pass typically have adequate credit quality and sources of repayment. The characteristics of this loan risk classification are better than those rated special mention and typically have few loan to value exceptions.

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

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Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are included in groups of homogeneous loans. As of December 31, 2012 and December 31, 2011, and based on the most recent analysis performed, the risk category of the recorded investment of loans by class of loans is as follows:

December 31, 2012	Not Rated	Pass	Special Mention	Substandard	Doubtful
Commercial	\$	\$ 188,915,297	\$ 1,466,775	\$ 11,091,628	\$ 8,899,434
Commercial Real Estate					
Construction		24,992,377	2,010,631	1,190,791	2,789,835
Other		73,747,287	2,028,714	6,008,773	753,137
Residential Real Estate					
Traditional	54,120,324				
Jumbo	27,696,123				1,399,283
Home Equity	33,264,786				
Consumer	11,506,816				
Total	\$ 126,588,049	\$ 287,654,961	\$ 5,506,120	\$ 18,291,192	\$ 13,841,689

December 31, 2011	Not Rated	Pass	Special Mention	Substandard	Doubtful
Commercial	\$	\$ 187,479,747	\$ 16,599,802	\$ 5,804,795	\$ 5,018,472
Commercial Real Estate					
Construction		23,690,072	2,579,325	3,718,630	2,134,090
Other		82,262,782	2,134,424	1,026,916	977,324
Residential Real Estate					
Traditional	54,112,445				
Jumbo	26,710,303			1,214,846	
Home Equity	34,477,182			340,313	
Consumer	13,972,956				
Total	\$ 129,272,886	\$ 293,432,601	\$ 21,313,551	\$ 12,105,500	\$ 8,129,886

The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential, home equity, and consumer classes, the Company also evaluates the credit quality based on the aging status of the loan, which was previously presented, and by activity. The following table presents the recorded investment in residential, home equity, and consumer loans based on aging status as of December 31, 2012 and December 31, 2011:

December 31, 2012	Not Past Due	30 - 89 Days Past Due	Greater than 90 Days Past Due Still Accruing	Nonaccrual
Residential Real Estate				
Traditional	\$ 52,305,679	\$ 649,593	\$ 109,768	\$ 1,055,284
Jumbo	27,696,123			1,399,283
Home Equity	33,162,336	17,839		84,611
Consumer	11,350,858	153,277	2,681	
Total	\$ 124,514,996	\$ 820,709	\$ 112,449	\$ 2,539,178

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December 31, 2011	Not Past Due	30 - 89 Days Past Due	Greater than 90 Days Past Due Still Accruing	Nonaccrual
Residential Real Estate				
Traditional	\$ 52,821,488	\$ 600,791	\$ 169,168	\$ 520,998
Jumbo	26,710,303		1,214,846	
Home Equity	33,850,050	742,025	195,459	29,961
Consumer	13,622,159	309,324	41,473	
Total	\$ 127,004,000	\$ 1,652,140	\$ 1,620,946	\$ 550,959

Note 5 **Fair Value**

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company uses the following methods and significant assumptions to estimate fair value:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2), which include our agencies, municipal bonds, and the majority of our mortgage-backed securities. In certain cases where market data is not readily available because of lack of market activity or little public disclosure, values may be based on unobservable inputs and classified in Level 3 of the fair value hierarchy, which at December 31, 2012 included one equity security. In prior periods, values classified in Level 3 included some of the Company's mortgage-backed securities and obligations of state and political subdivisions. The fair value of Level 3 securities is highly sensitive to assumption changes and market volatility due to current market conditions as well as the limited trading activity of these securities.

Loans Held for Sale, at Fair Value: The fair value of loans held for sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan (Level 2).

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

Other Real Estate Owned: The fair value of certain commercial and residential real estate properties classified as other real estate owned (OREO) are based on recent real estate appraisals less costs to sell. These appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

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The following table presents for each of the fair-value hierarchy levels our assets that are measured at fair value on a recurring basis at December 31, 2012 and December 31, 2011.

	December 31, 2012			Total
	Level 1	Level 2	Level 3	
Available-for-sale securities:				
Obligations of states and political subdivisions	\$	\$ 90,807,501	\$	\$ 90,807,501
Taxable obligations of states and political subdivisions		2,312,340		2,312,340
Mortgage-backed securities (residential)		76,988,256		76,988,256
Mortgage-backed securities (commercial)		3,372,502		3,372,502
Equity securities			902,900	902,900
Total	\$	\$ 173,480,599	\$ 902,900	\$ 174,383,499

	December 31, 2011			Total
	Level 1	Level 2	Level 3	
Available-for-sale securities:				
U.S. Government agency debt obligations	\$	\$ 616,092	\$	\$ 616,092
Obligations of states and political subdivisions		53,044,197	3,686,288	56,730,485
Taxable obligations of states and political subdivisions		2,743,767		2,743,767
Mortgage-backed securities (residential)		49,764,746	13,086,544	62,851,290
Mortgage-backed securities (commercial)		5,678,317		5,678,317
Total	\$	\$ 111,847,119	\$ 16,772,832	\$ 128,619,951
Loans held for sale	\$	\$ 4,930,368	\$	\$ 4,930,368

The following table represents the changes in the Level 3 fair-value category for the year ended December 31, 2012 and December 31, 2011. We classify financial instruments in Level 3 of the fair-value hierarchy when there is reliance on at least one significant unobservable input in the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly. Thus, the gains and losses presented below include changes in the fair value related to both observable and unobservable inputs for the years ended December 31, 2012 and December 31, 2011.

Collateralized debt obligation	December 31	
	2012	2011
Beginning Balance, January 1	\$	\$ 4,600
Net realized/unrealized gains (losses)		
Included in earnings:		
Interest income on securities		
Credit loss recognized in earnings		(110,000)
Included in other comprehensive income		105,400
Transfers in (out) of Level 3		

Explanation of Responses:

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Ending Balance, December 31

\$

\$

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Mortgage-backed securities (residential)	December 31	
	2012	2011
Beginning Balance, January 1	\$ 13,086,544	\$ 8,391,642
Principal paydowns	(923,791)	(2,010,236)
Net realized/unrealized gains (losses)		
Included in earnings:		
Interest income on securities	(23,858)	13,914
Credit loss recognized in earnings	(688)	(39,045)
Included in other comprehensive income	231,649	54,747
Purchases of Level 3 securities		1,866,428
Sale of Level 3 securities	(426,824)	
Transfers in (out) of Level 3	(11,943,032)	4,809,094
Ending Balance, December 31	\$	\$ 13,086,544

Obligations of state and political subdivisions	December 31	
	2012	2011
Beginning Balance, January 1	\$ 3,686,288	\$
Principal paydowns		
Net realized/unrealized gains (losses)		
Included in earnings:		
Interest income on securities	(42)	
Credit loss recognized in earnings		
Included in other comprehensive income	(5,581)	
Purchases of Level 3 securities		
Transfers in (out) of Level 3	(3,680,665)	3,686,288
Ending Balance, December 31	\$	\$ 3,686,288

Equity securities	December 31	
	2012	2011
Beginning Balance, January 1	\$	\$
Principal paydowns		
Net realized/unrealized gains (losses)		
Included in earnings:		
Interest income on securities		
Credit loss recognized in earnings		
Included in other comprehensive income		
Purchases of Level 3 securities	902,900	
Transfers in (out) of Level 3		
Ending Balance, December 31	\$ 902,900	\$

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The table below summarizes changes in unrealized gains and losses recorded in earnings for the years ended December 31 for Level 3 assets that are still held at December 31.

	Changes in Unrealized Gains (Losses) Relating to Assets Held at Reporting Date for the Year Ended December 31		
	2012	2011	2010
Collateralized debt obligation			
Impairment recognized in earnings		110,000	121,342

	Changes in Unrealized Gains (Losses) Relating to Assets Held at Reporting Date for the Year Ended December 31		
	2012	2011	2010
Mortgage-backed securities (residential)			
Impairment recognized in earnings		39,045	36,961

Transfers between Levels

Transfers between Levels 1, 2, and 3 and the reasons for those transfers are as follows for the year ending December 31, 2012:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Reason for Transfer
Transfers from level:				
Mortgage-backed securities (residential)	\$	\$	\$ (11,943,032)	Increased market activity removed need for significant unobservable inputs
Obligations of states and political subdivisions			(3,680,665)	Increased market activity removed need for significant unobservable inputs
Total transfers from level	\$	\$	\$ (15,623,697)	
Transfers to level:				
Mortgage-backed securities (residential)	\$	\$ 11,943,032	\$	Increased market activity removed need for significant unobservable inputs
Obligations of states and political subdivisions		3,680,665		Increased market activity removed need for significant unobservable inputs
Total transfers to level	\$	\$ 15,623,697	\$	

Table of Contents**Unobservable (Level 3) Inputs**

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements.

	Fair Value at December 31, 2012	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Equity security	\$ 902,900	Market comparable securities	Comparability adjustments	Not available
Other real estate owned	1,415,565	Collateral based measurements	Discount to reflect current market conditions	0%-20%
Collateral-dependent impaired loans	13,041,505	Collateral based measurements	Discount to reflect current market conditions and ultimate collectibility	0%-50%

Sensitivity of Significant Unobservable Inputs

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationships between those inputs and other unobservable inputs used in recurring fair value measurement and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

Equity Security: The significant unobservable inputs used in the fair value measurement of the Company's equity security are based on third party indicative bid prices.

Residential Mortgage-backed Securities: The significant unobservable inputs used in the fair value measurement of the Company's residential mortgage-backed securities are prepayment rates, probability of default and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

States and Political Subdivision Securities: The significant unobservable inputs used in the fair value measurement of the Company's states and political subdivision securities are premiums for unrated securities and marketability discounts. Significant increases (decreases) in either of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, changes in either of those inputs will not affect the other input.

Assets Measured at Fair Value on a Non-recurring Basis

Explanation of Responses:

Other certain assets and liabilities are measured at fair value on a non-recurring basis and are therefore not included in the tables above. These include impaired loans, which are measured at fair value based on the fair value of the underlying collateral. Fair value is determined, where possible, using market prices derived from an appraisal or evaluation. However, certain assumptions and unobservable inputs are used many times by the appraiser, therefore, qualifying the assets as Level 3 in the fair-value hierarchy.

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

Other Real Estate Owned: The fair value of certain commercial and residential real estate properties classified as other real estate owned (OREO) are based on recent real estate appraisals less costs to sell. These appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments

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are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

The following table presents for each of the fair-value hierarchy levels our assets that are measured at fair value on a non-recurring basis at December 31, 2012 and December 31, 2011.

	December 31, 2012			Total
	Level 1	Level 2	Level 3	
Impaired loans:				
Commercial			\$ 6,491,503	\$ 6,491,503
Commercial Real Estate				
Construction			1,985,598	1,985,598
Other			368,662	368,662
Residential Real Estate				
Traditional				
Jumbo			1,399,283	1,399,283
Home Equity				
Other real estate owned:				
Commercial Real Estate				
Construction			1,093,265	1,093,265
Other			226,000	226,000
Residential Real Estate				
Traditional			150,300	150,300
Jumbo				

	December 31, 2011			Total
	Level 1	Level 2	Level 3	
Impaired loans:				
Commercial			\$ 2,616,202	\$ 2,616,202
Commercial Real Estate				
Construction			2,982,632	2,982,632
Other			857,072	857,072
Residential Real Estate				
Traditional				
Jumbo			884,022	884,022
Home Equity			332,833	332,833
Other real estate owned:				
Commercial Real Estate				
Construction			1,705,300	1,705,300
Other			428,350	428,350
Residential Real Estate				
Traditional			388,420	388,420
Jumbo				

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The following schedule reflects the carrying values and estimated fair values of our financial instruments at December 31, 2012 and December 31, 2011. Only financial instruments are shown.

December 31, 2012	Carrying Value	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	\$ 14,846,301	\$ 14,846,301	\$	\$
Long-term interest-bearing deposits	457,000		457,000	
Securities available for sale	174,383,499		173,480,599	902,900
FHLB and FRB stock	3,807,700		3,807,700	
Loans held for sale	4,933,299		4,933,299	
Loans, net	442,176,966			449,833,513
Accrued interest receivable	2,564,503		2,564,503	
Financial liabilities:				
Deposits	(561,007,338)		(563,043,048)	
Short-term borrowings	(9,093,652)		(9,093,652)	
FHLB advances	(28,300,000)		(28,337,750)	
Junior subordinated debt	(17,527,000)			(6,080,121)
Accrued interest payable	(107,943)		(107,943)	

December 31, 2011	Carrying Value	Fair Value Measurements Using:	
		Carrying Value	Fair Value
Financial assets:			
Cash and cash equivalents	\$ 67,272,022	\$ 67,272,022	
Long-term interest-bearing deposits	450,000		450,000
Securities available for sale	128,619,951		128,619,951
FHLB and FRB stock	3,807,700		N/A
Loans held for sale	4,930,368		4,930,368
Loans, net	453,153,161		458,410,053
Accrued interest receivable	2,675,870		2,675,870
Financial liabilities:			
Deposits	(602,036,836)		(605,724,529)
FHLB advances	(12,000,000)		(12,085,500)
Junior subordinated debt	(17,527,000)		(4,381,750)
Accrued interest payable	(2,148,424)		(2,148,424)

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value.

Cash and Cash Equivalents: The carrying amount approximates fair value.

Long-term interest-bearing deposits: The carrying amount approximates fair value.

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Securities available for sale: Estimated fair value for securities available for sale is consistent with the fair value hierarchy as described above. For securities where quoted market prices are not available, fair values are estimated based on the fair value of similar securities and in some cases on unobservable inputs due to inactive market activity.

FHLB and FRB stock: Fair value is estimated at book value due to restrictions that limit the sale or transfer of such securities.

Loans held for sale: The carrying amount approximates fair value due to the insignificant time between origination and date of sale.

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Loans: Fair value is estimated by discounting the future cash flows using the market rates at which similar notes would be made to borrowers with similar credit ratings and for the same remaining maturities. The market rates used are based on current rates the Bank would impose for similar loans and reflect a market participant assumption about risks associated with non-performance, illiquidity, and the structure and term of the loans along with local economic and market conditions.

Accrued interest receivable and payable: The carrying amount approximates fair value. The carrying amount is determined using the interest rate, balance and last payment date.

Deposits: Fair value of term deposits is estimated by discounting the future cash flows using rates of similar deposits with similar maturities. The market rates used were obtained from a knowledgeable independent third party and reviewed by the Company. The rates were the average of current rates offered by local competitors of the bank subsidiaries.

The estimated fair value of demand, NOW, savings and money market deposits is the book value since rates are regularly adjusted to market rates and amounts are payable on demand at the reporting date.

Short-term borrowings: The carrying amount approximates fair value.

Federal Home Loan Bank advances: Fair value is estimated by discounting the future cash flows using rates of similar advances with similar maturities. These rates were obtained from current rates offered by FHLB.

Junior subordinated debt: Fair value of the subordinated debt is estimated by discounting the estimated future cash flows using current estimated market rates. The market rates used were averages of currently traded trust preferred securities with similar characteristics to the Company's issuances and obtained from an independent third party.

Note 6 - Premises and Equipment, net

Premises and equipment at December 31, 2012 and 2011 are summarized as follows:

	December 31,	
	2012	2011
Land	\$ 3,099,490	\$ 3,099,490
Buildings	4,904,613	4,166,024
Leashold improvements	1,355,533	1,222,795

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Furniture and equipment	6,001,194	6,746,576
Construction in process*	9,509	1,025,696
Subtotal	15,370,339	16,260,581
Accumulated depreciation	(6,466,125)	(7,197,764)
Premises and equipment, net	\$ 8,904,214	\$ 9,062,817

**Note: As of December 31, 2011, construction in process included costs incurred in building and furnishing a new branch, which replaced a branch near the same location that was leased until January 31, 2012. Final costs were moved to their respective categories during the first quarter of 2012.*

Depreciation expense for 2012, 2011, and 2010 was \$724,859, \$684,237, and \$794,012, respectively. Information regarding lease commitments is provided in Note 13.

Table of ContentsNote 7 **Deposits**

Deposits at December 31, 2012 and 2011 are summarized as follows:

	2012		2011	
	Balance	%	Balance	%
Core Deposits:				
Noninterest-bearing demand*	\$ 108,147,229	19.3%	\$ 169,757,998	28.2%
Interest-bearing checking	170,047,196	30.4%	114,864,680	19.1%
Money market	120,253,915	21.4%	127,986,494	21.3%
Savings	28,874,130	5.1%	22,397,928	3.7%
Time, under \$100,000	25,934,862	4.6%	38,573,165	6.4%
Total core deposits	453,257,332	80.8%	473,580,265	78.7%
Non-core deposits:				
In-market non-core deposits:				
Time, \$100,000 and over	17,521,246	3.1%	25,828,697	4.3%
Out-of-market non-core deposits:				
Brokered money market deposits	12,035,072	2.1%	12,032,097	2.0%
Brokered certificate of deposits	78,193,688	14.0%	90,595,777	15.0%
Total out-of-market deposits	90,228,760	16.1%	102,627,874	17.0%
Total non-core deposits	107,750,006	19.2%	128,456,571	21.3%
Total deposits	\$ 561,007,338	100.0%	\$ 602,036,836	100.0%

*Note: At December 31, 2011 approximately \$48 million of noninterest-bearing deposits were held on a temporary basis and, as expected, left the Bank by the end of January 2012.

The following table shows the maturity distribution for certificates of deposit at December 31, 2012.

2013	\$ 45,885,503
2014	12,534,199
2015	11,155,551
2016	14,794,214
2017	6,675,608
Thereafter	30,604,721
Total	\$ 121,649,796

Table of Contents**Note 8 - Federal Home Loan Bank Advances**

At December 31, 2012 and 2011, advances from the Federal Home Loan Bank (FHLB) were:

	2012	2011
3.55% bullet advance, principal due at maturity March 26, 2012	\$	\$ 2,000,000
0.31% bullet advance, principal due at maturity May 21, 2012		5,000,000
0.46% bullet advance, principal due at maturity February 15, 2013	3,000,000	
3.81% bullet advance, principal due at maturity March 26, 2013	2,000,000	2,000,000
0.49% variable rate advance, principal due at maturity June 12, 2013	3,300,000	
0.49% variable rate advance, principal due at maturity June 17, 2013	7,000,000	
0.49% variable rate advance, principal due at maturity June 25, 2013	3,000,000	
0.50% variable rate advance, principal due at maturity July 1, 2013	3,500,000	
0.49% bullet advance, principal due at maturity August 19, 2013	3,000,000	3,000,000
1.12% bullet advance, principal due at maturity May 30, 2017	3,500,000	
Total Federal Home Loan Bank advances	\$ 28,300,000	\$ 12,000,000

At December 31, 2012, four FHLB advances in the amount of \$16.8 million have variable rates and can be repaid anytime at the Company's discretion before their contractual maturities. The remaining four FHLB advances totaling \$11.5 million have fixed rates with no callable options at December 31, 2012. At December 31, 2011 all FHLB advances had fixed rates with no callable options.

At December 31, 2012 scheduled principal reductions on these FHLB advances were as follows:

Year	Advances
2013	\$ 24,800,000
2014	
2015	
2016	
2017	3,500,000
	\$ 28,300,000

At December 31, 2012, in addition to FHLB stock, we pledged securities held by the FHLB totaling \$15.5 million and have pledged loans totaling approximately \$40.4 million that are being safe kept at US Bank as specific collateral to secure advances outstanding at FHLB of Indianapolis. Also, we had unpledged interest-bearing deposits with the FHLB at December 31, 2012 totaling \$159,866.

Note 9 - Junior Subordinated Debentures and Trust Preferred Securities

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On December 5, 2005, TCT2 sold 8,000 Trust Preferred Securities with a par value of \$1,000 at a rate equal to the three-month Libor rate plus 1.34%. The initial rate was fixed at 6.21% for the first five years, after which the rate went floating based on the three-month Libor plus 1.34% beginning December 5, 2010. The proceeds of the sale and the initial equity investment were loaned to us in exchange for junior subordinated debentures of \$8,248,000 with similar terms to the Trust Preferred Securities. The sole assets of TCT2 are the junior subordinated debentures to us and payments thereunder as well as certain unamortized issuance costs. The junior subordinated debentures are subject to mandatory redemption, in whole or in part, upon repayment of the Trust Preferred Securities at maturity or their earlier redemption at the par amount. The maturity date of the Trust Preferred Securities is December 4, 2035. While subject to receiving approval of the Federal Reserve Bank, if then required, the Trust Preferred Securities were redeemable prior to the maturity date as of December 5, 2010 and each year thereafter at our option. As of December 31, 2012, we have chosen not to redeem the debt due to the low rate of interest we are paying on this debt of LIBOR plus 1.34%. As of December 31, 2012, the rate was 1.70%. We have the option to defer interest payments on the Trust Preferred Securities from time to time for a period not to exceed 20 consecutive quarterly periods. The Company is not considered the primary beneficiary of this Trust (variable interest entity), therefore the trust is not consolidated in the Company's financial statements, but rather the subordinated debentures are shown as a liability.

On December 29, 2006, TCT3 sold 9,000 Trust Preferred Securities with a par value of \$1,000 at a rate equal to the three-month Libor rate plus 1.69%. The initial rate was fixed at 6.56% for the first five years, at which the rate went

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floating based on the three-month Libor plus 1.69% beginning March 1, 2012. The proceeds of the sale and the initial equity investment were loaned to us in exchange for junior subordinated debentures of \$9,279,000 with similar terms to the Trust Preferred Securities. The sole assets of TCT3 are the junior subordinated debentures to us and payments thereunder as well as certain unamortized issuance costs. The junior subordinated debentures are subject to mandatory redemption, in whole or in part, upon repayment of the Trust Preferred Securities at maturity or their earlier redemption at the par amount. The maturity date of the Trust Preferred Securities is March 1, 2037. Subject to our having received prior approval of the Federal Reserve Bank, if then required, the Trust Preferred Securities were redeemable prior to the maturity date beginning March 1, 2012 and each year thereafter at our option. As of December 31, 2012, we have chosen not to redeem the debt due to the low rate of interest we are paying on this debt of LIBOR plus 1.69%. As of December 31, 2012 the rate was 2.00%. We have the option to defer interest payments on the Trust Preferred Securities from time to time for a period not to exceed 20 consecutive quarterly periods. The Company is not considered the primary beneficiary of this Trust (variable interest entity), therefore the trust is not consolidated in the Company's financial statements, but rather the subordinated debentures are shown as a liability.

From April 23, 2010 until its termination on July 10, 2012, we were under a written agreement with the Federal Reserve and the IDFI (the Written Agreement). The Written Agreement stated that we were not to make any payments of interest on the Company's Trust Preferred Debt, without written approval from the Federal Reserve. In response to these requirements, no Trust Preferred Debt interest payments were made in 2010 and 2011. In May of 2012, the Company received written approval from the Federal Reserve to make the current and accumulated interest payments on the Trust Preferred Debt, which totaled approximately \$2.3 million. After the Written Agreement was formally lifted, the Company elected to discontinue deferring the interest payments on the Trust Preferred Securities. The total interest payments made on the Trust Preferred Debt during 2012 were approximately \$2.5 million.

Note 10 - Income Taxes

The consolidated provision for income taxes for the following years ended December 31 are as follows:

	2012	2011	2010
Federal			
- current	\$ 922,838	\$ 445,354	\$ 1,672,751
- deferred	227,044	510,333	(790,280)
State			
- current	(18,894)		
- deferred	856,781	26,274	(103,927)
Change in valuation allowance related to realization of net state deferred tax assets		(2,619,866)	103,927
Change in valuation allowance related to realization of security impairments	(375,330)	85,874	41,256
Total income taxes expense	\$ 1,612,439	\$ (1,552,031)	\$ 923,727

The effective tax rate differs from the statutory tax rate applicable to corporations as a result of permanent and other differences between accounting and taxable income as shown below:

	2012	2011	2010
Statutory tax rate	34.0%	34.0%	34.0%
State tax, net of federal income tax effect	4.1%	0.1%	0.0%

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Tax exempt interest	(8.9)%	(11.6)%	(9.0)%
Earnings on life insurance	(2.7)%	(3.8)%	(3.9)%
State tax valuation allowance	(0.0)%	(50.5)%	0.0%
Other	(4.6)%	1.2%	1.5%
Effective tax rate	21.9%	(30.6)%	22.6%

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The net deferred tax asset (included in other assets) included the following amounts of deferred tax assets and liabilities at December 31, 2012 and 2011:

	2012	2011
Deferred tax assets:		
Provision for loan losses	\$ 3,426,223	\$ 3,673,101
State net operating loss and credit carryforward	2,015,550	1,769,170
Alternative minimum tax credit	606,193	36,380
Deferred compensation	664,818	670,549
Accrued director's fees		292,753
Net deferred loan costs	209,090	103,802
Depreciation	70,788	68,630
Other real estate owned	1,192,029	1,077,281
Security impairments		413,114
Nonaccrual loan interest income		139,850
Other	339,769	146,952
Total deferred tax assets	8,524,460	8,391,582
Deferred tax liabilities:		
Depreciation		
State Tax	(1,148,713)	
Prepaid expenses	(200,945)	(142,816)
Net unrealized appreciation on securities available for sale	(1,880,433)	(1,735,307)
Other	(24,506)	(32,507)
Total deferred tax liabilities	(3,254,597)	(1,910,630)
Net deferred tax asset before asset valuation	5,269,863	6,480,952
Valuation allowance for deferred tax assets		(375,330)
Net deferred tax asset	\$ 5,269,863	\$ 6,105,622

Realization of deferred tax assets associated with the net operating loss carry forwards is dependent upon generating sufficient taxable income prior to their expiration.

In evaluating the federal deferred tax asset, we have come to the conclusion that it is more likely than not going to be realized. The most important test when evaluating impairment is based on whether or not there is a cumulative net loss over the last three years. As of December 31, 2012 and 2011, we no longer had a cumulative net loss position over the last three years. At December 31, 2011, we recorded a valuation allowance of \$375,330 for federal and state tax on a capital loss from an other-than-temporary impairment charge on the trust preferred security previously held at our investment subsidiary. This valuation allowance was reversed in the fourth quarter of 2012 as a result of the sale of the security.

We previously determined that the state deferred tax asset was more likely than not unrealizable and recorded a valuation allowance against it. This decision was made primarily due to owning a REIT which generated a substantial state net operating loss and we thought it was more likely than not that we would not be able to realize the benefit of the state net operating loss before it expires. In 2011, due to our improvement in earnings and the liquidation of our REIT, we reversed the valuation allowance on our state deferred tax asset for both the book to tax timing differences and the state net operating losses. As a result of three consecutive years of earnings and our expected future earnings, we continue to believe that it was more likely than not that we will be able to realize our state deferred tax asset. We have an Indiana net operating loss carry forward of approximately \$26.4 million which will start to expire in 2022 if not used. We also have an Indiana credit carry forward of \$354,000

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which will begin to expire in 2016.

The Company and its subsidiaries are subject to U.S. Federal income taxes as well as income tax of the state of Indiana. The company is no longer subject to examination by taxing authorities before 2009. We had no unrecognized tax positions at December 31, 2012 and December 31, 2011. Management does not expect unrecognized tax benefits to significantly increase in the next twelve months.

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Options to buy stock were previously granted to directors, officers and employees under the 1998 and 2001 Stock Option and Incentive Plans (the Plans), which together provided for issuance of up to 435,000 shares of common stock of Tower Financial Corporation. Options for all 435,000 shares were issued under the Plans, of which 49,685 remain outstanding as of December 31, 2012. Option awards were granted with an exercise price equal to the market price of our stock at the date of each grant, vesting over a four-year period, and issued with a ten-year contractual term. There was no compensation cost against income for options granted under the Plan in accordance with accounting standards for the years ended December 31, 2012 and 2011.

The fair value of each option award was estimated on the date of grant using the Black-Scholes valuation model using grant date assumptions. Expected volatilities are based on implied volatilities from historical volatility of our stock and other factors. We used historical data to estimate option exercise and forfeiture rates within the valuation model for valuation purposes. The expected term of options granted was derived from the output of the option valuation model and represented the period of time that options granted were expected to be outstanding; the range given below resulted from certain groups of employees exhibiting different behavior. The risk-free rates for periods within the contractual life of the options are based on the U.S. Treasury yield curve in effect at the time of grant. No options have been granted since 2005.

A summary of the option activity under the Plans as of December 31, 2012 and changes during the twelve-month period then ended are presented below:

Options	Shares	Weighted-Average Aggregate Exercise Price	Weighted-Average Remaining Contractual Term	Intrinsic Value
Outstanding at 1/1/12	59,654	\$ 14.33	2.31	\$
Granted				
Exercised				
Forfeited or expired	(9,969)	13.52		
Outstanding at 12/31/12	49,685	14.49	1.72	
Vested or expected to vest at 12/31/12	49,685	14.49	1.72	
Exercisable at 12/31/12	49,685	14.49	1.72	

There were no options exercised in 2012, 2011, or 2010.

No further options will be granted under either of these Plans, but the plans will remain in effect for purposes of administering already existing options previously granted and still outstanding under the Plans. As of December 31, 2012, there is no unrecognized compensation expense for the 1998 and 2001 Stock Options plan.

Explanation of Responses:

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On April 19, 2006, at our annual meeting of stockholders, stockholders approved Tower Financial Corporation's 2006 Equity Incentive Plan, under which 150,000 shares have been reserved for issuance as incentive stock options, non-statutory stock options, restricted stock awards, unrestricted stock awards, performance awards, or stock appreciation rights. As of December 31, 2012, 20,500 shares have been granted in the form of restricted stock, of which 19,125 shares have vested and 625 shares have been forfeited. The compensation cost that has been charged against income for restricted shares awarded under the Plan was \$14,624, \$45,427, and \$46,910 for the years ended December 31, 2012, 2011, and 2010, respectively. Future expense related to this award will be \$2,125 in 2013, \$2,125 in 2014, and \$1,417 in 2015. The total fair value of shares vested during the year ended December 31, 2012 was \$39,988.

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A summary of the restricted stock activity as of December 31, 2012 and changes during the twelve-month period then ended are presented below:

Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at 1/1/12	4,750	\$ 9.14
Granted		
Vested	(4,000)	9.27
Forfeited		
Outstanding at 12/31/12	750	8.50

Pursuant to our 2006 Equity Incentive Plan, the Compensation Committee put in place a long term equity incentive program which incorporates a mix of stock awards and cash awards to the participants. Refer to Note 14 for details on the program.

Note 12 - Related Persons Transactions

Certain directors and executive officers, including their immediate families and companies in which they are principal owners, are loan customers of the Bank. At December 31, 2012 and 2011, the Bank had \$16.8 million and \$17.0 million, respectively, in loan commitments to directors and executive officers, of which \$15.5 million and \$15.7 million, respectively, were funded at the respective year-ends, as reflected in the following table.

Loans to Directors and Executive Officers

	2012	2011
Beginning balance, January 1	\$ 15,740,984	\$ 15,259,717
New loans	3,654,984	6,394,193
Repayments	(3,246,888)	(3,044,510)
Other changes	(625,515)	(2,868,416)
Ending balance, December 31	\$ 15,523,565	\$ 15,740,984

Other changes include adjustments for loans applicable to one reporting period that are excludable from the other reporting period, due to changes in related parties.

Explanation of Responses:

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Deposits from principal officers, directors, and their affiliates at year-end 2012 and 2011 were \$5.9 million and \$14.5 million.

During 2012, 2011, and 2010, we engaged in transactions with entities controlled by certain directors or their affiliates. All transactions with related persons are reviewed and approved pursuant to Tower Financial Corporation's February 2007 Statement of Policy for the Review, Approval or Ratification of Transactions with Related Persons.

The Bank leases its headquarters facility from Tippmann Properties, Inc., agent for John V. Tippmann, Sr. Mr. Tippmann was a director of our Company until he resigned on August 24, 2012 and is currently our second largest stockholder. The original lease was a 10-year lease commencing on January 1, 1999. The headquarters facility consists of drive-up banking windows and approximately 49,365 square feet of usable office space. The lease was renegotiated in 2012 effective October 1, 2012 to increase the office space rented by our Company on the fifth floor by 108 square feet. The lease term for the fifth floor has not changed and expires in December 2013. There is also an option to renew for an additional ten years. We also have a right of first refusal to buy the entire building in the event the landlord wishes to sell the property. The total amount paid to Tippmann Properties for rent and maintenance was \$710,394, \$708,418, and \$707,841 during 2012, 2011, and 2010, respectively. In 2011, we also paid Tippmann Properties \$21,655 for remodeling and repair costs we incurred in 2011. The lease is accounted for as an operating lease. Refer to Note 13 for a summary of future lease payment commitments under this and other leases.

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The law firm of Barrett & McNagny LLP, of which Robert S. Walters is a partner, performs legal services for the Company. Mr. Walters is the spouse of Irene A. Walters, one of our directors. We paid \$127,138, \$120,401, and \$133,839 in legal fees and related expenses to this law firm in 2012, 2011, and 2010, respectively.

The relationship with Barrett & McNagny LLP was approved in advance by our Audit Committee and our full Board of Directors pursuant to our Statement of Policy for the Review, Approval or Ratification of Transactions With Related Persons.

Note 13 - Commitments and Off-balance-sheet Risk

Commitments to Extend Credit and Standby Letters of Credit: The Bank maintains off-balance-sheet investments in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Loan commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized, if any, in the balance sheet. The Bank's maximum exposure to loan loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the face amount of these instruments. Commitments to extend credit are recorded when they are funded and standby letters of credit are carried at fair value.

The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Collateral, such as accounts receivable, securities, inventory, property and equipment, is generally obtained based on management's credit assessment of the borrower.

Fair value of the Bank's off-balance-sheet instruments (commitments to extend credit and standby letters of credit) is based on rates currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. At December 31, 2012 and 2011, the rates on existing off-balance-sheet instruments were equivalent to current market rates, considering the underlying credit standing of the counterparties.

The Bank's maximum exposure to credit losses for loan commitments and standby letters of credit outstanding at December 31, 2012 and 2011 was as follows:

	2012	2011
Commitments to extend credit - Variable Rate	\$ 94,343,912	\$ 101,212,326

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Commitments to extend credit - Fixed Rate	4,777,918	25,205,206
Commitments to extend credit - Fixed Rate Residential Real Estate	5,345,869	4,493,275
Standby letters of credit	7,896,814	9,475,203
Total	\$ 112,364,513	\$ 140,386,010

Management does not anticipate any significant losses as a result of these commitments. Commitments to make loans are generally made for periods of one year or less.

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Lease and Other Contracted Commitments: We occupy our headquarters, offices and other facilities under long-term operating leases and, in addition, are party to long-term contracts for data processing and operating systems. The future minimum annual commitments under all operating leases as of December 31, 2012 are as follows:

Year	Lease Commitments	
2013	\$	702,866
2014		600,617
2015		600,617
2016		600,617
2017		600,617
2018 and beyond		600,617
	\$	3,705,951

The lease expense paid for operating leases for the facilities leased was \$711,106, \$752,676, and \$775,238 for 2012, 2011, and 2010, respectively.

Employment Contracts: Under the terms of certain employment contracts, upon the occurrence of certain events resulting in the severance of certain senior officers' employment, payments may be required to be made in excess of amounts that have been accrued.

Note 14 - Benefit Plans

Profit Sharing Plan: We maintain a profit sharing plan covering substantially all employees. Payments to be made under the plan, if at all, are determined by our Compensation Committee. Awards may be based on a formula approved by our Board of Directors, our results of operations, individual performance measures and/or may be discretionary. As of December 31, 2012 and 2011, management had accrued a liability for this plan of approximately \$930,000 and \$697,500, respectively, which is included in other liabilities in the consolidated balance sheets. The expense incurred during 2012, 2011, and 2010 was \$865,000, \$697,500, and \$594,352, respectively.

Long-term Incentive Program: Pursuant to our 2006 Equity Incentive Plan, the Compensation Committee put in place a long term equity incentive program which incorporates a mix of stock awards and cash awards to the participants. The Compensation Committee allocated a total of 35,000 shares of stock and \$275,000 of cash awards to this program. There were 19 participants in this program including the entire senior management team and several other key personnel. The purpose behind this program was to integrate equity compensation into the total compensation packages of key officers with attainable yet long term fixed time horizons which in turn would incentivize continued earnings growth.

The program equity and cash awards are made based on a two-step process. The steps are as follows:

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- Step 1 Shares/Cash **Trust Co. Participants:** Earned when the Trust Company has reached \$875,000 of net income for the reporting year. Must be attained by 12/31/2012.
- Step 1 Shares/Cash **Bank Participants:** Earned when Tower Financial Corporation has reached \$4.0 million of net income for the reporting year. Must be attained by 12/31/2012.
- Step 2 Shares/Cash **All Participants:** Earned when Tower Financial Corporation has reached \$5.0 million of net income for the reporting year. Must be attained by 12/31/2013.

As of December 31, 2011, Steps 1 and 2 requirements for the Bank participants and Step 2 requirements for the Trust Company participants were met. Pursuant to the plan, a total of 23,858 shares of TOFC stock were deemed earned as of December 31, 2011, along with \$171,675 of cash awards. The potential awards associated with Step 1 for the Trust Company participants are no longer attainable, as the Trust Company did not achieve the targets specified in Step 1 by the end of fiscal year 2012. There were 3,002 stock awards and \$23,850 of cash awards associated with Step 1 of the Trust Company participant plan, which will not be utilized now that the time frame to achieve Step 1 has expired. The remaining unallocated awards, 8,140 shares of stock and \$79,475 of cash, will not be utilized now that both Step 1 and Step 2 for the Bank participants and Step 2 for the Trust Company participants have been achieved. Per the terms of the Plan, the awards

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could not be paid out until we were released from our formal Written Agreement with the Federal Reserve, which occurred July 10, 2012. As a result, the compensation cost was charged against income to accrue for the granting of these unrestricted shares and cash payments creating an accrual in the amount of \$369,935 at December 31, 2011. Due to an increase in the price per share of the Company's stock from December 31, 2011 to June 30, 2012, an additional compensation cost of \$54,635 was charged against income in the first six months of 2012 to bring the total accrual to \$424,570. During the third quarter of 2012, cash awards in the amount of \$171,675 and 23,858 shares of stock with a fair value of \$244,548 associated with Step 1 and 2 for Bank Participants and Step 2 for Trust Company Participants were awarded.

401(k) Plan: We established a 401(k) plan effective March 1, 1999 covering substantially all of our employees. The plan allows employees to contribute up to 15% of their compensation. We may match a portion of the employees' contributions and provide investment choices for employees, including investment in our common stock. Matching contributions are vested equally over a six-year period. Matching contributions to the 401(k) plan are determined annually by management and approved by our Compensation Committee. For the period of July 1, 2010 through June 30, 2011, the Compensation Committee approved a match of 25% on the first 4%. The contribution matching was increased to 25% of the first 6% as of July 1, 2011 through September 30, 2012. On October 1, 2012 the contribution matching was increased to 50% of the first 6%, where it remained through December 31, 2012. The total contribution made during 2012, 2011, and 2010 was \$139,657, \$88,986, and \$26,553, respectively.

Deferred Compensation Plan: Effective January 1, 2002, a deferred compensation plan covers certain officers. Under the plan, we pay each participant, or their beneficiary, the amount of compensation deferred by the employee or contributed by the employer on a discretionary basis, plus interest, beginning with the individual's termination of service. Employer discretionary contributions vest over four years. Payments are to be made either immediately or over a five-year period, depending upon the amount to be paid. During the second quarter of 2012, the Company amended the existing deferred compensation plan to convert it to a nonqualified deferred compensation plan. Nonqualified deferred compensation plans are unfunded contractual obligations to plan participants. The Company chose to set aside assets to informally finance the future liability to participants in the plan, which are now held in a corporate account with Principal Financial Group. The decision to move to this type of plan allows the participants to contribute more funds than the previous plan allowed, and gives them the opportunity to manage and control investment decisions for their own funds. The Company attempts to mirror investment performance in the participant deemed accounts, which allows for reduced risk for the Company since changes in the nonqualified participant liabilities will tend to be offset by similar changes in the corporate assets. The corporate assets used to informally finance and mirror the unfunded obligations are classified in other assets in the consolidated balance sheets. A liability is accrued for the contractual obligation under this plan and is reported in other liabilities in the consolidated balance sheets. The expense (income) incurred for the deferred compensation plan in 2012, 2011, and 2010 was \$1,130, \$2,535, and (\$329), respectively, resulting in a deferred compensation liability of \$131,362 and \$124,066 as of December 31, 2012 and 2011 and a corporate asset of \$130,232 as of December 31, 2012.

Deferred Directors' Fees Plan: Effective January 1, 2002, the deferred directors' fee plan covers all non-employee directors for a period of 10 years. Under the plan, each participant, or their beneficiary, would receive the amount of directors' fees deferred plus interest, beginning with the director's termination of service or the expiration of the plan, whichever comes first. For the period ending December 31, 2011, a liability was accrued for the obligation under this plan and was reported in other liabilities in the consolidated balance sheets. In 2012, the Company elected to eliminate the option to allow directors to defer their fees; therefore, the existing deferred fees plus interest were paid to their participant or beneficiary in the first quarter of 2012. The expense incurred for the deferred directors' fee plan for 2012, 2011, and 2010 was \$0, \$33,594, and \$46,646 resulting in a deferred compensation liability of \$0 and \$749,836 as of December 31, 2012 and 2011, respectively.

Director Stock Compensation Program:

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The Company's 2012 board compensation consists of two components. 70% of their compensation is paid in cash, while the remaining 30% is paid in the form of Deferred Stock Units. On May 23, 2012, the Company granted 5,619 Deferred Stock Units. The Deferred Stock Units entitle each participant to receive one share of our common stock for each Deferred Stock Unit issued, provided they are a director until the date of the next annual meeting. The expense associated with the Deferred Stock Units is amortized over the vesting period, which is one year from the date of the grant for this issuance. The compensation cost that has been charged against income for the Deferred Stock Units awarded under the Plan was \$32,638 for the year ended December 31, 2012. During 2012, 278 shares were forfeited that resulted in a reversal of expense in the amount of \$412 for the year ending December 31, 2012. No compensation cost was charged against income prior to 2012. Future expense related to this award will be \$22,815 in 2013.

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Supplemental Employment Retirement Plan: Effective January 1, 2002, we adopted a supplemental employee retirement plan that covers one officer. In January 2005 the plan was amended to set the benefit at 65% of the officer's highest annual salary. On January 1, 2006, the retirement benefit plan was further amended to set a fixed amount of up to a maximum \$185,250 annually, depending on the officer's age at retirement. On December 31, 2009, the officer retired, which was eighteen months earlier than originally planned. Based on the employee's age at his early retirement, the new annual retirement benefit to be paid until the officer's death will be \$156,750 and was effective January 1, 2010. As a result of this early retirement, it was necessary to record the present value of the full amount of the obligation as of December 31, 2009. The plan started disbursing funds to the former employee in July of 2010 as stated in the plan. On November 1, 2012, the Company initiated a process to terminate its Revised and Restated Tower Financial Corporation Supplemental Executive Retirement Plan, or SERP, effective September 30, 2012, which at the time reflected an accrued benefit of \$1.5 million.

Under the terms of the SERP, the Company is entitled at any time to terminate the SERP, by its election to do so and by payment of the remaining benefit to the officer, in cash, in the form of a single lump sum, subject to the delayed payment rules prescribed by Section 409A of the Internal Revenue Code. The Company's Board of Directors has determined that it is in the Company's best interest to terminate the SERP and has provided the officer with the appropriate notice to initiate that process.

Under the Section 409A delayed payment rules, the lump sum payment cannot be paid out in less than 12 months before or, in the exercise of the Company's discretion, more than 24 months after the anniversary date of the SERP's termination. In the meantime, and until the payout date, the Company will continue to pay the officer their annual retirement benefits of \$13,063 per month. The cumulative amount of these remaining monthly benefits, until final payout, will be treated as an offset and credit against the ultimate lump sum payment due to the officer.

Following the final lump sum payment to the officer, the Company will have no further obligation or liability, to the officer or otherwise, under the terms of the SERP. In addition, the Company will no longer be required to accrue additional annual expenses, going forward, based upon the officer's life expectancy. As a result of the SERP termination, these additional prospective annual expenses will cease.

The obligation under the plan was approximately \$1.5 million and \$1.6 million at December 31, 2012 and 2011, respectively, and is included in other liabilities in the consolidated balance sheet. The expense attributable to the plan is included in salaries and other employee benefits and was \$40,273 in 2012, \$163,413 in 2011, and \$112,171 in 2010.

Note 15 - Capital Requirements and Restrictions on Retained Earnings

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the financial statements.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If only adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth

and expansion, and capital restoration plans are required.

In January of 2007, our Board of Directors passed a resolution, at the request of our regulators, requiring Tower Bank to maintain a minimum tier one leverage ratio of 8.0%. This is 3.0% above the well-capitalized and 4.0% above the minimum capital adequacy ratios set by the Federal Reserve Bank. The resolution was passed due to the rapid growth of the Bank at that time, as the elevated minimum ratio would provide additional capital for the bank to deploy as deemed fit. In January of 2010, our Board of Directors passed a resolution requiring the Bank to maintain a Tier 1 leverage capital ratio of 8.0% and a total risk-based capital ratio of 11.0% and the Company to maintain a Tier 1 leverage capital ratio of 7.0% and a total risk-based capital ratio of 10.5% each to be measured at the end of each quarter. Both of these ratios are well above the minimum capital adequacy ratios set by the Federal Reserve Bank to be considered well-capitalized at 5.0% and 10.0% for the Tier 1 leverage capital ratio and the total risk-based capital ratio, respectively. At December 31, 2012, the Bank's Tier 1 leverage ratio was 10.80% and the total risk-based capital ratio was 15.35%.

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As of December 31, 2012, the most recent notification from the Federal Reserve and the IDFI categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table.

Actual and required capital amounts and ratios are presented in the schedule below as of December 31, 2012 and 2011:

2012	Total Risk-Based Capital	Tier 1 Risk-Based Capital	Tier 1 Leverage Capital
Minimum capital adequacy ratio	8.00%	4.00%	4.00%
Percent to be well capitalized	10.00%	6.00%	5.00%
Actual % - December 31, 2012			
Company	15.90%	14.65%	11.18%
Bank	15.35%	14.10%	10.80%
At December 31, 2012:			
Required capital for minimum capital adequacy			
Company	\$ 41,332,764	\$ 20,666,382	\$ 27,077,311
Bank	41,293,430	20,646,715	26,953,607
Required capital to be well capitalized			
Company	51,665,955	30,999,573	33,846,638
Bank	51,616,788	30,970,073	33,692,009
Actual capital			
Company	82,150,833	75,669,992	75,669,992
Bank	79,254,478	72,779,706	72,779,706
2011	Total Risk-Based Capital	Tier 1 Risk-Based Capital	Tier 1 Leverage Capital
Minimum capital adequacy ratio	8.00%	4.00%	4.00%
Percent to be well capitalized	10.00%	6.00%	5.00%
Actual % - December 31, 2011			
Company	15.16%	13.91%	10.97%
Bank	14.69%	13.43%	10.64%
At December 31, 2011:			
Required capital for minimum capital adequacy			
Company	\$ 42,202,097	\$ 21,101,049	\$ 26,739,676
Bank	42,251,985	21,125,993	26,673,937
Required capital to be well capitalized			
Company	52,752,622	31,651,573	33,424,595
Bank	52,814,982	31,688,989	33,342,421
Actual capital			
Company	79,992,704	73,363,886	73,363,886
Bank	77,591,477	70,954,961	70,954,961

From April 23, 2010 until its termination on July 10, 2012, Tower Financial Corporation and its wholly-owned subsidiary, Tower Bank & Trust Company, were under a Written Agreement with the Federal Reserve and the IDFI (the "Written Agreement"). A complete description of all the terms of the Written Agreement was filed as an exhibit to our 2011 Annual Report on Form 10-K and on Form 8-K filed on May 5, 2010. The termination of the Written Agreement was filed on Form 8-K on July 12, 2012.

Table of ContentsNote 16 **Earnings Per Share**

The following table reflects the calculation of basic and diluted earnings per common share for the years ended December 31, 2012, 2011, and 2010. Options for 49,685, 59,654, and 76,154, shares of common stock were not included in the computation of diluted earnings per share for the years 2012, 2011, and 2010, respectively, because they were not dilutive. The Company also had preferred stock which could be converted at the option of the holders into 128,738 shares of common stock at December 31, 2010. All preferred stock has been converted to common stock as of December 31, 2012.

	2012		2011		2010
Basic					
Net income available to common shareholders	\$ 5,744,166	\$	6,619,536	\$	3,163,771
Weighted average common shares outstanding	4,859,155		4,824,514		4,334,084
Basic earnings per common share	\$ 1.18	\$	1.37	\$	0.73
Diluted					
Net income available to common shareholders	\$ 5,744,166	\$	6,619,536	\$	3,163,771
Weighted average common shares outstanding	4,859,155		4,824,514		4,334,084
Add: dilutive effect of stock option exercises					
Add: dilutive effect of assumed preferred stock conversion			28,501		224,834
Weighted average common shares and dilutive potential common shares outstanding and preferred stock conversion	4,859,155		4,853,015		4,558,918
Diluted earnings per common share	\$ 1.18	\$	1.36	\$	0.69

Note 17 - **Parent Company-Only Condensed Financial Statements**

Following are condensed parent company financial statements as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011, and 2010:

Condensed Balance Sheets

	2012		2011
Assets			
Cash and cash equivalents	\$ 1,211,973	\$	3,986,016
Securities available-for-sale	964,333		74,444
Accrued interest receivable	6,333		86
Investment in Tower Bank	77,773,737		76,652,225
Investment in the Tower Capital Trust 2	248,000		248,000
Investment in the Tower Capital Trust 3	279,000		279,000
Other assets	2,423,812		2,231,459
Total assets	\$ 82,907,188	\$	83,471,230

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Liabilities and Stockholders Equity

Accrued interest payable	\$	15,964	\$	2,026,532
Other liabilities		141,362		227,199
Supplemental Executive Retirement Plan (SERP)		1,476,951		1,593,427
Junior subordinated debt		17,527,000		17,527,000
Stockholders equity		63,745,911		62,097,072
Total liabilities and stockholders equity	\$	82,907,188	\$	83,471,230

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	2012	2011	2010
Income			
Interest income	\$ 4,167	\$	\$
Investment income	20,974	23,003	33,742
Dividends from subsidiaries	5,735,111		
Gain on sale of held-to-maturity securities			888,059
Total income	5,760,252	23,003	921,801
Expense			
Interest expense	451,265	816,852	1,158,956
Employment expenses	256,559	364,715	323,898
Professional fees	307,056	274,768	207,220
Other expense	78,978	93,119	115,890
Total expense	1,093,858	1,549,454	1,805,964
Income (loss) before income taxes benefit and equity in undistributed net income of subsidiaries			
	4,666,394	(1,526,451)	(884,163)
Income tax benefit	(246,563)	(1,051,660)	(299,915)
Equity in undistributed net income of Tower Bank and Tower Trust	831,209	7,094,327	3,748,019
Net income	\$ 5,744,166	\$ 6,619,536	\$ 3,163,771
Comprehensive income	\$ 6,025,881	\$ 8,922,893	\$ 3,318,923

Condensed Statements of Cash Flows

	2012	2011	2010
Cash flows from operating activities			
Net income	\$ 5,744,166	\$ 6,619,536	\$ 3,163,771
Adjustments to reconcile net income to net cash from operating activities:			
Equity in undistributed income of subsidiaries	(831,209)	(7,094,327)	(3,748,019)
Gain on sale of held-to-maturity securities			(888,059)
Change in accrued interest receivable	(6,247)		(86)
Change in accrued interest payable	(2,010,568)	816,852	1,158,955
Change in other assets	(187,929)	(1,065,273)	(201,439)
Change in other liabilities	89,497	46,703	(50,125)
Net cash from (used in) operating activities	2,797,710	(676,509)	(565,002)
Cash flows from investing activities			
Purchase of available-for-sale securities	(902,900)		
Proceeds from sale of held-to-maturity securities			900,784
Net cash from (used in) investing activities	(902,900)		900,784
Cash flows from financing activities			
Purchase of common stock	(1,735,110)		
Cash dividends paid on common stock	(2,933,743)		
Proceeds from issuance of commons stock			2,826,810
Net cash from (used in) financing activities	(4,668,853)		2,826,810
Net change in cash and cash equivalents	(2,774,043)	(676,509)	3,162,592

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Cash and cash equivalents, beginning of year	3,986,016	4,662,525	1,499,933
Cash and cash equivalents, end of year	\$ 1,211,973	\$ 3,986,016	\$ 4,662,525
Supplemental disclosures of cash flow information			
Non-cash Items:			
Transfer of securities from held-to-maturity to available-for-sale	\$	\$	\$ 3,316

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Table of Contents**Note 18** Business Segments

Management separates Tower Financial Corporation into three distinct businesses for reporting purposes. The three segments are Banking, Wealth Management, and Corporate and Intercompany. The segments are evaluated separately on their individual performance, as well as their contribution as a whole.

The majority of assets and income result from the Banking segment. The Bank is a full-service commercial bank with six Allen County locations and one Warsaw location. The Wealth Management segment is made up of Tower Trust Company, which is a wholly-owned subsidiary of the Bank. The Trust Company provides estate planning, investment management, and retirement planning, as well as investment brokerage services. The Corporate and Intercompany segment includes the holding company and subordinated debentures. We incur general corporate expenses, as well as interest expense on the subordinated debentures.

	As of and for the year ended December 31, 2012				
	Bank	Wealth Management	Corporate & Intercompany	Eliminations	Total
Income Statement Information					
Net interest income (expense)	\$ 22,597,919	\$ 53,383	\$ (447,098)	\$	\$ 22,204,204
Non-interest income	4,663,817	3,829,124	6,587,293	(6,566,320)	8,513,914
Non-interest expense	17,461,493	2,764,428	642,592		20,868,513
Noncash items					
Provision for loan losses	2,493,000				2,493,000
Depreciation/Amortization	2,050,149	83,438			2,133,587
Income tax expense (benefit)	1,592,193	266,809	(246,563)		1,612,439
Segment Profit/(Loss)	5,715,050	851,270	5,744,166	(6,566,320)	5,744,166
Balance Sheet Information					
Segment Assets	685,871,883	7,754,091	85,757,948	(95,410,841)	683,973,081

	As of and for the year ended December 31, 2011				
	Bank	Wealth Management	Corporate & Intercompany	Eliminations	Total
Income Statement Information					
Net interest income (expense)	\$ 23,521,464	\$ 50,182	\$ (816,852)	\$	\$ 22,754,794
Non-interest income	4,504,688	3,623,460	7,117,330	(7,094,327)	8,151,151
Non-interest expense	18,207,238	2,678,600	732,602		21,618,440
Noncash items					
Provision for loan losses	4,220,000				4,220,000
Depreciation/Amortization	1,792,422	50,521			1,842,943

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Income tax expense (benefit)	(1,144,718)	644,347	(1,051,660)	(1,552,031)	
Segment Profit/(Loss)	6,743,632	350,695	6,619,536	(7,094,327)	6,619,536
Balance Sheet Information					
Segment Assets	704,125,313	7,003,980	86,321,990	(96,770,027)	700,681,256

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	As of and for the year ended December 31, 2010					Total
	Bank	Wealth Management	Corporate & Intercompany	Eliminations		
Income Statement Information						
Net interest income	\$ 23,355,584	\$ 64,462	\$ (1,158,956)	\$	\$	22,261,090
Non-interest income	3,272,788	3,619,515	4,669,820	(3,748,019)		7,814,104
Non-interest expense	18,048,022	2,547,666	647,008			21,242,696
Noncash items						
Provision for loan losses	4,745,000					4,745,000
Depreciation/Amortization	1,619,564	35,461				1,655,025
Income tax expense (benefit)	825,167	398,475	(299,915)			923,727
Segment Profit/(Loss)	3,010,183	737,836	3,163,771	(3,748,019)		3,163,771
Balance Sheet Information						
Segment Assets	654,443,027	6,550,795	76,535,542	(77,601,109)		659,928,255

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Note 19 - Quarterly Financial Data (Unaudited)

	Interest Income	Net Interest Income	Net Income	Earnings per share Basic	Diluted
2012					
First quarter	\$ 6,650,954	\$ 5,412,175	\$ 1,087,980	\$ 0.22	\$ 0.22
Second quarter	6,622,642	5,705,895	1,364,734	0.28	0.28
Third quarter	6,459,961	5,614,604	1,562,636	0.32	0.32
Fourth quarter	6,240,658	5,471,530	1,728,816	0.36	0.36
Total	\$ 25,974,215	\$ 22,204,204	\$ 5,744,166		
2011					
First quarter	\$ 7,275,757	\$ 5,642,998	\$ 782,643	\$ 0.16	\$ 0.16
Second quarter	7,335,614	5,720,640	1,089,829	0.23	0.22
Third quarter	7,241,216	5,684,040	1,324,585	0.27	0.27
Fourth quarter	7,041,125	5,707,116	3,422,479	0.71	0.71
Total	\$ 28,893,712	\$ 22,754,794	\$ 6,619,536		

Note: Earnings per share data may not agree to annual amounts due to rounding.

Net income for the first three quarters in 2012 was higher than the same quarters in 2011 primarily due to an increase in noninterest income, decrease in noninterest expense, and a decrease in provision expense. Net income for the fourth quarter of 2011 was higher than the same quarter in 2012 due solely to reversing the valuation allowance on our state deferred tax asset for both the book to tax timing differences and the state net operating losses. Interest income decreased in 2012 from 2011 due to a prolonged period of low interest rates that have not changed since December 2008.

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Tower Financial Corporation

Consolidated Condensed Balance Sheets

At September 30, 2013 (unaudited) and December 31, 2012

	September 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	\$ 13,325,821	\$ 11,958,507
Short-term investments and interest-earning deposits	243,521	159,866
Federal funds sold	2,638,726	2,727,928
Total cash and cash equivalents	16,208,068	14,846,301
Long-term interest-earning deposits	453,713	457,000
Trading securities	230,300	
Securities available for sale, at fair value	185,393,296	174,383,499
FHLB and FRB stock	3,807,700	3,807,700
Loans held for sale	2,886,621	4,933,299
Loans	451,515,862	450,465,610
Allowance for loan losses	(6,808,338)	(8,288,644)
Net loans	444,707,524	442,176,966
Premises and equipment, net	8,669,365	8,904,214
Accrued interest receivable	2,654,861	2,564,503
Bank owned life insurance (BOLI)	20,896,663	17,672,783
Other real estate owned (OREO)	2,351,694	1,908,010
Prepaid FDIC insurance		925,337
Other assets	13,615,607	11,393,469
Total assets	\$ 701,875,412	\$ 683,973,081
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 110,828,555	\$ 108,147,229
Interest-bearing	479,406,946	452,860,109
Total deposits	590,235,501	561,007,338
Short-term borrowings	10,303,828	9,093,652
Federal Home Loan Bank (FHLB) advances	16,500,000	28,300,000
Junior subordinated debt	17,527,000	17,527,000
Accrued interest payable	106,669	107,943
Other liabilities	5,211,474	4,191,237
Total liabilities	639,884,472	620,227,170
STOCKHOLDERS EQUITY		
Common stock and paid-in-capital, no par value, 6,000,000 shares authorized; 4,949,371 and 4,941,994 issued at September 30, 2013 and December 31, 2012; 4,672,521 and 4,735,144 shares outstanding at September 30, 2013 and December 31, 2012, respectively	44,908,295	44,834,605
Retained earnings	21,367,593	17,880,539
Accumulated other comprehensive income/(loss), net of tax of (\$413,790) at September 30, 2013 and \$1,880,433 at December 31, 2012	(803,240)	3,650,253

Explanation of Responses:

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Treasury stock, at cost, 276,850 and 206,850 shares at September 30, 2013 and December 31, 2012, respectively	(3,481,708)	(2,619,486)
Total stockholders' equity	61,990,940	63,745,911
Total liabilities and stockholders' equity	\$ 701,875,412	\$ 683,973,081

The following notes are an integral part of the financial statements.

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Tower Financial Corporation

Consolidated Condensed Statements of Income and Comprehensive Income

For the three and nine months ended September 30, 2013 and 2012

	(unaudited) Three Months Ended September 30,		(unaudited) Nine Months Ended September 30,	
	2013	2012	2013	2012
Interest income:				
Loans, including fees	\$ 4,777,786	\$ 5,525,196	\$ 14,561,821	\$ 16,764,224
Securities - taxable	311,638	445,573	859,883	1,470,818
Securities - tax exempt	730,943	482,496	2,128,056	1,461,982
Other interest income	4,867	6,696	12,038	36,533
Total interest income	5,825,234	6,459,961	17,561,798	19,733,557
Interest expense:				
Deposits	575,796	714,875	1,794,187	2,516,593
Short-term borrowings	2	159	3	257
FHLB advances	21,468	40,469	88,529	117,234
Junior subordinated debt	80,504	89,854	241,275	366,799
Total interest expense	677,770	845,357	2,123,994	3,000,883
Net interest income	5,147,464	5,614,604	15,437,804	16,732,674
Provision for loan losses	(850,000)	618,000	(825,000)	2,293,000
Net interest income after provision for loan losses	5,997,464	4,996,604	16,262,804	14,439,674
Noninterest income:				
Trust and brokerage fees	1,106,810	998,715	3,226,726	2,866,570
Service charges	282,985	257,509	835,893	828,370
Mortgage banking income	249,807	477,319	892,208	1,082,140
Net gain on sale of available-for-sale securities		9,110	441,396	75,809
Net debit card interchange income	189,462	162,432	635,298	563,933
Earnings from BOLI	172,387	150,082	473,880	441,572
Other-than-temporary loss:				
Total impairment loss		(688)		(688)
Loss recognized in other comprehensive income				
Net impairment loss recognized in earnings		(688)		(688)
Other income	174,429	147,792	678,513	485,872
Total noninterest income	2,175,880	2,202,271	7,183,914	6,343,578
Noninterest expense:				
Salaries and benefits	3,161,101	2,867,136	9,000,527	8,514,808
Occupancy and equipment	618,172	640,569	1,876,445	1,891,978
Marketing	112,976	111,882	395,310	307,187
Data processing	423,927	301,914	1,247,606	991,534
Loan and professional costs	602,700	342,182	1,308,918	1,018,604
Office supplies and postage	33,684	51,360	128,276	160,365
Courier services	51,301	58,341	163,533	175,674
Business development	152,166	90,535	396,667	331,147
Communications expense	42,060	62,489	136,773	168,235
FDIC insurance premiums	115,561	138,754	385,010	521,709
OREO, net	(263,841)	15,123	(243,431)	449,022
Other expense	265,213	338,926	834,374	763,069
Total noninterest expense	5,315,020	5,019,211	15,630,008	15,293,332

Explanation of Responses:

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Income before income taxes	2,858,324	2,179,664	7,816,710	5,489,920
Income tax expense	774,232	617,028	2,133,618	1,474,570
Net income	2,084,092	1,562,636	5,683,092	4,015,350

The following notes are an integral part of the financial statements.

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Tower Financial Corporation

Consolidated Condensed Statements of Income and Comprehensive Income (Continued)

For the three and nine months ended September 30, 2013 and 2012

	(unaudited) Three Months Ended September 30,		(unaudited) Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income:	\$ 2,084,092	\$ 1,562,636	\$ 5,683,092	\$ 4,015,350
Other comprehensive income/(loss) net of tax:				
Change in securities available-for-sale:				
Unrealized holding gains on securities for which other-than-temporary impairment has been recorded		28,405		28,867
Other-than-temporary impairment on available-for-sale securities associated with credit losses realized in income		688		688
Other-than-temporary impairment on available-for-sale securities, recorded in OCI		27,717		28,179
Unrealized holding gains/(losses) on available-for-sale securities arising during the period	(116,173)	971,010	(6,306,321)	1,590,856
Reclassification adjustment for gains realized in income on available-for-sale securities		(9,110)	(441,396)	(75,809)
Net unrealized gains/(losses)	(116,173)	961,900	(6,747,717)	1,515,047
Income tax expense/(benefit)	(39,499)	336,470	(2,294,224)	524,697
Total other comprehensive income/(loss)	(76,674)	653,147	(4,453,493)	1,018,529
Total comprehensive income	\$ 2,007,418	\$ 2,215,783	\$ 1,229,599	\$ 5,033,879
Basic earnings per common share	\$ 0.45	\$ 0.32	\$ 1.21	\$ 0.83
Diluted earnings per common share	\$ 0.45	\$ 0.32	\$ 1.21	\$ 0.83
Average common shares outstanding	4,672,496	4,874,660	4,678,824	4,860,363
Average common shares and dilutive potential common shares outstanding	4,672,673	4,874,660	4,680,035	4,860,363
Dividends per common share	\$ 0.330	\$ 0.055	\$ 0.470	\$ 0.055

The following notes are an integral part of the financial statements.

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Tower Financial Corporation

Consolidated Condensed Statements of Changes in Stockholders' Equity

For the nine months ended September 30, 2013 and 2012 (unaudited)

	Preferred Stock	Common Stock and Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balance, January 1, 2012	\$	\$ 44,542,795	\$ 15,070,115	\$ 3,368,538	\$ (884,376)	\$ 62,097,072
Net income			4,015,350			4,015,350
Other comprehensive income, net of tax				1,018,529		1,018,529
Total comprehensive income						5,033,879
Cash dividends paid (\$0.055 per share)			(268,234)			(268,234)
Stock-based compensation expense		32,743				32,743
Issuance of 23,858 commons shares		244,548				244,548
Balance, September 30, 2012	\$	\$ 44,820,086	\$ 18,817,231	\$ 4,387,067	\$ (884,376)	\$ 67,140,008
Balance, January 1, 2013	\$	\$ 44,834,605	\$ 17,880,539	\$ 3,650,253	\$ (2,619,486)	\$ 63,745,911
Net income			5,683,092			5,683,092
Other comprehensive loss, net of tax				(4,453,493)		(4,453,493)
Total comprehensive loss						1,229,599
Cash dividends paid (\$0.47 per share)			(2,196,038)			(2,196,038)
Stock-based compensation expense		46,930				46,930
Exercised 2,000 shares of stock options		26,760				26,760
Repurchase of 70,000 shares of common stock					(862,222)	(862,222)
Balance, September 30, 2013	\$	\$ 44,908,295	\$ 21,367,593	\$ (803,240)	\$ (3,481,708)	\$ 61,990,940

The following notes are an integral part of the financial statements.

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Tower Financial Corporation

Consolidated Condensed Statements of Cash Flows

For the nine months ended September 30, 2013 and 2012

	(unaudited) Nine Months Ended September 30, 2013	(unaudited) Nine Months Ended September 30, 2012
Cash flows from operating activities:		
Net income	\$ 5,683,092	\$ 4,015,350
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	3,119,715	1,514,993
Provision for loan losses	(825,000)	2,293,000
Stock-based compensation expense	46,930	32,743
Earnings on BOLI	(473,880)	(441,572)
Net gains on trading securities	(12,883)	
Gain on sale of available-for-sale (AFS) securities	(441,396)	(75,809)
Loss on disposal of premises and equipment	1,088	3,499
Gain on sale of loans	(892,208)	(1,082,140)
Loans originated for sale	(40,602,900)	(42,460,424)
Proceeds from the sale of loans held for sale	43,541,786	38,495,367
Impairment on available for sale securities		688
(Gain)loss on sale of OREO	(395,394)	1,437
Write-downs of OREO		327,970
Change in accrued interest receivable	(90,358)	312,483
Change in other assets	997,423	809,903
Change in accrued interest payable	(1,274)	(2,030,414)
Change in other liabilities	1,020,237	2,312,599
Net cash from operating activities	10,674,978	4,029,673
Cash flows from investing activities:		
Net change in long-term interest-bearing deposits	3,287	(7,000)
Net change in loans	(7,368,879)	3,641,137
Purchase of securities AFS	(61,945,584)	(34,111,041)
Purchase of trading securities	(217,417)	
Purchase of life insurance	(2,750,000)	
Proceeds from maturities, calls and paydowns of securities AFS	35,354,106	25,366,579
Proceeds from sale of securities AFS	6,641,706	2,966,682
Proceeds from the sale of portfolio loans	3,539,854	780,828
Purchase of premises, equipment, and leasehold improvements	(252,300)	(387,075)
Proceeds on sale of OREO	2,075,177	648,147
Net cash used in investing activities	(24,920,050)	(1,101,743)
Cash flows from financing activities:		
Net change in deposits	29,228,163	(71,759,006)
Gross proceeds from stock options exercised	26,760	
Cash dividends paid on common stock	(2,196,038)	(268,234)
Repurchase of common stock	(862,222)	
Proceeds from long-term FHLB advances	2,000,000	8,500,000
Repayment of short-term FHLB advances	(5,800,000)	(7,000,000)
Repayment of long-term FHLB advances	(8,000,000)	
Change in short-term borrowings	1,210,176	13,962,905
Net cash from (used in) financing activities	15,606,839	(56,564,335)
Net change in cash and cash equivalents	1,361,767	(53,636,405)

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Cash and cash equivalents, beginning of year		14,846,301		67,272,022
Cash and cash equivalents, end of year	\$	16,208,068	\$	13,635,617
Supplemental disclosures of cash flow information				
Cash paid during the year for:				
Interest	\$	2,125,268	\$	5,031,297
Income taxes		774,000		1,250,000
Non-cash Items:				
Transfer of loans to OREO		2,123,467		82,000
Transfer of loans from held for sale				2,969,427

The following notes are an integral part of the financial statements.

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Tower Financial Corporation

Notes to Consolidated Condensed Financial Statements

Note 1 Basis of Presentation

The accompanying unaudited consolidated financial statements are filed for Tower Financial Corporation and its wholly-owned subsidiary, Tower Bank & Trust (or the Bank or Tower Bank), and two unconsolidated subsidiary guarantor trusts, Tower Capital Trust 2, and Tower Capital Trust 3. Also included is the Bank's wholly-owned subsidiary, Tower Trust Company (or the Trust Company).

The accompanying unaudited consolidated condensed financial statements were prepared in accordance with generally accepted accounting principles in the United States of America for interim periods and with instructions for Form 10-Q and, therefore, do not include all disclosures required by generally accepted accounting principles in the United States of America for complete presentation of the Company's financial statements. In the opinion of management, the unaudited consolidated condensed financial statements contain all adjustments necessary to present fairly its consolidated balance sheet at September 30, 2013 and its consolidated statements of income and comprehensive income for the three- and nine-month periods ended September 30, 2013 and September 30, 2012 and changes in stockholders' equity and cash flows for the nine-month periods ended September 30, 2013 and September 30, 2012. Those adjustments consist of only normal recurring adjustments. The consolidated condensed balance sheet of the Company as of December 31, 2012 has been derived from the audited consolidated balance sheet of the Company as of that date. The results for the period ended September 30, 2013 should not be considered as indicative of results for a full year. These consolidated condensed financial statements should be read in conjunction with the audited financial statements for the years ended December 31, 2012 and 2011 and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Note 2 - Summary of Significant Accounting Policies

A comprehensive discussion of our critical accounting policies is disclosed in Note 1 of our Annual Report on Form 10-K for the year ended December 31, 2012. Certain accounting policies require management to use estimates and make assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and disclosures provided, and actual results could differ. There were no material changes in the information regarding our critical accounting policies since December 31, 2012.

Note 3 Recent Accounting Pronouncements

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220); Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The objective of this Update is to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments in this Update require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other

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disclosures required under U.S. GAAP that provide additional detail about those amounts. For public entities, the amendments were effective prospectively for reporting periods beginning after December 15, 2012. The Company adopted the ASU on January 1, 2013, and has included the required disclosures in the consolidated financial statements.

In January 2013, the FASB issued ASU No. 2013-01, Balance Sheet (Topic 210); Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The main objective of this standards update is to address implementation issues about the scope of Accounting Standards Update No. 2011-11, Balance Sheet (Topic 210); Disclosures About Offsetting Assets and Liabilities. The amendments clarify that the scope of Update 2011-11 applies to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. An entity is required to apply the amendments for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the required disclosures retrospectively for all

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comparative period presented. The Company adopted the ASU on January 1, 2013 and it did not have an effect on its consolidated financial statements.

Note 4 - Trading Assets

Trading assets, at fair value, consist of the following at September 30, 2013 and December 31, 2012:

Trading Assets	September 30, 2013	December 31, 2012
Marketable equity securities - mutual funds	\$ 230,300	\$

The unrealized gains and losses on trading assets for the three months ended September 30, 2013 and 2012, respectively, are listed below:

	2013	September 30, 2012
Gross gains	\$ 10,886	\$
Gross losses	4,347	
	\$ 6,539	\$

The unrealized gains and losses on trading assets for the nine months ended September 30, 2013 and 2012, respectively, are listed below:

	2013	September 30, 2012
Gross gains	\$ 19,795	\$
Gross losses	6,912	
	\$ 12,883	\$

Note 5 - Securities

The fair value and amortized cost of securities at September 30, 2013 and December 31, 2012 were as follows:

	Amortized Cost	September 30, 2013 Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
Obligations of state and political subdivisions	\$ 96,442,440	\$ 1,999,114	\$ (4,072,097)	\$ 94,369,457
	1,000,000			1,000,000

Explanation of Responses:

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Taxable obligations of state and political subdivisions				
Mortgage-backed securities (residential)	84,452,112	1,397,675	(575,889)	85,273,898
Mortgage-backed securities (commercial)	3,812,874	120,497	(101,330)	3,832,041
Equity securities	902,900	15,000		917,900
Total Securities	\$ 186,610,326	\$ 3,532,286	\$ (4,749,316)	\$ 185,393,296

	Amortized Cost	December 31, 2012 Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
Obligations of state and political subdivisions	\$ 87,358,236	\$ 4,249,120	\$ (799,855)	\$ 90,807,501
Taxable obligations of state and political subdivisions				
	2,037,517	274,823		2,312,340
Mortgage-backed securities (residential)	75,410,166	1,672,403	(94,313)	76,988,256
Mortgage-backed securities (commercial)	3,143,993	228,509		3,372,502
Equity securities	902,900			902,900
Total Securities	\$ 168,852,812	\$ 6,424,855	\$ (894,168)	\$ 174,383,499

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The proceeds from sales of available-for-sale securities and the associated gains and losses for the three months ended September 30, 2013 and 2012, respectively, are listed below:

	Three Months Ended September 30,	
	2013	2012
Proceeds from available-for-sale securities	\$	\$ 116,383
Gross gains		9,110

For the three months ended September 30, 2013, there were no sales of available-for-sale securities. For the three months ended September 30, 2012, the tax provision related to the net gains from sales of available-for-sale securities were \$3,097. The net gain from sales of available-for-sale securities, less the related tax expense, is a reclassification out of accumulated other comprehensive income/(loss). The gain is recorded in net gain on sale of available-for-sale securities and the related tax expense is included in income tax expense in the consolidated statements of income and comprehensive income.

The proceeds from sales of securities and the associated gains and losses for the nine months ended September 30, 2013 and 2012, respectively, are listed below:

	Nine Months Ended September 30,	
	2013	2012
Proceeds from available-for-sale securities	\$ 6,641,706	\$ 2,966,682
Gross gains	441,396	78,324
Gross losses		2,453

For the nine months ended September 30, 2013 and 2012, the tax provision related to these net gains from sales of available-for-sale securities were \$150,075 and \$25,796, respectively. There was also \$62 of gross losses on calls of available-for-sale securities for the nine months ended September 30, 2012. The net gain from sales of available-for-sale securities, less the related tax expense, is a reclassification out of accumulated other comprehensive income/(loss). The gain is recorded in net gain on sale of available-for-sale securities and the related tax expense is included in income tax expense in the consolidated statements of income and comprehensive income.

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The fair values and amortized costs of debt securities available for sale at September 30, 2013 and December 31, 2012, by contractual maturity, are shown below. Securities not due at a single date, primarily mortgage-backed securities and equity securities are shown separately. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

	9/30/2013	
	Amortized Cost	Fair Value
Available-for-sale securities:		
Mortgage-backed securities:		
Mortgage-backed securities (residential)	\$ 84,452,112	\$ 85,273,898
Mortgage-backed securities (commercial)	3,812,874	3,832,041
Total mortgage-backed securities	\$ 88,264,986	\$ 89,105,939
Obligations of state and political subdivisions:		
Due in one year or less	\$ 941,478	\$ 960,354
Due after one to five years	6,116,179	6,298,706
Due after five to ten years	21,662,549	22,575,498
Due after ten years	67,722,234	64,534,899
Total obligations of state and political subdivisions	\$ 96,442,440	\$ 94,369,457
Taxable obligations of state and political subdivisions:		
Due after one to five years	1,000,000	1,000,000
Total Obligations of state and political subdivisions	\$ 1,000,000	\$ 1,000,000
Equity securities		
Equity securities	\$ 902,900	\$ 917,900

	12/31/2012	
	Amortized Cost	Fair Value
Available-for-sale securities:		
Mortgage-backed securities:		
Mortgage-backed securities (residential)	\$ 75,410,166	\$ 76,988,256
Mortgage-backed securities (commercial)	3,143,993	3,372,502
Total mortgage-backed securities	\$ 78,554,159	\$ 80,360,758
Obligations of state and political subdivisions:		
Due in one year or less	\$ 1,605,182	\$ 1,636,783
Due after one to five years	5,329,876	5,483,599
Due after five to ten years	17,512,040	19,046,647
Due after ten years	62,911,138	64,640,472
Total obligations of state and political subdivisions	\$ 87,358,236	\$ 90,807,501
Taxable obligations of state and political subdivisions:		
Due after ten years	2,037,517	2,312,340
Total obligations of state and political subdivisions	\$ 2,037,517	\$ 2,312,340
Equity securities		
Equity securities	\$ 902,900	\$ 902,900

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Securities with a carrying value of \$40.6 million and \$15.5 million were pledged to secure borrowings from the FHLB at September 30, 2013 and December 31, 2012, respectively. Securities with a carrying value of \$2.8 million and \$2.6 million were pledged to the Federal Reserve to secure potential borrowings at the Discount Window at September 30, 2013 and December 31, 2012, respectively. The Company pledges securities at correspondent banks to secure federal

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funds lines of credit. Securities with a carrying value of \$6.7 million were pledged at Zions Bank at September 30, 2013, and securities with a carrying value of \$8.8 million were pledged at Zions Bank and Wells Fargo at December 31, 2012. At September 30, 2013, there were no holdings of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

Securities with unrealized losses at September 30, 2013 not recognized in income are as follows:

	Continuing Unrealized Losses for Less than 12 months		Continuing Unrealized Losses for More than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities:						
Obligations of state and political subdivisions	\$ 43,627,501	\$ (4,072,097)	\$	\$	\$ 43,627,501	\$ (4,072,097)
Mortgage-backed securities (residential)	29,919,764	(550,580)	825,419	(25,309)	30,745,183	(575,889)
Mortgage-backed securities (commercial)	2,215,383	(101,330)			2,215,383	(101,330)
Total available-for-sale securities	\$ 75,762,648	\$ (4,724,007)	\$ 825,419	\$ (25,309)	\$ 76,588,067	\$ (4,749,316)

Securities with unrealized losses at December 31, 2012 not recognized in income are as follows:

	Continuing Unrealized Losses for Less than 12 months		Continuing Unrealized Losses for More than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities:						
Obligations of state and political subdivisions	\$ 32,905,101	\$ (799,855)	\$	\$	\$ 32,905,101	\$ (799,855)
Mortgage-backed securities (residential)	17,371,951	(93,312)	1,142,901	(1,001)	18,514,852	(94,313)
Total available-for-sale securities	\$ 50,277,052	\$ (893,167)	\$ 1,142,901	\$ (1,001)	\$ 51,419,953	\$ (894,168)

Unrealized losses on most mortgage-backed securities and state and municipality bonds have not been recognized into income because most of the issuers' bonds are of high credit quality and management does not intend to sell, and it is likely that management will not be required to sell the securities prior to their anticipated recovery; however, see discussion on mortgage-backed securities that are not of investment grade in the mortgage-backed securities section. Of the bonds that are deemed to not be other-than-temporarily-impaired, the fair value is expected to recover as the bonds approach their maturity.

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We evaluate securities for other-than-temporary impairment (OTTI) at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI forecast assumptions. Investment securities classified as available-for-sale are generally evaluated for OTTI in accordance with accounting standards on how to account for certain investments in debt and equity securities. However, certain purchased beneficial interests, including asset-backed securities and collateralized debt obligations, that had credit ratings at the time of purchase of below AA are evaluated using the model outlined in FASB ASC 325-40-55, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transfer in Securitized Financial Assets*.

In determining OTTI, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether

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an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

The second segment of the portfolio uses the OTTI guidance that is specific to purchased beneficial interests that, on the purchase date, were rated below AA. The Company compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

When other-than-temporary impairment occurs under either model, the amount of the other-than-temporary impairment recognized in earnings depends on whether an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If an entity intends to sell or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment shall be recognized in earnings equal to the entire difference between the amortized cost basis of the investment and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will not be required to sell the security before recovery of its amortized cost basis less any current-period loss, the other-than-temporary impairment shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total other-than-temporary impairment related to other factors shall be recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the other-than-temporary impairment recognized in earnings shall become the new amortized cost basis of the investment.

As of September 30, 2013, Tower Financial Corporation's security portfolio consisted of 292 securities, 82 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company's obligations of state and political subdivisions and mortgage-backed securities, as discussed below:

Mortgage-backed Securities

At September 30, 2013, approximately 84.1% of the mortgage-backed securities we held were issued by U.S. government-sponsored entities and agencies, primarily Fannie Mae and Freddie Mac, institutions which the government has affirmed its commitment to support. Because the decline in market value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at September 30, 2013.

As of September 30, 2013, we held \$14.2 million of non-agency backed CMO investments. These investments were purchased as loan alternatives. These bonds make up less than 20% of Tier 1 capital. The Company continues to monitor these securities and obtain current market prices at least on a quarterly basis. Based on this review, the Company does not consider these securities to be other-than-temporarily impaired at September 30, 2013.

Obligations of State and Political Subdivisions

At September 30, 2013, the majority of the obligations of state and political subdivisions are credit rated A or above. The temporary impairment will fluctuate as the interest rate environment changes. In a rising interest rate environment, the temporary impairment will increase, while a decrease in the temporary impairment will occur in a declining interest rate environment. Management does not consider the temporary impairment of the securities to be severe due to the high credit quality of the underlying municipalities.

There were no credit losses relating to debt securities recognized in earnings for the three and nine months ended September 30, 2013 compared to \$688 for the three and nine months ended September 30, 2012. The debt securities that were deemed to be other-than-temporarily impaired at September 30, 2012 were sold during the fourth quarter of 2012. There were no debt securities deemed to be OTTI during the three and nine months ended September 30, 2013.

Note 6 - Loans and Allowance for Loan Losses

Loans at September 30, 2013 and December 31, 2012 were as follows:

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	September 30, 2013		December 31, 2012	
	Balance	%	Balance	%
Commercial	\$ 218,538,151	48.3%	\$ 209,781,217	46.5%
Commercial real estate				
Construction	26,707,600	5.9%	31,072,771	6.9%
Other	92,441,960	20.5%	82,553,249	18.3%
Residential real estate				
Traditional	51,207,190	11.3%	54,042,379	12.0%
Jumbo	24,552,324	5.4%	29,053,502	6.4%
Home equity	28,337,104	6.2%	33,073,555	7.3%
Consumer	10,390,938	2.4%	11,394,762	2.6%
Total loans	452,175,267	100.0%	450,971,435	100.0%
Net deferred loan costs (fees)	(659,405)		(505,825)	
Allowance for loan losses	(6,808,338)		(8,288,644)	
Net loans	\$ 444,707,524		\$ 442,176,966	

The following tables summarize changes in the Company's allowance for loan losses for the periods indicated:

For the three months ended September 30, 2013:

	Commercial	Commercial Real Estate	Residential Real Estate	Home Equity	Consumer	Unallocated	Total
Beginning balance 7/1/2013	\$ 3,867,982	\$ 3,415,078	\$ 210,628	\$ 195,254	\$ 29,612	\$ 73,771	\$ 7,792,325
Provision (credit)/expense	(287,732)	(682,399)	31,848	9,590	(522)	79,215	(850,000)
Charge-offs	(87,295)	(101,436)	(29,132)	(28,004)			(245,867)
Recoveries	96,965	9,859		2,326	2,730		111,880
Ending Balance 9/30/2013	\$ 3,589,920	\$ 2,641,102	\$ 213,344	\$ 179,166	\$ 31,820	\$ 152,986	\$ 6,808,338

For the nine months ended September 30, 2013:

	Commercial	Commercial Real Estate	Residential Real Estate	Home Equity	Consumer	Unallocated	Total
Beginning balance 1/1/2013	\$ 4,138,296	\$ 3,633,650	\$ 191,549	\$ 209,311	\$ 27,140	\$ 88,698	\$ 8,288,644
Provision (credit)/expense	(46,334)	(883,971)	50,927	(8,881)	(1,029)	64,288	(825,000)
Charge-offs	(799,514)	(118,436)	(29,132)	(28,004)			(975,086)
Recoveries	297,472	9,859		6,740	5,709		319,780
Ending Balance 9/30/2013	\$ 3,589,920	\$ 2,641,102	\$ 213,344	\$ 179,166	\$ 31,820	\$ 152,986	\$ 6,808,338

For the three months ended September 30, 2012:

Explanation of Responses:

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	Commercial	Commercial Real Estate	Residential Real Estate	Home Equity	Consumer	Unallocated	Total
Beginning balance 7/1/2012	\$ 3,798,534	\$ 4,501,776	\$ 441,083	\$ 246,294	\$ 25,658	\$ 18,434	\$ 9,031,779
Provision (credit)/expense	(104,255)	697,888	9,099	(62,281)	(8,418)	85,967	618,000
Charge-offs		(1,051,000)	(93,593)				(1,144,593)
Recoveries	8,165	5,348		20,176	305		33,994
Ending Balance 9/30/2012	\$ 3,702,444	\$ 4,154,012	\$ 356,589	\$ 204,189	\$ 17,545	\$ 104,401	\$ 8,539,180

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For the nine months ended September 30, 2012:

	Commercial	Commercial Real Estate	Residential Real Estate	Home Equity	Consumer	Unallocated	Total
Beginning balance 1/1/2012	\$ 3,963,278	\$ 4,705,948	\$ 580,571	\$ 76,923	\$ 19,028	\$ 62,265	\$ 9,408,013
Provision (credit)/expense	32,620	1,753,487	(73,889)	475,225	63,421	42,136	2,293,000
Charge-offs	(508,297)	(2,334,496)	(150,093)	(379,494)	(66,412)		(3,438,792)
Recoveries	214,843	29,073		31,535	1,508		276,959
Ending Balance 9/30/2012	\$ 3,702,444	\$ 4,154,012	\$ 356,589	\$ 204,189	\$ 17,545	\$ 104,401	\$ 8,539,180

The following tables present the fair value of the Company's loans sold by portfolio segment for the periods indicated:

For the three months ended	September 30, 2013	September 30, 2012
Commercial	\$ 1,439,854	\$
Commercial Real Estate	800,000	

For the nine months ended	September 30, 2013	September 30, 2012
Commercial	\$ 2,739,854	\$ 780,828
Commercial Real Estate	800,000	

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by class of loans based on impairment method as of September 30, 2013 and December 31, 2012:

September 30, 2013	Individually evaluated for impairment	Collectively evaluated for impairment	Total
Allowance for loan losses:			
Ending allowance balance attributable to loans:			
Commercial	\$ 1,749,474	\$ 1,840,446	\$ 3,589,920
Commercial Real Estate			
Construction		370,079	370,079
Other		2,271,023	2,271,023
Residential Real Estate			
Traditional		144,203	144,203
Jumbo		69,141	69,141
Home Equity		179,166	179,166
Consumer		31,820	31,820
Unallocated		152,986	152,986
Total	\$ 1,749,474	\$ 5,058,864	\$ 6,808,338
Loans:			
Commercial	\$ 9,740,723	\$ 209,271,606	\$ 219,012,329
Commercial Real Estate			

Explanation of Responses:

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Construction		1,474,325		25,067,859		26,542,184
Other		383,558		92,059,908		92,443,466
Residential Real Estate						
Traditional				51,249,265		51,249,265
Jumbo				24,572,498		24,572,498
Home Equity				28,509,188		28,509,188
Consumer				10,464,955		10,464,955
Unallocated						
Total	\$	11,598,606	\$	441,195,279	\$	452,793,885

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December 31, 2012	Individually evaluated for impairment		Collectively evaluated for impairment		Total
Allowance for loan losses:					
Ending allowance balance attributable to					
loans:					
Commercial	\$	1,863,569	\$	2,274,727	\$ 4,138,296
Commercial Real Estate					
Construction		104,000		415,535	519,535
Other				3,114,115	3,114,115
Residential Real Estate					
Traditional				124,576	124,576
Jumbo				66,973	66,973
Home Equity				209,311	209,311
Consumer				27,140	27,140
Unallocated				88,698	88,698
Total	\$	1,967,569	\$	6,321,075	\$ 8,288,644
Loans:					
Commercial	\$	12,011,267	\$	198,361,867	\$ 210,373,134
Commercial Real Estate					
Construction		3,980,626		27,003,008	30,983,634
Other		753,136		81,784,775	82,537,911
Residential Real Estate					
Traditional				54,120,324	54,120,324
Jumbo		1,399,283		27,696,123	29,095,406
Home Equity				33,264,786	33,264,786
Consumer				11,506,816	11,506,816
Unallocated					
Total	\$	18,144,312	\$	433,737,699	\$ 451,882,011

The following tables present loans individually evaluated for impairment by class of loans as of September 30, 2013 and December 31, 2012:

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September 30, 2013	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Commercial	\$ 2,368,730	\$ 1,978,233	\$
Commercial Real Estate			
Construction	2,668,531	1,474,325	
Other	383,196	383,558	
Residential Real Estate			
Traditional			
Jumbo			
Home Equity			
Consumer			
	5,420,457	3,836,116	
With related allowance recorded:			
Commercial	7,807,016	7,762,490	1,749,474
Commercial Real Estate			
Construction			
Other			
Residential Real Estate			
Traditional			
Jumbo			
Home Equity			
Consumer			
	7,807,016	7,762,490	1,749,474
	\$ 13,227,473	\$ 11,598,606	\$ 1,749,474

December 31, 2012	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Commercial	\$ 2,732,989	\$ 2,473,705	\$
Commercial Real Estate			
Construction	6,562,426	3,339,120	
Other	872,074	753,136	
Residential Real Estate			
Traditional			
Jumbo	1,930,616	1,399,283	
Home Equity			
Consumer			
	12,098,105	7,965,244	
With related allowance recorded:			
Commercial	9,638,777	9,537,562	1,863,569
Commercial Real Estate			
Construction	641,577	641,506	104,000
Other			
Residential Real Estate			
Traditional			
Jumbo			
Home Equity			
Consumer			
	10,280,354	10,179,068	1,967,569
	\$ 22,378,459	\$ 18,144,312	\$ 1,967,569

Explanation of Responses:

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For the tables directly above, the recorded investment in loans includes accrued interest receivable and loan origination fees, net. For purposes of this disclosure, the unpaid principal balance is not reduced for net charge-offs.

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The following tables present the average impaired loans, interest recognized on impaired loans, and cash-basis interest income recognized on impaired loans for the three months and nine months ended September 30, 2013 and September 30, 2012:

	For three months ended	September 30, 2013	September 30, 2012
Average impaired loans during the period:			
Commercial	\$	10,109,136	\$ 8,032,420
Commercial Real Estate			
Construction		1,680,807	2,667,538
Other		1,391,356	1,752,446
Residential Real Estate			
Jumbo		690,007	1,558,265
Interest recognized on impaired loans:			
Commercial		116,429	62,162
Commercial Real Estate			
Construction		6,640	40,198
Other		2,011	2,858
Residential Real Estate			
Jumbo			
Cash-basis interest income recognized:			
Commercial		113,557	67,505
Commercial Real Estate			
Construction		5,745	40,126
Other		2,011	1,699
Residential Real Estate			
Jumbo			

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	For nine months ended	September 30, 2013	September 30, 2012
Average impaired loans during the period:			
Commercial	\$	10,349,281	\$ 8,410,821
Commercial Real Estate			
Construction		2,982,999	3,357,440
Other		1,400,021	2,256,583
Residential Real Estate			
Jumbo		1,156,435	1,366,946
Home Equity			305,583
Interest recognized on impaired loans:			
Commercial		349,271	190,102
Commercial Real Estate			
Construction		69,969	125,764
Other		6,059	77,131
Residential Real Estate			
Jumbo			7,459
Home Equity			5,699
Cash-basis interest income recognized:			
Commercial		345,240	167,239
Commercial Real Estate			
Construction		55,341	120,819
Other		6,059	70,251
Residential Real Estate			
Jumbo			2,333
Home Equity			472

The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of September 30, 2013 and December 31, 2012:

September 30, 2013	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
Commercial	\$ 4,260,118	\$ 573,900
Commercial Real Estate		
Construction	1,474,325	
Other	383,558	
Residential Real Estate		
Traditional	443,389	125,576
Jumbo		
Home Equity	192,575	11,427
Consumer		42,205
Total	\$ 6,753,965	\$ 753,108

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December 31, 2012	Nonaccrual	Loans Past Due Over 90 Days Still	
		Accruing	
Commercial	\$ 8,899,434	\$	
Commercial Real Estate			
Construction	2,789,835		
Other	753,136		
Residential Real Estate			
Traditional	1,055,284		109,768
Jumbo	1,399,283		
Home Equity	84,611		
Consumer			2,681
Total	\$ 14,981,583	\$	112,449

The following tables present the aging of the recorded investment in loans as of September 30, 2013 and December 31, 2012:

September 30, 2013	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Loans Not Past Due
Commercial	\$ 1,958,585	\$ 13,904	\$ 1,503,719	\$ 3,476,208	\$ 215,536,121
Commercial Real Estate					
Construction			1,474,325	1,474,325	25,067,859
Other	5,058,306		265,731	5,324,037	87,119,429
Residential Real Estate					
Traditional		115,746	568,965	684,711	50,564,554
Jumbo					24,572,498
Home Equity	2,861		91,802	94,663	28,414,525
Consumer	92,972	20,269	42,205	155,446	10,309,509
Total	\$ 7,112,724	\$ 149,919	\$ 3,946,747	\$ 11,209,390	\$ 441,584,495

December 31, 2012	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Loans Not Past Due
Commercial	\$ 811,194	\$ 298,560	\$ 6,625,351	7,735,105	\$ 202,638,029
Commercial Real Estate					
Construction		1,190,791	1,203,867	2,394,658	28,588,976
Other	3,885,019		624,585	4,509,604	78,028,307
Residential Real Estate					
Traditional	294,459	355,134	1,165,052	1,814,645	52,305,679
Jumbo			1,399,283	1,399,283	27,696,123
Home Equity	8,757	9,082	84,611	102,450	33,162,336
Consumer	122,580	30,697	2,681	155,958	11,350,858
Total	\$ 5,122,009	\$ 1,884,264	\$ 11,105,430	\$ 18,111,703	\$ 433,770,308

Troubled Debt Restructurings:

The Company has allocated \$788,000 and \$260,000 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of September 30, 2013 and December 31, 2012. The Company has not committed to lend additional funds to customers with outstanding loans that are classified as troubled debt restructurings as of September 30, 2013 and December 31, 2012.

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There were no loans modified during the three-month period ending September 30, 2013 that met the definition of a troubled debt restructuring, but there was one loan modification during the nine-month period ending September 30,

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2013 that met the definition of a troubled debt restructuring. The modification of the terms included renewing a collateral deficient commercial loan to a borrower experiencing financial difficulty. During the three months ending September 30, 2012, there was one loan restructured that met the definition of a troubled debt restructuring. The restructuring extended the maturity date on a commercial loan for a customer that is experiencing financial difficulty. During the nine months ending September 30, 2012, there were three loans modified that met the definition of a troubled debt restructuring. The modification of the terms of these loans included extending the maturity date on a commercial loan for a customer that is experiencing financial difficulty, decreasing the collateral release price from the original collateral release schedule for a commercial real estate construction loan, and renewing a collateral deficient commercial loan.

The following tables present the recorded investment in loans by class modified as troubled debt restructurings that occurred during the three and nine months ending September 30, 2013 and September 30, 2012:

	Number of Loans	For the nine months ended September 30, 2013	
		Pre-Modification Outstanding Recorded Investment*	Post-Modification Outstanding Recorded Investment*
Commercial	1	\$ 328,351	\$ 328,351

**Note: Pre-modification and post-modification recorded investment balances above represent balances prior to the modification and the balance as a result of the modification.*

	Number of Loans	For the three months ended September 30, 2012	
		Pre-Modification Outstanding Recorded Investment*	Post-Modification Outstanding Recorded Investment*
Commercial	1	\$ 1,203,271	\$ 1,203,621

**Note: Pre-modification and post-modification recorded investment balances above represent balances prior to the modification and the balance as a result of the modification.*

	Number of Loans	For the nine months ended September 30, 2012	
		Pre-Modification Outstanding Recorded Investment*	Post-Modification Outstanding Recorded Investment*
Commercial	2	\$ 1,559,471	\$ 1,563,936
Commercial Real Estate: Construction	1	1,034,993	1,034,993

**Note: Pre-modification and post-modification recorded investment balances above represent balances prior to the modification and the balance as a result of the modification.*

The following table presents the recorded investment by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification as of September 30, 2013 and September 30, 2012:

Explanation of Responses:

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	September 30, 2013		September 30, 2012	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Commercial	0	\$	1	\$ 366,423
Commercial Real Estate:				
Construction	2	344,894	2	354,894
Other	2	351,218	2	358,218

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

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The troubled debt restructurings that subsequently defaulted as of September 30, 2013 described did not impact the allowance for loan losses during the three-month period ending September 30, 2013. The troubled debt restructurings that subsequently defaulted as of September 30, 2013 described above reduced the allowance for loan losses by \$17,000 as a result of charge offs taken during the nine-month period ending September 30, 2013. The troubled debt restructurings that subsequently defaulted described above reduced the allowance for loan losses by \$1.0 million as a result of charge offs during the three- and nine-month periods ending September 30, 2012.

The terms of certain other loans were modified during the nine months ending September 30, 2013 that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of September 30, 2013 of \$68.5 million for the nine months ended September 30, 2013. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

Pass: Loans classified as pass typically have adequate credit quality and sources of repayment. The characteristics of this loan risk classification are better than those rated special mention and typically have few loan to value exceptions.

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Explanation of Responses:

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Loans listed as not rated are included in groups of homogeneous loans.

As of September 30, 2013 and December 31, 2012, and based on the most recent analysis performed, the risk category of the recorded investment of loans by class of loans is as follows:

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September 30, 2013	Not Rated	Pass	Special Mention	Substandard	Doubtful
Commercial	\$	\$ 201,450,811	\$ 2,927,600	\$ 10,817,894	\$ 3,816,024
Commercial Real Estate					
Construction		24,564,328		503,531	1,474,325
Other		84,157,742	1,934,849	5,967,317	383,558
Residential Real Estate					
Traditional	51,249,265				
Jumbo	24,572,498				
Home Equity	28,509,188				
Consumer	10,464,955				
Total	\$ 114,795,906	\$ 310,172,881	\$ 4,862,449	\$ 17,288,742	\$ 5,673,907

December 31, 2012	Not Rated	Pass	Special Mention	Substandard	Doubtful
Commercial	\$	\$ 188,915,297	\$ 1,466,775	\$ 11,091,628	\$ 8,899,434
Commercial Real Estate					
Construction		24,992,377	2,010,631	1,190,791	2,789,835
Other		73,747,287	2,028,714	6,008,773	753,137
Residential Real Estate					
Traditional	54,120,324				
Jumbo	27,696,123				1,399,283
Home Equity	33,264,786				
Consumer	11,506,816				
Total	\$ 126,588,049	\$ 287,654,961	\$ 5,506,120	\$ 18,291,192	\$ 13,841,689

The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential, home equity, and consumer classes, the Company also evaluates the credit quality based on the aging status of the loan, which was previously presented, and by activity. The following table presents the recorded investment in residential, home equity, and consumer loans based on aging status as of September 30, 2013 and December 31, 2012:

September 30, 2013	Not Past Due	30 - 89 Days Past Due	Greater than 90 Days Past Due Still Accruing	Nonaccrual
Residential Real Estate				
Traditional	\$ 50,564,554	\$ 115,746	\$ 125,576	\$ 443,389
Jumbo	24,572,498			
Home Equity	28,302,325	2,861	11,427	192,575
Consumer	10,309,509	113,241	42,205	
Total	\$ 113,748,886	\$ 231,848	\$ 179,208	\$ 635,964

December 31, 2012	Not Past Due	30 - 89 Days Past Due	Greater than 90 Days Past Due Still Accruing	Nonaccrual
Residential Real Estate				
Traditional	\$ 52,305,679	\$ 649,593	\$ 109,768	\$ 1,055,284
Jumbo	27,696,123			1,399,283
Home Equity	33,162,336	17,839		84,611
Consumer	11,350,858	153,277	2,681	
Total	\$ 124,514,996	\$ 820,709	\$ 112,449	\$ 2,539,178

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Note 7 Fair Value

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company uses the following methods and significant assumptions to estimate fair value:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1), which include equity mutual funds. For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2), which include our municipal bonds and mortgage-backed securities. In certain cases where market data is not readily available because of lack of market activity or little public disclosure, values may be based on unobservable inputs and classified in Level 3 of the fair value hierarchy, which at September 30, 2013 included one taxable municipal security and one equity security. The fair value of Level 3 securities is highly sensitive to assumption changes and market volatility due to current market conditions as well as the limited trading activity of these securities.

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

Other Real Estate Owned: The fair value of certain commercial and residential real estate properties classified as other real estate owned (OREO) are based on recent real estate appraisals less costs to sell. These appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

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The following table presents for each of the fair-value hierarchy levels our assets that are measured at fair value on a recurring basis at September 30, 2013 and December 31, 2012.

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	September 30, 2013			
	Level 1	Level 2	Level 3	Total
Trading securities				
Equity mutual funds	\$ 230,300	\$	\$	\$ 230,300
Total	\$ 230,300	\$	\$	\$ 230,300
Available-for-sale securities:				
Obligations of state and political subdivisions	\$	\$ 94,369,457	\$	\$ 94,369,457
Taxable obligations of state and political subdivisions			1,000,000	1,000,000
Mortgage-backed securities (residential)		85,273,898		85,273,898
Mortgage-backed securities (commercial)		3,832,041		3,832,041
Equity securities			917,900	917,900
Total	\$	\$ 183,475,396	\$ 1,917,900	\$ 185,393,296

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
Available-for-sale securities:				
Obligations of state and political subdivisions	\$	\$ 90,807,501	\$	\$ 90,807,501
Taxable obligations of state and political subdivisions		2,312,340		2,312,340
Mortgage-backed securities (residential)		76,988,256		76,988,256
Mortgage-backed securities (commercial)		3,372,502		3,372,502
Equity securities			902,900	902,900
Total	\$	\$ 173,480,599	\$ 902,900	\$ 174,383,499

The following tables represent the changes in the Level 3 fair-value category for the three and nine months ended September 30, 2013 and 2012. We classify financial instruments in Level 3 of the fair-value hierarchy when there is reliance on at least one significant unobservable input in the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly. Thus, the gains and losses presented below include changes in the fair value related to both observable and unobservable inputs for the three and nine months ended September 30, 2013 and 2012.

Taxable obligations of state and political subdivisions	Three Months Ended September 30,	
	2013	2012
Beginning Balance, July 1	\$	\$
Principal paydowns		
Net realized/unrealized gains (losses)		
Included in earnings:		
Interest income on securities		
Credit loss recognized in earnings		
Included in other comprehensive income		
Purchases of Level 3 securities	1,000,000	
Sale of Level 3 securities		
Transfers in (out) of Level 3		
Ending Balance, September 30	\$ 1,000,000	\$

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Mortgage-backed securities (residential)	Three Months Ended September 30,	
	2013	2012
Beginning Balance, July 1	\$	\$ 306,557
Principal paydowns		(16,806)
Net realized/unrealized gains (losses)		
Included in earnings:		
Interest income on securities		
Credit loss recognized in earnings		(688)
Included in other comprehensive income		28,405
Purchases of Level 3 securities		
Sale of Level 3 securities		
Transfers in (out) of Level 3		
Ending Balance, September 30	\$	\$ 317,468

Equity securities	Three Months Ended September 30,	
	2013	2012
Beginning Balance, July 1	\$	\$ 917,900
Principal paydowns		
Net realized/unrealized gains (losses)		
Included in earnings:		
Interest income on securities		
Credit loss recognized in earnings		
Included in other comprehensive income		
Purchases of Level 3 securities		
Transfers in (out) of Level 3		
Ending Balance, September 30	\$	\$ 917,900

Taxable obligations of state and political subdivisions	Nine Months Ended September 30,	
	2013	2012
Beginning Balance, January 1	\$	\$
Principal paydowns		
Net realized/unrealized gains (losses)		
Included in earnings:		
Interest income on securities		
Credit loss recognized in earnings		
Included in other comprehensive income		
Purchases of Level 3 securities	1,000,000	
Sale of Level 3 securities		
Transfers in (out) of Level 3		
Ending Balance, September 30	\$	\$ 1,000,000

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Mortgage-backed securities (residential)	Nine Months Ended September 30,	
	2013	2012
Beginning Balance, January 1	\$	\$ 13,086,544
Principal paydowns		(911,153)
Net realized/unrealized gains (losses)		
Included in earnings:		
Interest income on securities		(23,858)
Credit loss recognized in earnings		(688)
Included in other comprehensive income		109,655
Purchases of Level 3 securities		
Sale of Level 3 securities		
Transfers in (out) of Level 3		(11,943,032)
Ending Balance, September 30	\$	\$ 317,468

Obligations of state and political subdivisions	Nine Months Ended September 30,	
	2013	2012
Beginning Balance, January 1	\$	\$ 3,686,288
Principal paydowns		
Net realized/unrealized gains (losses)		
Included in earnings:		
Interest income on securities		(42)
Credit loss recognized in earnings		
Included in other comprehensive income		(5,581)
Purchases of Level 3 securities		
Transfers in (out) of Level 3		(3,680,665)
Ending Balance, September 30	\$	\$

Equity securities	Nine Months Ended September 30,	
	2013	2012
Beginning Balance, January 1	\$	902,900
Principal paydowns		
Net realized/unrealized gains (losses)		
Included in earnings:		
Interest income on securities		
Credit loss recognized in earnings		
Included in other comprehensive income		15,000
Purchases of Level 3 securities		
Transfers in (out) of Level 3		
Ending Balance, September 30	\$	917,900

Transfers between Levels

There were no transfers between Levels 1, 2, and 3 for the three and nine months ending September 30, 2013.

Table of Contents**Unobservable (Level 3) Inputs**

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements.

	Fair Value at September 30, 2013	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Taxable obligations of state and political subdivisions	\$ 1,000,000	Market comparable securities	Comparability adjustments	Not available
Equity security	917,900	Market comparable securities	Comparability adjustments	Not available
Collateral-dependent impaired loans	1,093,803	Collateral based measurements	Discount to reflect current market conditions and ultimate collectibility	0% - 50%

	Fair Value at December 31, 2012	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Equity security	\$ 902,900	Market comparable securities	Comparability adjustments	Not available
Other real estate owned	1,469,565	Collateral based measurements	Discount to reflect current market conditions	0% - 20%
Collateral-dependent impaired loans	10,245,046	Collateral based measurements	Discount to reflect current market conditions and ultimate collectibility	0% - 50%

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Sensitivity of Significant Unobservable Inputs

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationships between those inputs and other unobservable inputs used in recurring fair value measurement and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

Equity Security: The significant unobservable inputs used in the fair value measurement of the Company's equity security are based on third party indicative bid prices.

Residential Mortgage-backed Securities: The significant unobservable inputs used in the fair value measurement of the Company's residential mortgage-backed securities are prepayment rates, probability of default and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

State and Political Subdivision Securities: The significant unobservable inputs used in the fair value measurement of the Company's state and political subdivision securities are premiums for unrated securities and marketability discounts. Significant increases (decreases) in either of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, changes in either of those inputs will not affect the other input.

Assets Measured at Fair Value on a Non-recurring Basis

Other certain assets and liabilities are measured at fair value on a non-recurring basis and are therefore not included in the tables above. These include impaired loans, which are measured at fair value based on the fair value of the underlying collateral. Fair value is determined, where possible, using market prices derived from an appraisal or evaluation. However, certain assumptions and unobservable inputs are used many times by the appraiser, therefore, qualifying the assets as Level 3 in the fair-value hierarchy.

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

Other Real Estate Owned: The fair value of certain commercial and residential real estate properties classified as other real estate owned (OREO) are based on recent real estate appraisals less costs to sell. These appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent

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appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

The following table presents for each of the fair-value hierarchy levels our assets that are measured at fair value on a non-recurring basis at September 30, 2013 and December 31, 2012.

	September 30, 2013			
	Level 1	Level 2	Level 3	Total
Impaired loans:				
Commercial			\$ 372,000	\$ 372,000
Commercial Real Estate				
Construction			168,374	168,374
Other			553,429	553,429

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	December 31, 2012			Total
	Level 1	Level 2	Level 3	
Impaired loans:				
Commercial			\$ 6,491,503	\$ 6,491,503
Commercial Real Estate				
Construction			1,985,598	1,985,598
Other			368,662	368,662
Residential Real Estate				
Traditional				
Jumbo			1,399,283	1,399,283
Home Equity				
Other real estate owned:				
Commercial Real Estate				
Construction			1,093,265	1,093,265
Other			226,000	226,000
Residential Real Estate				
Traditional			150,300	150,300
Jumbo				

The following schedule reflects the carrying values and estimated fair values of our financial instruments at September 30, 2013 and December 31, 2012. Only financial instruments are shown.

September 30, 2013	Carrying Value	Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	\$ 16,208,068	\$ 16,208,068	\$	\$
Long-term interest-bearing deposits	453,713		453,713	
Trading securities	230,300	230,300		
Securities available for sale	185,393,296		183,475,396	1,917,900
FHLB and FRB stock	3,807,700		3,807,700	
Loans held for sale	2,886,621		2,886,621	
Loans, net	444,707,524			450,171,773
Accrued interest receivable	2,654,861		2,654,861	
Financial liabilities:				
Deposits	(590,235,501)		(586,309,187)	
Short-term borrowings	(10,303,828)		(10,303,828)	
FHLB advances	(16,500,000)		(16,466,950)	
Junior subordinated debt	(17,527,000)			(6,163,557)
Accrued interest payable	(106,669)		(106,669)	

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December 31, 2012	Fair Value Measurements Using:			
	Carrying Value	Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	\$ 14,846,301	\$ 14,846,301	\$	\$
Long-term interest-bearing deposits	457,000		457,000	
Securities available for sale	174,383,499		173,480,599	902,900
FHLB and FRB stock	3,807,700		3,807,700	
Loans held for sale	4,933,299		4,933,299	
Loans, net	442,176,966			449,833,513
Accrued interest receivable	2,564,503		2,564,503	
Financial liabilities:				
Deposits	(561,007,338)		(563,043,048)	
Short-term borrowings	(9,093,652)		(9,093,652)	
FHLB advances	(28,300,000)		(28,337,750)	
Junior subordinated debt	(17,527,000)			(6,080,121)
Accrued interest payable	(107,943)		(107,943)	

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value.

Cash and Cash Equivalents: The carrying amount approximates fair value.

Long-term interest-bearing deposits: The carrying amount approximates fair value.

Trading securities: The carrying amount approximates fair value.

FHLB and FRB stock: Fair value is estimated at book value due to restrictions that limit the sale or transfer of such securities.

Loans held for sale: The carrying amount approximates fair value due to the insignificant time between origination and date of sale.

Loans: Fair value is estimated by discounting the future cash flows using the market rates at which similar notes would be made to borrowers with similar credit ratings and for the same remaining maturities. The market rates used are based on current rates the Bank would impose for similar loans and reflect a market participant assumption about risks associated with non-performance, illiquidity, and the structure and term of the loans along with local economic and market conditions.

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Accrued interest receivable and payable: The carrying amount approximates fair value. The carrying amount is determined using the interest rate, balance and last payment date.

Deposits: Fair value of term deposits is estimated by discounting the future cash flows using rates of similar deposits with similar maturities. The market rates used were obtained from a knowledgeable independent third party and reviewed by the Company. The rates were the average of current rates offered by local competitors of the bank subsidiaries.

The estimated fair value of demand, NOW, savings and money market deposits is the book value since rates are regularly adjusted to market rates and amounts are payable on demand at the reporting date.

Short-term borrowings: The carrying amount approximates fair value.

Federal Home Loan Bank advances: Fair value is estimated by discounting the future cash flows using rates of similar advances with similar maturities. These rates were obtained from current rates offered by FHLB.

Junior subordinated debt: Fair value of the subordinated debt is estimated by discounting the estimated future cash flows using current estimated market rates. The market rates used were averages of currently traded trust preferred securities with similar characteristics to the Company's issuances and obtained from an independent third party.

Table of Contents**Note 8 - Federal Home Loan Bank Advances**

At September 30, 2013 and December 31, 2012, advances from the Federal Home Loan Bank (FHLB) were:

	September 30, 2013	December 31, 2012
0.46% bullet advance, principal due at maturity February 15, 2013	\$	\$ 3,000,000
3.81% bullet advance, principal due at maturity March 26, 2013		2,000,000
0.49% variable rate advance, principal due at maturity June 12, 2013		3,300,000
0.49% variable rate advance, principal due at maturity June 17, 2013		7,000,000
0.49% variable rate advance, principal due at maturity June 25, 2013		3,000,000
0.50% variable rate advance, principal due at maturity July 1, 2013		3,500,000
0.49% bullet advance, principal due at maturity August 19, 2013		3,000,000
0.45% variable rate advance, principal due at maturity March 3, 2014	5,000,000	
0.45% variable rate advance, principal due at maturity March 10, 2014	6,000,000	
0.62% bullet advance, principal due at maturity March 28, 2016	2,000,000	
1.12% bullet advance, principal due at maturity May 30, 2017	3,500,000	3,500,000
Total Federal Home Loan Bank advances	\$ 16,500,000	\$ 28,300,000

At September 30, 2013, two FHLB advances in the amount of \$11.0 million have variable rates and can be repaid anytime at the Company's discretion before their contractual maturities. The remaining two FHLB advances have fixed rates with no callable options. At December 31, 2012, four FHLB advances in the amount of \$16.8 million had variable rates and could be repaid anytime at the Company's discretion before their contractual maturities. The remaining four FHLB advances totaling \$11.5 million had fixed rates with no callable options.

At September 30, 2013 scheduled principal reductions on these FHLB advances were as follows:

Year	Advances
2013	\$
2014	11,000,000
2015	
2016	2,000,000
2017	3,500,000
	\$ 16,500,000

Note 9 Equity Incentive Plans and Stock Compensation Plans**1998 and 2001 Stock Option and Incentive Plans:**

Explanation of Responses:

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Options to buy stock were previously granted to directors, officers and employees under the 1998 and 2001 Stock Option and Incentive Plans (the Plans), which together provided for issuance of up to 435,000 shares of common stock of Tower Financial Corporation. Options for all 435,000 shares were issued under the Plans, of which 37,935 remain outstanding as of September 30, 2013. Option awards were granted with an exercise price equal to the market price of our stock at the date of each grant, vesting over a four-year period, and issued with a ten-year contractual term. There was no compensation cost against income for options granted under the Plan in accordance with accounting standards for the three- and nine-month periods ended September 30, 2013 and September 30, 2012.

The fair value of each option award was estimated on the date of grant using the Black-Scholes valuation model using grant date assumptions. Expected volatilities are based on implied volatilities from historical volatility of our stock and other factors. We used historical data to estimate option exercise and forfeiture rates within the valuation model for valuation purposes. The expected term of options granted was derived from the output of the option valuation model and represented the period of time that options granted were expected to be outstanding; the range given below resulted from certain groups of employees exhibiting different behavior. The risk-free rates for periods within the contractual life of the options are based on the U.S. Treasury yield curve in effect at the time of grant. No options have been granted since 2005.

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A summary of the option activity under the Plans as of September 30, 2013 and changes during the nine-month period then ended are presented below:

Options	Shares	Weighted-Average Aggregate Exercise Price	Weighted-Average Remaining Contractual Term	Intrinsic Value
Outstanding at 1/1/2013	49,685	\$ 14.49	1.72	\$
Granted				
Exercised	(2,000)	13.38		
Forfeited or expired	(9,750)	13.35		
Outstanding at 9/30/2013	37,935	14.85	1.46	
Vested at 9/30/2013	37,935	14.85	1.46	
Exercisable at 9/30/2013	37,935	14.85	1.46	

There were no stock options exercised during the three-month period ending September 30, 2013, but there were 2,000 shares of stock options exercised in the amount of \$26,760 during the nine-month period ending September 30, 2013. There were no options exercised during the three- and nine-month period ending September 30, 2012.

No further options will be granted under either of these Plans, but the Plans will remain in effect for purposes of administering already existing options previously granted and still outstanding under the Plans. As of September 30, 2013, there is no unrecognized compensation expense for the 1998 and 2001 Stock Options plan.

2006 Equity Incentive Plan:

On April 19, 2006, at our annual meeting of stockholders, stockholders approved Tower Financial Corporation's 2006 Equity Incentive Plan, under which 150,000 shares have been reserved for issuance as incentive stock options, non-statutory stock options, restricted stock awards, unrestricted stock awards, performance awards, or stock appreciation rights. Of those shares, 95,757 were still undesignated and 54,243 have been granted.

Unrestricted Stock Awards:

As of September 30, 2013, 23,858 shares have been granted and vested as part of a long-term equity incentive plan. This plan was put in place for the entire senior management team and several other key personnel of the Company and expired December 31, 2012; therefore, no

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compensation cost was charged against income for the three and nine months ended September 30, 2013. The compensation cost that was charged against income for the shares awarded under the plan was \$0 and \$54,635 for the three and nine months ended September 30, 2012, respectively. As of September 30, 2013, there is no unrecognized compensation expense in relation to the long-term equity incentive plan.

Restricted Stock:

As of September 30, 2013, 19,875 shares have been granted, of which 19,375 shares have vested and 500 shares have not vested and are expected to vest. The compensation cost that has been charged against income for restricted shares awarded under the Plan was \$531 and \$531 for the three months and \$1,593 and \$14,093 for the nine months ended September 30, 2013 and 2012, respectively. Future expense related to this award will be \$532 in 2013, \$2,125 in 2014, \$1,417 in 2015. The total fair value of shares vested during the three and nine months ended September 30, 2013 was \$3,875.

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A summary of the restricted stock activity as of September 30, 2013 and changes during the nine-month period then ended are presented below:

Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at 1/1/13	750	\$ 8.50
Granted		
Vested	(250)	8.50
Forfeited		
Outstanding at 9/30/13	500	8.50

Director Stock Compensation Program:

As discussed in our Annual Report filed on Form 10-K, our board compensation consists of two components. 70% of their compensation is paid in cash, while the remaining 30% is paid in the form of Deferred Stock Units. The Deferred Stock Units entitle each participant to receive one share of our common stock for each Deferred Stock Unit issued, provided they are a director until the date of the next annual meeting, which is typically in May each year. The participant may elect to defer payment of the Deferred Stock Unit until one year after the date of grant, three years after the date of the grant, or one year after the end of the participant's service with the Company. The expense associated with the Deferred Stock Units is amortized over the vesting period, which is one year from the date of the grant for this issuance. As of September 30, 2013, 10,510 shares have been granted, of which 5,341 have vested, 5,133 have not vested and are expected to vest, and 36 units were issued in the form of dividend equivalent units. Of the 5,341 shares that have vested, participants have chosen to defer payment of 1,785 units. During the three months ending September 30, 2013, two dividends totaling \$0.33 per common share were paid, which resulted in the issuance of 36 dividend equivalent units on the deferred units. The compensation cost that has been charged against income for the Deferred Stock Units awarded under this Program was \$17,449 and \$13,850 for the three months ended September 30, 2013 and September 30, 2012, respectively, and \$45,337 and \$18,650 for the nine months ended September 30, 2013 and September 30, 2012, respectively. Future expense related to this award will be \$17,325 in 2013 and \$28,875 in 2014.

Note 10 Earnings Per Share

The following table reflects the calculation of basic and diluted earnings per common share for the three- and nine- month periods ended September 30, 2013 and September 30, 2012. Options not considered in the calculation of diluted earnings per common share because they were antidilutive totaled 5,842 and 49,685 for the three-month periods ended and 19,719 and 49,685 for the nine- month periods ended September 30, 2013 and 2012, respectively.

	Three Months Ended September 30,	
	2013	2012
Basic		

Explanation of Responses:

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Net income available to common shareholders	\$	2,084,092	\$	1,562,636
Weighted average common shares outstanding		4,672,496		4,874,660
Basic earnings per common share	\$	0.45	\$	0.32

Diluted

Net income available to common shareholders	\$	2,084,092	\$	1,562,636
Weighted average common shares outstanding		4,672,496		4,874,660
Add: dilutive effect of stock option exercises		177		
Weighted average common shares and dilutive potential common shares outstanding and preferred stock conversion		4,672,673		4,874,660
Diluted earnings per common share	\$	0.45	\$	0.32

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	Nine Months Ended September 30,	
	2013	2012
Basic		
Net income available to common shareholders	\$ 5,683,092	\$ 4,015,350
Weighted average common shares outstanding	4,678,824	4,860,363
Basic earnings per common share	\$ 1.21	\$ 0.83
Diluted		
Net income available to common shareholders	\$ 5,683,092	\$ 4,015,350
Weighted average common shares outstanding	4,678,824	4,860,363
Add: dilutive effect of stock option exercises	1,211	
Weighted average common shares and dilutive potential common shares outstanding and preferred stock conversion	4,680,035	4,860,363
Diluted earnings per common share	\$ 1.21	\$ 0.83

Note 11 Business Segments

Management separates Tower Financial Corporation into three distinct businesses for reporting purposes. The three segments are Banking, Wealth Management, and Corporate and Intercompany. The segments are evaluated separately on their individual performance, as well as their contribution as a whole.

The majority of assets and income result from the Banking segment. The Bank is a full-service commercial bank with six Allen County locations and one Warsaw location. The Wealth Management segment is made up of Tower Trust Company, which is a wholly-owned subsidiary of the Bank. The Trust Company provides estate planning, investment management, and retirement planning, as well as investment brokerage services. The Corporate and Intercompany segment includes the holding company and subordinated debentures. We incur general corporate expenses, as well as interest expense on the subordinated debentures.

	As of and for the three months ended September 30, 2013				
	Bank	Wealth Management	Corporate & Intercompany	Eliminations	Total
Income Statement Information					
Net interest income (expense)	\$ 5,198,370	\$ 17,098	\$ (68,004)	\$	\$ 5,147,464
Non-interest income	1,053,280	1,108,705	2,383,341	(2,369,446)	2,175,880
Non-interest expense	4,112,089	794,701	408,230		5,315,020
Noncash items					
Provision for loan losses	(850,000)				(850,000)
Depreciation/Amortization	1,013,857	26,026			1,039,883
Income tax expense (benefit)	824,689	126,528	(176,985)		774,232
Segment Profit/(Loss)	2,164,872	204,574	2,084,092	(2,369,446)	2,084,092
Balance Sheet Information					
Segment Assets	702,644,649	7,558,913	84,021,812	(92,349,962)	701,875,412

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As of and for the nine months ended September 30, 2013

	Bank	Wealth Management	Corporate & Intercompany	Eliminations	Total
Income Statement Information					
Net interest income (expense)	\$ 15,596,915	\$ 44,664	\$ (203,775)	\$	\$ 15,437,804
Non-interest income	3,908,547	3,229,448	6,289,244	(6,243,325)	7,183,914
Non-interest expense	12,686,159	2,189,909	753,940		15,630,008
Noncash items					
Provision for loan losses	(825,000)				(825,000)
Depreciation/Amortization	3,044,465	75,250			3,119,715
Income tax expense (benefit)	2,065,735	419,446	(351,563)		2,133,618
Segment Profit/(Loss)	5,578,568	664,757	5,683,092	(6,243,325)	5,683,092
Balance Sheet Information					
Segment Assets	702,644,649	7,558,913	84,021,812	(92,349,962)	701,875,412

As of and for the three months ended September 30, 2012

	Bank	Wealth Management	Corporate & Intercompany	Eliminations	Total
Income Statement Information					
Net interest income (expense)	\$ 5,688,509	\$ 15,949	\$ (89,854)	\$	\$ 5,614,604
Non-interest income	1,197,720	999,123	1,696,771	(1,691,343)	2,202,271
Non-interest expense	4,201,409	695,072	122,730		5,019,211
Noncash items					
Provision for loan losses	618,000				618,000
Depreciation/Amortization	453,432	21,764			475,196
Income tax expense (benefit)	573,847	121,631	(78,450)		617,028
Segment Profit/(Loss)	1,492,973	198,369	(1,562,637)	(1,691,343)	1,562,636
Balance Sheet Information					
Segment Assets	651,907,041	7,354,862	78,640,710	(88,436,885)	649,465,728

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	As of and for the nine months ended September 30, 2012				
	Bank	Wealth Management	Corporate & Intercompany	Eliminations	Total
Income Statement Information					
Net interest income (expense)	\$ 17,061,389	\$ 38,084	\$ (366,799)	\$	\$ 16,732,674
Non-interest income	3,457,035	2,867,137	4,547,115	(4,527,709)	6,343,578
Non-interest expense	12,755,849	2,048,344	489,139		15,293,332
Noncash items					
Provision for loan losses	2,293,000				2,293,000
Depreciation/Amortization	1,452,788	62,205			1,514,993
Income tax expense (benefit)	1,467,934	330,809	(324,173)		1,474,570
Segment Profit/(Loss)	4,001,641	526,068	4,015,350	(4,527,709)	4,015,350
Balance Sheet Information					
Segment Assets	651,907,041	7,354,862	78,640,710	(88,436,885)	649,465,728

Note 12 Acquisition

In a press release dated September 10, 2013, Old National Bancorp announced its intent to acquire the Company in a cash and stock transaction. Under the terms of the merger agreement, which was approved by the boards of both companies, Company shareholders will receive \$6.75 in cash and 1.20 shares of Old National Bancorp common stock for each share of Company common stock held by them. As provided in the merger agreement, consummation of the Merger is subject to various conditions, including (i) receipt of the requisite approval by Tower's shareholders, (ii) receipt of regulatory approvals, (iii) absence of any law or order prohibiting the closing, (iv) effectiveness of the registration statement to be filed by Old National with the Securities and Exchange Commission (the "SEC") with respect to the shares of Old National's common stock to be issued to Tower's shareholders in connection with the Merger, (v) Tower's Delinquent Loans (as defined in the Merger Agreement) must not exceed \$24.0 million as of the tenth day prior to the effective time of the Merger, and (vi) the Tower Consolidated Shareholders' Equity as of the end of the last day of the month prior to the effective time of the Merger, after certain adjustments prescribed by the Merger Agreement have been made, must not be less than \$57,117,844. In addition, each party's obligation to consummate the Merger is subject to certain other conditions, including the accuracy of the representations and warranties of the other party and compliance of the other party with its covenants in all material respects. The transaction is expected to close in the first quarter of 2014, subject to approval by federal and state regulatory authorities and the Company's shareholders and the satisfaction of the closing conditions provided in the merger agreement. As of September 30, 2013, Tower was in compliance with the closing conditions set forth in the merger agreement.

The Merger Agreement also contains representations and warranties that the parties have made to each other as of specific dates. The Merger Agreement is incorporated herein by reference to an exhibit filed publicly in our Current Report on Form 8-K filed on September 10, 2013. Shareholders should read the Merger Agreement together with the other information concerning Old National and Tower that each company publicly files in reports and statements with the SEC.

Note 13 Reclassifications

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Certain items in the financial statements and notes thereto were reclassified to conform to the current presentation. The reclassifications had no effect on net income or stockholders' equity as previously reported.

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Annex A

Execution Copy

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (this Agreement) is dated to be effective as of the 9th day of September, 2013, by and between **OLD NATIONAL BANCORP**, an Indiana corporation (ONB), and **TOWER FINANCIAL CORPORATION**, an Indiana corporation (TFC).

WITNESSETH:

WHEREAS, ONB is an Indiana corporation registered as a bank holding company under the federal Bank Holding Company Act of 1956, as amended (the BHC Act), with its principal office located in Evansville, Vanderburgh County, Indiana; and

WHEREAS, TFC is an Indiana corporation registered as a bank holding company under the BHC Act, with its principal office located in Fort Wayne, Allen County, Indiana; and

WHEREAS, ONB and TFC seek to affiliate through a corporate reorganization whereby TFC will merge with and into ONB, and thereafter, Tower Bank & Trust Company (TBT), an Indiana chartered commercial bank, will be merged with and into Old National Bank, a national banking association and wholly-owned subsidiary of ONB; and

WHEREAS, the Boards of Directors of each of the parties hereto have determined that it is in the best interests of their respective corporations and their respective shareholders to consummate the merger provided for herein and have approved this Agreement, authorized its execution and designated this Agreement a plan of reorganization and a plan of merger; and

WHEREAS, a majority of the members of the Board of Directors of TFC have agreed to execute and deliver to ONB a voting agreement substantially in the form attached hereto as Exhibit A.

NOW, THEREFORE, in consideration of the foregoing premises, the representations, warranties, covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby make this Agreement and prescribe the terms and conditions of the merger of TFC with and into ONB, and the mode of carrying such merger into effect as

follows:

ARTICLE I.

THE MERGER

1.01 The Merger. (a) General Description. Upon the terms and subject to the conditions of this Agreement, at the Effective Time (as defined in Article IX hereof), TFC shall merge with and into and under the Articles of Incorporation of ONB (the Merger). ONB shall survive the Merger (sometimes hereinafter referred to as the Surviving Corporation) and shall continue its corporate existence under the laws of the State of Indiana pursuant to the provisions of and with the effect provided in the Indiana Business Corporation Law, as amended.

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(b) Name, Officers and Directors. The name of the Surviving Corporation shall be Old National Bancorp. Its principal office shall be located at One Main Street, Evansville, Vanderburgh County, Indiana. The officers of ONB serving at the Effective Time shall continue to serve as the officers of the Surviving Corporation, until such time as their successors shall have been duly elected and have qualified or until their earlier resignation, death or removal from office. The directors of the Surviving Corporation following the Effective Time shall be those individuals serving as directors of ONB at the Effective Time until such time as their successors have been duly elected and have qualified or until their earlier resignation, death, or removal as a director.

(c) Articles of Incorporation and By-Laws. The Articles of Incorporation and By-Laws of ONB in existence at the Effective Time shall remain the Articles of Incorporation and By-Laws of the Surviving Corporation following the Effective Time, until such Articles of Incorporation and By-Laws shall be further amended as provided by applicable law.

(d) Effect of the Merger. At the Effective Time, the title to all assets, real estate and other property owned by TFC shall vest in Surviving Corporation as set forth in Indiana Code Section 23-1-40-6, as amended, without reversion or impairment. At the Effective Time, all liabilities of TFC shall be assumed by Surviving Corporation as set forth in Indiana Code Section 23-1-40-6, as amended.

(e) Integration. At the Effective Time and subject to the terms and conditions of this Agreement, the parties hereto currently intend to effectuate, or cause to be effectuated, the Merger, pursuant to Articles of Merger, substantially in the form attached hereto as Exhibit 1.01(e)(i), and a Plan of Merger, substantially in the form attached hereto as Exhibit 1.01(e)(ii). The parties agree to cooperate and to take all reasonable actions prior to or following the Effective Time, including executing all requisite documentation, as may be reasonably necessary to effect the Merger.

1.02 Reservation of Right to Revise Structure. At ONB's election, the Merger may alternatively be structured so that (a) TFC is merged with and into any other direct or indirect wholly-owned subsidiary of ONB or (b) any direct or indirect wholly-owned subsidiary of ONB is merged with and into TFC; provided, however, that no such change shall (x) alter or change the amount or kind of the Merger Consideration (as hereinafter defined) or the treatment of the holders of common stock, no par value, of TFC (TFC Common Stock) or options to purchase TFC Common Stock, (y) prevent the parties from obtaining the opinions of counsel referred to in Sections 7.01(h) and 7.02(h) or otherwise cause the transaction to fail to qualify for the tax treatment described in Section 1.03, or (z) materially impede or delay consummation of the transactions contemplated by this Agreement. In the event of such an election, the parties agree to execute an appropriate amendment to this Agreement (to the extent such amendment only changes the method of effecting the business combination and does not substantively affect this Agreement or the rights and obligations of the parties or their respective shareholders) in order to reflect such election.

1.03 Tax Free Reorganization. ONB and TFC intend for the Merger to qualify as a reorganization within the meaning of Section 368(a) and related sections of the Internal Revenue Code of 1986, as amended (the Code), and that this Agreement shall constitute a plan of

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reorganization for purposes of Sections 354 and 361 of the Code, and agree to cooperate and to take such actions as may be reasonably necessary to assure such result.

1.04 Absence of Control. Subject to any specific provisions of the Agreement, it is the intent of the parties to this Agreement that neither ONB nor TFC by reason of this Agreement shall be deemed (until consummation of the transactions contemplated here) to control, directly or indirectly, the other party or any of its respective Subsidiaries (as such term is defined below) and shall not exercise or be deemed to exercise, directly or indirectly, a controlling influence over the management or policies of such other party or any of its respective Subsidiaries.

1.05 Bank Merger. TFC and ONB agree to take all action necessary and appropriate, including entering into a plan of merger (the Bank Merger Agreement) substantially in the form attached hereto as Exhibit 1.05, to cause TBT to merge with and into Old National Bank (the Bank Merger) in accordance with the applicable laws and regulations effective simultaneous with the consummation of the Merger. At the effective time of the Bank Merger, the separate corporate existence of TBT will terminate. Old National Bank will be the surviving bank and will continue its corporate existence under applicable law. The articles of association Old National Bank, as then in effect, will be the articles of association of the surviving bank, and the By-Laws of Old National Bank, as then in effect, will be the By-Laws of the surviving bank.

1.06 No Dissenters Rights. Shareholders of TFC are not entitled to any dissenters rights under Chapter 44 of the Indiana Business Corporation Law, as amended, since TFC Common Stock is quoted and traded on the NASDAQ Global Market. TFC shall take no action which would result in the loss of such listing prior to the Effective Time.

ARTICLE II.

MANNER AND BASIS OF EXCHANGE OF STOCK

2.01 Consideration. (a) Subject to the terms and conditions of this Agreement, at the Effective Time, each share of TFC Common Stock issued and outstanding immediately prior to the Effective Time (other than (i) shares held as treasury stock of TFC and (ii) shares held directly or indirectly by ONB, except shares held in a fiduciary capacity or in satisfaction of a debt previously contracted, if any) shall become and be converted into the right to receive in accordance with this Article:

(i) \$6.75 cash (the Cash Consideration); and

(ii) 1.20 shares of common stock (the Exchange Ratio) (as adjusted in accordance with the terms of this Agreement), without par value, of ONB (ONB Common Stock).

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The Cash Consideration and the Exchange Ratio are sometimes referred to herein collectively as the Merger Consideration.

(b) Stock Options. At the Effective Time, each outstanding option to purchase TFC common stock (an TFC Stock Option) without any action on the part of any holder thereof, shall be converted automatically into an option to purchase a number of shares of common stock of ONB (each, an ONB Stock Option) equal to the product (rounded down to the nearest

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whole share) of (A) the number of shares of TFC common stock subject to such TFC Stock Option and (B) the sum of (x) Exchange Ratio plus (y) \$6.75 divided by (z) the Average ONB Closing Price (as defined below), at an exercise price per share (rounded up to the nearest whole cent) equal to (A) the exercise price of such TFC Stock Option divided by (B) the sum of (x) Exchange Ratio plus (y) \$6.75 divided by (z) the Average ONB Closing Price. Except as specifically provided above, following the Effective Time, each ONB Stock Option will become fully vested, and shall otherwise continue to be governed by the same terms and conditions as were applicable under the related TFC Stock Option immediately prior to the Effective Time. As soon as practicable after the Effective Time, ONB shall file an appropriate registration statement with respect to the shares of ONB Common Stock subject to ONB Stock Options and shall use its reasonable best efforts to maintain the effectiveness of the registration statement (and maintain the current status of the prospectus contained therein) for so long as such options remain outstanding.

(c) Deferred Stock Units. ONB and TFC shall take all requisite action so that, at the Effective Time, each of the deferred stock units issued and still outstanding under the 2006 Equity Incentive Plan (consisting 5,133 units) shall receive cash in the amount equal to the closing price of a share of TFC Common Stock on the trading day immediately preceding the Closing.

2.02 Adjustments to Exchange Ratio. At the Effective Time, the Exchange Ratio shall be adjusted, if applicable, as follows (which Exchange Ratio, as adjusted as provided below and in Section 2.05, shall become the Exchange Ratio for purposes of this Agreement):

Shareholders' Equity. If as of the end of the month prior to the Effective Time, the TFC Consolidated Shareholders' Equity (as defined in Section 7.01(m) hereof) is less than \$61,117,844, the Exchange Ratio shall be decreased to a quotient determined by dividing the Adjusted Stock Purchase Price by the total number of shares of TFC Common Stock outstanding at the Effective Time, and further dividing that number by the Average ONB Closing Price.

As used in this Section 2.02, the following terms shall have the meanings indicated below:

Adjusted Stock Purchase Price shall be equal to (x) the Stock Purchase Price less (y) the difference between \$61,117,844 and the TFC Consolidated Shareholders' Equity as of the end of the month prior to the Effective Time.

Average ONB Closing Price shall mean the average of the per share closing prices of a share of ONB Common Stock as quoted on the NASDAQ Global Market during the ten (10) trading days preceding the fifth (5th) calendar day preceding the Effective Time.

Stock Purchase Price shall be equal to the Exchange Ratio in effect at the time of adjustment multiplied by the Average ONB Closing Price multiplied by the total number of shares of TFC Common Stock outstanding as of the Effective Time.

2.03 Fractional Shares. Notwithstanding any other provision in this Agreement, no fractional shares of ONB Common Stock and no certificates or scrip therefor, or other evidence of ownership thereof, will be issued in the Merger; instead, ONB shall pay to each holder of TFC

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Common Stock who otherwise would be entitled to a fractional share of ONB Common Stock an amount in cash (without interest) determined by multiplying such fraction by the by the Average ONB Closing Price.

2.04 Exchange Procedures. (a) At and after the Effective Time, each certificate representing shares of TFC Common Stock shall represent only the right to receive the Merger Consideration in accordance with the terms of this Agreement.

(b) At or prior to the Effective Time, ONB shall reserve a sufficient number of shares of ONB Common Stock to be issued as part of the Merger Consideration. As promptly as practicable after the Effective Time, but in no event more than five business days thereafter, ONB shall mail to each holder of TFC Common Stock a letter of transmittal providing instructions as to the transmittal to ONB of certificates representing shares of TFC Common Stock and the issuance of shares of ONB Common Stock in exchange therefor pursuant to the terms of this Agreement.

(c) ONB shall cause (i) a check in the amount of cash that each holder of TFC Common Stock has the right to receive pursuant to Section 2.01(i), (ii) a certificate representing that number of whole shares of ONB Common Stock that each holder of TFC Common Stock has the right to receive pursuant to Section 2.01(ii), and (iii) a check in the amount of any cash in lieu of fractional shares or dividends or distributions which such holder shall be entitled to receive, to be delivered to such shareholder upon delivery to ONB of certificates representing such shares of TFC Common Stock (Old Certificates) (or bond or other indemnity satisfactory to ONB if any of such certificates are lost, stolen or destroyed) owned by such shareholder accompanied by a properly completed and executed letter of transmittal, as in the form and substance satisfactory to ONB. No interest will be paid on any Merger Consideration that any such holder shall be entitled to receive pursuant to this Article II upon such delivery.

(d) No dividends or other distributions on ONB Common Stock with a record date occurring after the Effective Time shall be paid to the holder of any unsurrendered Old Certificate representing shares of TFC Common Stock converted in the Merger into the right to receive shares of such ONB Common Stock until the holder thereof surrenders such Old Certificates in accordance with this Section 2.04. After becoming so entitled in accordance with this Section 2.04, the record holder thereof also shall be entitled to receive any such dividends or other distributions, without any interest thereon, which theretofore had become payable with respect to shares of ONB Common Stock such holder had the right to receive upon surrender of the Old Certificate.

(e) The stock transfer books of TFC shall be closed immediately upon the Effective Time and from and after the Effective Time there shall be no transfers on the stock transfer records of TFC of any shares of TFC Common Stock. If, after the Effective Time, Old Certificates are presented to ONB, they shall be canceled and exchanged for the Merger Consideration deliverable in respect thereof pursuant to this Agreement in accordance with the procedures set forth in this Section 2.04.

(f) ONB shall be entitled to rely upon TFC s stock transfer books to establish the identity of those individuals, partnerships, corporations, trusts, joint ventures, organizations or

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other entities (each, a Person) entitled to receive the Merger Consideration, which books shall be conclusive with respect thereto. In the event of a dispute with respect to ownership of stock represented by any Old Certificate, ONB shall be entitled to deposit any Merger Consideration represented thereby in escrow with an independent third party and thereafter be relieved from any and all liability with respect to any claims thereto.

(g) If any Old Certificate shall have been lost, stolen, or destroyed, upon the making of an affidavit of that fact by the Person claiming such Old Certificate to be lost, stolen, or destroyed and, if required by ONB, the posting by such Person of a bond or other indemnity satisfactory to ONB as indemnity against any claim that may be made against it with respect to such Old Certificate, ONB will issue in exchange for such lost, stolen, or destroyed Old Certificate the Merger Consideration deliverable in respect thereof pursuant to Section 2.01 hereof.

(h) Notwithstanding anything in this Agreement to the contrary, at the Effective Time, all shares of TFC Common Stock that are held as treasury stock of TFC or owned by ONB (other than shares held in a fiduciary capacity or in satisfaction of a debt previously contracted) shall be cancelled and shall cease to exist and no stock of TFC or other consideration shall be exchanged therefor.

(i) Notwithstanding the foregoing, no party hereto shall be liable to any former holder of TFC Common Stock for any amount properly delivered to a public official pursuant to applicable abandoned property, escheat or similar laws.

2.05 Anti-Dilution Adjustments. If ONB changes (or establishes a record date for changing) the number of shares of ONB Common Stock issued and outstanding prior to the Effective Time by way of a stock split, stock dividend, recapitalization or similar transaction with respect to the outstanding ONB Common Stock, and the record date therefor shall be prior to the Effective Time, the Exchange Ratio shall be adjusted so the shareholders of TFC at the Effective Time shall receive, in the aggregate, such number of shares of ONB Common Stock representing the same percentage of outstanding shares of ONB Common Stock as would have been represented by the number of shares of ONB Common Stock the shareholders of TFC would have received if any of the foregoing actions had not occurred. No adjustment shall be made under this Section 2.05 solely as a result of ONB issuing additional shares of ONB Common Stock provided it receives fair market value consideration for such shares or such shares are issued in connection with the ONB Plans (as hereinafter defined).

ARTICLE III.

REPRESENTATIONS AND WARRANTIES OF TFC

On or prior to the date hereof, TFC has delivered to ONB a schedule (the TFC Disclosure Schedule) setting forth, among other things, items the disclosure of which is necessary or appropriate either in response to an express disclosure requirement contained in a provision hereof or as an exception to one or more representations or warranties contained in this Article III or to one or more of its covenants contained in Article V.

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For the purpose of this Agreement, and in relation to TFC, a **Material Adverse Effect** means any effect that (i) is material and adverse to the results of operations, properties, assets, liabilities, conditions (financial or otherwise), prospects, value or business of TFC and its Subsidiaries (as such term is defined below) taken as a whole, or (ii) would materially impair the ability of TFC to perform its obligations under this Agreement or otherwise materially threaten or materially impede the consummation of the Merger and the other transactions contemplated by this Agreement; provided, however, that Material Adverse Effect shall not be deemed to include the impact of (a) changes in banking and similar laws of general applicability to banks or their holding companies or interpretations thereof by courts or governmental authorities, (b) GAAP (as defined below) or regulatory accounting requirements applicable to banks or their holding companies generally, (c) effects of any action or omission taken with the prior written consent of ONB, (d) changes resulting from expenses (such as legal, accounting and investment bankers fees) incurred in connection with this Agreement or the transactions contemplated herein, (e) the impact of the announcement of this Agreement and the transactions contemplated hereby, and compliance with this Agreement on the business, financial condition or results of operations of TFC and its Subsidiaries, and (f) the occurrence of any military or terrorist attack within the United States or any of its possessions or offices; *provided*, that in no event shall a change in the trading price of the shares of TFC Common Stock, by itself, be considered to constitute a Material Adverse Effect on TFC and its Subsidiaries taken as a whole (it being understood that the foregoing proviso shall not prevent or otherwise affect a determination that any effect underlying such decline has resulted in a Material Adverse Effect); and *provided, further*, that without regard to any other provision of this Agreement, and without limiting other events or circumstances that may constitute a Material Adverse Effect, a Material Adverse Effect shall be deemed to have occurred in the event of the imposition of a formal regulatory enforcement action against TFC or TBT following the date of this Agreement.

For the purpose of this Agreement, and in relation to TFC and its Subsidiaries, **knowledge** means those facts that are known or should have been known after due inquiry by the directors and executive officers of TFC and its Subsidiaries. Additionally, for the purpose of this Agreement, and in relation to TFC, its Subsidiaries shall mean any entity which is required to be consolidated with TFC for financial reporting purposes pursuant to United States generally accepted accounting principles (GAAP).

Accordingly, TFC hereby represents and warrants to ONB as follows, except as set forth in its Disclosure Schedule:

3.01 Organization and Authority. (a) TFC is a corporation duly organized and validly existing under the laws of the state of Indiana and is a registered bank holding company under the BHC Act. TFC has full power and authority (corporate and otherwise) to own and lease its properties as presently owned and leased and to conduct its business in the manner and by the means utilized as of the date hereof. TFC has previously provided ONB with a complete list of its Subsidiaries. Except for its Subsidiaries, TFC owns no voting stock or equity securities of any corporation, partnership, association or other entity.

(b) TBT is a bank chartered and existing under the laws of the State of Indiana, which is a member of the Federal Reserve System. TBT has full power and authority (corporate and otherwise) to own and lease its properties as presently owned and leased and to conduct its

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business in the manner and by the means utilized as of the date hereof. TBT owns no voting stock or equity securities of any corporation, partnership, association or other entity.

(c) Each of TFC's Subsidiaries other than TBT is duly organized and validly existing under the laws of its jurisdiction of organization, and has full power and authority (corporate and otherwise) to own and lease its properties as presently owned and leased and to conduct its business in the manner and by the means utilized as of the date hereof.

3.02 Authorization. (a) TFC has the requisite corporate power and authority to enter into this Agreement and to perform its obligations hereunder, subject to the fulfillment of the conditions precedent set forth in Sections 7.01(e) and (f) hereof. As of the date hereof, TFC is not aware of any reason why the approvals set forth in Section 7.02(e) will not be received in a timely manner and without the imposition of a condition, restriction or requirement of the type described in Section 7.01(e). This Agreement and its execution and delivery by TFC have been duly authorized and approved by the Board of Directors of TFC and, assuming due execution and delivery by ONB, constitutes a valid and binding obligation of TFC, subject to the fulfillment of the conditions precedent set forth in Section 7.02 hereof, and is enforceable in accordance with its terms, except to the extent limited by general principles of equity and public policy and by bankruptcy, insolvency, fraudulent transfer, reorganization, liquidation, moratorium, readjustment of debt or other laws of general application relating to or affecting the enforcement of creditors' rights.

(b) Neither the execution of this Agreement nor consummation of the Merger contemplated hereby: (i) conflicts with or violates the Articles of Incorporation or By-Laws of TFC or the charter documents of any of TFC's Subsidiaries; (ii) conflicts with or violates any local, state, federal or foreign law, statute, ordinance, rule or regulation (provided that the approvals of or filings with applicable government regulatory agencies or authorities required for consummation of the Merger are obtained) or any court or administrative judgment, order, injunction, writ or decree; (iii) conflicts with, results in a breach of or constitutes a default under any note, bond, indenture, mortgage, deed of trust, license, lease, contract, agreement, arrangement, commitment or other instrument to which TFC or any of its Subsidiaries is a party or by which TFC or any of its Subsidiaries is subject or bound; (iv) results in the creation of or gives any Person the right to create any lien, charge, claim, encumbrance or security interest, or results in the creation of any other rights or claims of any other party (other than ONB) or any other adverse interest, upon any right, property or asset of TFC or any of its Subsidiaries which would be material to TFC; or (v) terminates or gives any Person the right to terminate, accelerate, amend, modify or refuse to perform under any note, bond, indenture, mortgage, agreement, contract, lease, license, arrangement, deed of trust, commitment or other instrument to which TFC or any of its Subsidiaries is bound or with respect to which TFC or any of its Subsidiaries is to perform any duties or obligations or receive any rights or benefits.

(c) Other than in connection or in compliance with the provisions of the applicable federal and state banking, securities, antitrust and corporation statutes, all as amended, and the rules and regulations promulgated thereunder, no notice to, filing with, exemption by or consent, authorization or approval of any governmental agency or body is necessary for consummation of the Merger by TFC.

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3.03 Capitalization. (a) The authorized capital stock of TFC as of the date hereof consists, and at the Effective Time will consist, of 6,000,000 shares of TFC Common Stock, of which 4,672,485 shares are issued and outstanding. Additionally, options to purchase 10,085 shares of TFC Common Stock are outstanding under the 1998 Stock Option Plan, options to purchase 27,850 shares of TFC Common Stock are outstanding under the 2001 Stock Option Plan, options to purchase 750 shares of TFC Common Stock are outstanding under the 2006 Equity Incentive Plan (each, an TFC Stock Option Plan and, collectively, the TFC Stock Option Plans) TFC has 5,133 deferred stock units issued pursuant to the 2006 Equity Incentive Plan. Such issued and outstanding shares of TFC Common Stock have been duly and validly authorized by all necessary corporate action of TFC, are validly issued, fully paid and nonassessable and have not been issued in violation of any pre-emptive rights of any present or former TFC shareholder. Except as set forth in the TFC Disclosure Schedule, TFC has no capital stock authorized, issued or outstanding other than as described in this Section 3.03(a) and has no intention or obligation to authorize or issue any other capital stock or any additional shares of TFC Common Stock. Each share of TFC Common Stock is entitled to one vote per share. A description of the TFC Common Stock is contained in the Articles of Incorporation of TFC.

(b) Set forth on the TFC Disclosure Schedule is a list of all direct or indirect subsidiaries of TFC (each a Subsidiary and collectively, the Subsidiaries). All of the issued and outstanding shares of capital stock or other equity ownership interests of each Subsidiary are owned by TFC or TBT free and clear of all liens, pledges, charges, claims, encumbrances, restrictions, security interests, options and pre-emptive rights and of all other rights or claims of any other Person with respect thereto.

(c) Except for the options issued under the TFC Stock Option Plans, and except as set forth in the TFC Disclosure Schedule, there are no options, warrants, commitments, calls, puts, agreements, understandings, arrangements or subscription rights relating to any shares of TFC Common Stock or any of TFC s Subsidiaries, or any securities convertible into or representing the right to purchase or otherwise acquire any common stock or debt securities of TFC or its Subsidiaries, by which TFC is or may become bound. TFC does not have any outstanding contractual or other obligation to repurchase, redeem or otherwise acquire any of the issued and outstanding shares of TFC Common Stock. To the knowledge of TFC, there are no voting trusts, voting arrangements, buy-sell agreements or similar arrangements affecting the capital stock of TFC or its Subsidiaries.

(d) Except as disclosed in its public filings with the Securities and Exchange Commission (SEC), TFC has no knowledge of any Person which beneficially owns (as defined in Rule 13d-3 under the Securities Exchange Act of 1934 (the 1934 Act)) 5% or more of the outstanding shares of TFC Common Stock.

3.04 Organizational Documents. The Articles of Incorporation and By-Laws of TFC and any similar governing documents for each of TFC s Subsidiaries, representing true, accurate and complete copies of such corporate documents in effect as of the date of this Agreement, have been delivered to ONB.

3.05 Compliance with Law. (a) None of TFC or any of its Subsidiaries is currently in violation of, and since January 1, 2009, none has been in violation of, any local, state, federal or

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foreign law, statute, regulation, rule, ordinance, order, restriction or requirement, and none is in violation of any order, injunction, judgment, writ or decree of any court or government agency or body (collectively, the Law), except where such violation would not have a Material Adverse Effect. TFC and its Subsidiaries possess and hold all licenses, franchises, permits, certificates and other authorizations necessary for the continued conduct of their business without interference or interruption, except where the failure to possess and hold the same would not have a Material Adverse Effect, and such licenses, franchises, permits, certificates and authorizations are transferable (to the extent required) to ONB at the Effective Time without any restrictions or limitations thereon or the need to obtain any consents of government agencies or other third parties other than as set forth in this Agreement.

(b) Since the enactment of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act), TFC has been and is in compliance in all material respects with the applicable provisions of the Sarbanes-Oxley Act. The Disclosure Schedule sets forth, as of the date hereof, a schedule of all officers and directors of TFC who have outstanding loans from TFC or any of its Subsidiaries, and there has been no default on, or forgiveness or waiver of, in whole or in part, any such loan during the two (2) years immediately preceding the date hereof.

(c) All of the existing offices and branches of TBT have been legally authorized and established in accordance with all applicable federal, state and local laws, statutes, regulations, rules, ordinances, orders, restrictions and requirements, except such as would not have a Material Adverse Effect. TBT has no approved but unopened offices or branches.

3.06 Accuracy of Statements Made and Materials Provided to ONB. No representation, warranty or other statement made, or any information provided, by TFC in this Agreement or, in the TFC Disclosure Schedule (and any update thereto) or provided by TFC to ONB and in the course of ONB's due diligence investigation, and no written information which has been or shall be supplied by TFC with respect to its financial condition, results of operations, business, assets, capital or directors and officers for inclusion in the proxy statement-prospectus relating to the Merger, contains or shall contain (in the case of information relating to the proxy statement-prospectus at the time it is first mailed to TFC's shareholders) any untrue statement of material fact or omits or shall omit to state a material fact necessary to make the statements contained herein or therein, in light of the circumstances in which they are made, not false or misleading, except that no representation or warranty has been made by TFC with respect to statements made or incorporated by reference in the Form S-4 or the proxy statement-prospectus therein based on information supplied by ONB specifically for inclusion or incorporation by reference in the Form S-4 or the proxy statement-prospectus therein.

3.07 Litigation and Pending Proceedings. Except as disclosed in its SEC Reports as of the date of this Agreement or set forth in the TFC Disclosure Schedule:

(a) Except for lawsuits involving collection of delinquent accounts and lawsuits which would not have a Material Adverse Effect on TFC, there are no claims, actions, suits, proceedings, mediations, arbitrations or investigations pending and served against TFC or any of its Subsidiaries or, to the knowledge of TFC or any of its Subsidiaries, threatened in any court or before any government agency or authority, arbitration panel or otherwise against TFC or any of

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its Subsidiaries. TFC does not have knowledge of a basis for any claim, action, suit, proceeding, litigation, arbitration or investigation against TFC or any of its Subsidiaries.

(b) Neither TFC nor any of its Subsidiaries is: (i) subject to any outstanding judgment, order, writ, injunction or decree of any court, arbitration panel or governmental agency or authority; (ii) presently charged with or, to the knowledge of TFC, under governmental investigation with respect to, any actual or alleged violations of any law, statute, rule, regulation or ordinance; or (iii) the subject of any pending or, to the knowledge of TFC, threatened proceeding by any government regulatory agency or authority having jurisdiction over their respective business, assets, capital, properties or operations.

3.08 Financial Statements and Reports. (a) TFC has delivered to ONB copies of the following financial statements and reports of TFC and its Subsidiaries, including the notes thereto (collectively, the TFC Financial Statements):

(i) Consolidated Balance Sheets and the related Consolidated Statements of Earnings and Consolidated Statements of Changes in Shareholders' Equity of TFC as of and for the fiscal years ended December 31, 2012, 2011 and 2010, and as of and for the six months ended June 30, 2013;

(ii) Consolidated Statements of Cash Flows of TFC for the fiscal years ended December 31, 2012, 2011 and 2010, and as of and for the six months ended June 30, 2013; and

(iii) Call Reports (Call Reports) for TBT as of the close of business on December 31, 2012, 2011 and 2010, and for the six months ended June 30, 2013.

(b) The TFC Financial Statements present fairly in all material respects the consolidated financial position of TFC as of and at the dates shown and the consolidated results of operations, cash flows and changes in shareholders' equity for the periods covered thereby and are complete, correct, represent bona fide transactions, and have been prepared from the books and records of TFC and its Subsidiaries. The TFC Financial Statements described in clauses (i) and (ii) above for completed fiscal years are audited financial statements and have been prepared in conformance with GAAP, except as may otherwise be indicated in any accountants' notes or reports with respect to such financial statements.

(c) Since June 30, 2013 on a consolidated basis TFC and its Subsidiaries have not incurred any material liability other than in the ordinary course of business consistent with past practice.

3.09 Material Contracts. (a) Except for contracts reflected as exhibits to its reports and other documents required to be filed under the 1934 Act and the Securities Act of 1933 (the 1933 Act) (collectively, the SEC Reports), including TFC's Annual Report on Form 10-K for the year ended December 31, 2012, and Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, or as set forth in the TFC Disclosure Schedule, as of the date of this Agreement, neither TFC nor any of its Subsidiaries, nor any of their respective assets, businesses, or

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operations, is a party to, or is bound or affected by, or receives benefits under, (i) any contract relating to the borrowing of money by TFC or any of its Subsidiaries or the guarantee by TFC or

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any of its Subsidiaries of any such obligation (other than contracts pertaining to fully-secured repurchase agreements, and trade payables, and contracts relating to borrowings or guarantees made in the ordinary course of business), (ii) any contract containing covenants that limit the ability of TFC or any of its Subsidiaries to compete in any line of business or with any Person, or to hire or engage the services of any Person, or that involve any restriction of the geographic area in which, or method by which, TFC or any of its Subsidiaries may carry on its business (other than as may be required by Law or any Governmental Authority) (as each are hereinafter defined), or any contract that requires it or any of its Subsidiaries to deal exclusively or on a sole source basis with another party to such contract with respect to the subject matter of such contract, (iii) any contract for, with respect to, or that contemplates, a possible merger, consolidation, reorganization, recapitalization or other business combination, or asset sale or sale of equity securities not in the ordinary course of business consistent with past practice, with respect to TFC or any of its Subsidiaries, (iv) any other contract or amendment thereto that would be required to be filed as an exhibit to any SEC Report (as described in Items 601(b)(4) and 601(b)(10) of Regulation S-K under the 1933 Act) that has not been filed as an exhibit to or incorporated by reference in TFC's SEC Reports filed prior to the date of this Agreement, (v) any lease of real or personal property providing for annual lease payments by or to TFC or its Subsidiaries in excess of \$100,000 per annum other than financing leases entered into in the ordinary course of business in which TFC or any of its Subsidiaries is the lessor, or (vi) any contract that involves expenditures or receipts of TFC or any of its Subsidiaries in excess of \$100,000 per year not entered into in the ordinary course of business consistent with past practice. The contracts of the type described in the preceding sentence shall be deemed Material Contracts hereunder. With respect to each of TFC's Material Contracts (i) that is reflected as an exhibit to any SEC Report, (ii) would be required under Items 601(b)(4) and 601(b)(10) of Regulation S-K under the 1933 Act to be filed as an exhibit to any of its SEC Reports or (iii) that is disclosed in the TFC Disclosure Schedule, or would be required to be so disclosed if in effect on the date of this Agreement: (A) each such Material Contract is in full force and effect; (B) neither TFC nor any of its Subsidiaries is in material default thereunder with respect to each Material Contract, as such term or concept is defined in each such Material Contract; (C) neither TFC nor any of its Subsidiaries has repudiated or waived any material provision of any such Material Contract; and (D) no other party to any such Material Contract is, to TFC's knowledge, in material default in any material respect. Schedule 3.09(a) list all Material Contracts, including all amendments and supplements thereto, that are not filed as exhibits to SEC Reports are listed on the TFC Disclosure Schedule.

(b) Neither TFC nor any of its Subsidiaries have entered into any interest rate swaps, caps, floors, option agreements, futures and forward contracts, or other similar risk management arrangements, whether entered into for TFC's own account or for the account of one or more of its Subsidiaries or their respective customers.

3.10 Absence of Undisclosed Liabilities. Except as provided in the TFC Financial Statements or in the TFC Disclosure Schedule, and except for unfunded loan commitments and obligations on letters of credit to customers of TFC's Subsidiaries made in the ordinary course of business, except for trade payables incurred in the ordinary course of such Subsidiaries' business, and except for the transactions contemplated by this Agreement and obligations for services rendered pursuant thereto, or any other transactions which would not result in a material liability, none of TFC or any of its Subsidiaries has, nor will have at the Effective Time, any

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obligation, agreement, contract, commitment, liability, lease or license which exceeds \$100,000 individually, or \$250,000 in the aggregate, or any obligation, agreement, contract, commitment, liability, lease or license made outside of the ordinary course of business, nor does there exist any circumstances resulting from transactions effected or events occurring on or prior to the date of this Agreement or from any action omitted to be taken during such period which could reasonably be expected to result in any such obligation, agreement, contract, commitment, liability, lease or license. None of TFC or any of its Subsidiaries is delinquent in the payment of any amount due pursuant to any trade payable in any material respect, and each has properly accrued for such payables in accordance with GAAP, except where the failure to so accrue would not constitute a Material Adverse Effect.

3.11 Title to Properties. Except as described in this Section 3.11 or the TFC Disclosure Schedule:

(a) TFC or one of its Subsidiaries, as the case may be, has good and marketable title in fee simple absolute to all real property (including, without limitation, all real property used as bank premises and all other real estate owned) which is reflected in the TFC Financial Statements as of June 30, 2013; good and marketable title to all personal property reflected in the TFC Financial Statements as of June 30, 2013, other than personal property disposed of in the ordinary course of business since June 30, 2013; good and marketable title to or right to use by valid and enforceable lease or contract all other properties and assets (whether real or personal, tangible or intangible) which TFC or any of its Subsidiaries purports to own or which TFC or any of its Subsidiaries uses in its respective business and which are in either case material to its respective business; good and marketable title to, or right to use by terms of a valid and enforceable lease or contract, all other property used in its respective business to the extent material thereto; and good and marketable title to all material property and assets acquired and not disposed of or leased since June 30, 2013. All of such properties and assets are owned by TFC or its Subsidiaries free and clear of all land or conditional sales contracts, mortgages, liens, pledges, restrictions, options, security, interests, charges, claims, rights of third parties or encumbrances of any nature except: (i) as set forth in the TFC Disclosure Schedule; (ii) as specifically noted in reasonable detail in the TFC Financial Statements; (iii) statutory liens for taxes not yet delinquent or being contested in good faith by appropriate proceedings; (iv) pledges or liens required to be granted in connection with the acceptance of government deposits or granted in connection with repurchase or reverse repurchase agreements; and (v) easements, encumbrances and liens of record, imperfections of title and other limitations which are not material in amounts to TFC on a consolidated basis and which do not detract from the value or materially interfere with the present or contemplated use of any of the properties subject thereto or otherwise materially impair the use thereof for the purposes for which they are held or used. All real property owned or, to the knowledge of TFC, leased by TFC or its Subsidiaries is in compliance in all material respects with all applicable zoning and land use laws. All real property, machinery, equipment, furniture and fixtures owned or leased by TFC or its Subsidiaries that is material to their respective businesses is structurally sound, in good operating condition (ordinary wear and tear excepted) and has been and is being maintained and repaired in the ordinary condition of business.

(b) With respect to all real property presently or formerly owned, leased or used by TFC or any of its Subsidiaries, TFC, its Subsidiaries and to TFC's knowledge each of the prior

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owners, have conducted their respective business in compliance with all federal, state, county and municipal laws, statutes, regulations, rules, ordinances, orders, directives, restrictions and requirements relating to, without limitation, responsible property transfer, underground storage tanks, petroleum products, air pollutants, water pollutants or storm water or process waste water or otherwise relating to the environment, air, water, soil or toxic or hazardous substances or to the manufacturing, recycling, handling, processing, distribution, use, generation, treatment, storage, disposal or transport of any hazardous or toxic substances or petroleum products (including polychlorinated biphenyls, whether contained or uncontained, and asbestos-containing materials, whether friable or not), including, without limitation, the Federal Solid Waste Disposal Act, the Hazardous and Solid Waste Amendments, the Federal Clean Air Act, the Federal Clean Water Act, the Occupational Health and Safety Act, the Federal Resource Conservation and Recovery Act, the Toxic Substances Control Act, the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 and the Superfund Amendments and Reauthorization Act of 1986, all as amended, and regulations of the Environmental Protection Agency, the Nuclear Regulatory Agency, the Army Corps of Engineers, the Department of Interior, the United States Fish and Wildlife Service and any state department of natural resources or state environmental protection agency now or at any time thereafter in effect (collectively, Environmental Laws). There are no pending or, to the knowledge of TFC, threatened, claims, actions or proceedings by any local municipality, sewage district or other governmental entity against TFC or any of its Subsidiaries with respect to the Environmental Laws, and to TFC s knowledge there is no reasonable basis or grounds for any such claim, action or proceeding. No environmental clearances are required for the conduct of the business of TFC or any of its Subsidiaries as currently conducted or the consummation of the Merger contemplated hereby. To TFC s knowledge, neither TFC nor any of its Subsidiaries is the owner, or has been in the chain of title or the operator or lessee, of any property on which any substances have been used, stored, deposited, treated, recycled or disposed of, which substances if known to be present on, at or under such property would require clean-up, removal, treatment, abatement, response costs, or any other remedial action under any Environmental Law. To TFC s knowledge, neither TFC nor any of its Subsidiaries has any liability for any clean-up or remediation under any of the Environmental Laws with respect to any real property.

3.12 Loans and Investments. (a) TFC has provided ONB with a list of each loan by TBT that has been classified by regulatory examiners or management as Other Loans Specially Mentioned, Substandard, Doubtful or Loss or that has been identified by accountants or auditors (internal or external) as having a significant risk of uncollectability as of August 31, 2013, and a list of Delinquent Loans as of August 31, 2013. The most recent loan watch list of TBT and a list of all loans which have been determined to be thirty (30) days or more past due with respect to principal or interest payments or has been placed on nonaccrual status has also been provided by TFC to ONB.

(b) All loans reflected in the TFC Financial Statements as of June 30, 2013, and which have been made, extended, renewed, restructured, approved, amended or acquired since June 30, 2013: (i) have been made for good, valuable and adequate consideration in the ordinary course of business; (ii) constitute the legal, valid and binding obligation of the obligor and any guarantor named therein, except to the extent limited by general principles of equity and public policy or by bankruptcy, insolvency, fraudulent transfer, reorganization, liquidation, moratorium, readjustment of debt or other laws of general application relative to or affecting the enforcement

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of creditors' rights; (iii) are evidenced by notes, instruments or other evidences of indebtedness which are true, genuine and what they purport to be; and (iv) are secured by perfected security interests or recorded mortgages naming TBT as the secured party or mortgagee (unless by written agreement to the contrary).

(c) The reserves, the allowance for possible loan and lease losses and the carrying value for real estate owned which are shown on the TFC Financial Statements are, in the judgment of management of TFC, adequate in all material respects under the requirements of GAAP to provide for possible losses on items for which reserves were made, on loans and leases outstanding and real estate owned as of the respective dates.

(d) Except as set forth in the TFC Disclosure Schedule, none of the investments reflected in the TFC Financial Statements as of and for the period ended June 30, 2013, and none of the investments made by any Subsidiary of TFC since June 30, 2013, are subject to any restriction, whether contractual or statutory, which materially impairs the ability of such Subsidiary to dispose freely of such investment at any time. Neither TFC nor any of its Subsidiaries is a party to any repurchase agreements with respect to securities.

(e) Except as set forth in the TFC Disclosure Schedule, and except for customer deposits, ordinary trade payables, and Federal Home Loan Bank borrowings, neither TFC nor any of its Subsidiaries has, and none will have at the Effective Time, any indebtedness for borrowed money.

3.13 No Shareholder Rights Plan. TFC has no shareholder rights plan or any other plan, program or agreement involving, restricting, prohibiting or discouraging a change in control or merger of TFC or which reasonably could be considered an anti-takeover mechanism.

3.14 Employee Benefit Plans. (a) With respect to the employee benefit plans, as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), sponsored or otherwise maintained by TFC or any member of a controlled group of corporations under Code Section 414(b) of which TFC is or was a member, and any trade or business (whether or not incorporated) which is or was under common control with TFC under Code Section 414(c), and all other entities which together with TFC are or were prior to the date hereof treated as a single employer under Code Section 414(m) or 414(o) (an "ERISA Affiliate"), whether written or oral, in which TFC or any ERISA Affiliate participates as a participating employer, or to which TFC or any ERISA Affiliate contributes or is or has been obligated to contribute, or any nonqualified employee benefit plans or deferred compensation, bonus, stock, performance share, phantom stock or incentive plans or arrangements, or other employee benefit or fringe benefit programs for the benefit of former or current employees or directors (or their beneficiaries or dependents) of TFC or any ERISA Affiliate, and including any such plans which have been terminated, merged into another plan, frozen or discontinued since January 1, 2009 (individually, "TFC Plan" and collectively, "TFC Plans"), represents and warrants, except as set forth in the TFC Disclosure Schedule:

(i) All such TFC Plans have, on a continuous basis since their adoption, been, in all material respects, maintained in compliance with their respective terms and with the requirements prescribed by all applicable statutes, orders and governmental rules or

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regulations, including without limitation, ERISA and the Department of Labor (Department) Regulations promulgated thereunder and the Code and Treasury Regulations promulgated thereunder.

(ii) All TFC Plans intended to constitute tax-qualified plans under Code Section 401(a) have complied since their adoption or have been timely amended to comply in all material respects with all applicable requirements of the Code and the Treasury Regulations and each such Plan has received a favorable determination letter from the Internal Revenue Service upon which TFC may rely regarding its current tax qualified status under the Code.

(iii) All TFC Plans that provide for payments of nonqualified deferred compensation (as defined in Code Section 409A(d)(1)) have been (A) operated in good faith compliance with the applicable requirements of Code Section 409A and applicable guidance thereunder since January 1, 2007, and (B) amended to comply in written form with Code Section 409A and the Treasury Regulations promulgated thereunder.

(iv) All options to purchase shares of TFC Common Stock were granted with a per share exercise price that was not less than the fair market value of TFC Common Stock on the date of such grant, as determined in accordance with the terms of the applicable TFC Stock Option Plan (the TFC Stock Options). All TFC Stock Options have been properly accounted for in accordance with GAAP, and no change is expected in respect of any prior financial statements relating to expenses for stock-based compensation. There is no pending audit, investigation or inquiry by any governmental agency or authority or by TFC (directly or indirectly) with respect to TFC's stock option granting practices or other equity compensation practices. The grant date of each TFC Stock Option is on or after the date on which such grant was authorized by the Board of Directors of TFC or the compensation committee thereof.

(v) Except for the Tower Financial 401(k) Plan (the TFC 401(k) Plan), no TFC Plan (or its related trust) holds any stock or other securities of TFC.

(vi) Neither TFC, an ERISA Affiliate nor any fiduciary as defined in ERISA Section 3(21)(A) of a TFC Plan has engaged in any transaction that may subject TFC, any ERISA Affiliate or any TFC Plan to a civil penalty imposed by ERISA Section 502 or any other provision of ERISA or excise taxes under Code Section 4971, 4975, 4976, 4977, 4979 or 4980B.

(vii) All obligations required to be performed by TFC or any ERISA Affiliate under any provision of any TFC Plan have been performed by it in all material respects and, neither TFC nor any ERISA Affiliate is in default under or in violation of any provision of any TFC Plan.

(viii) All required reports and descriptions for the TFC Plans have been timely filed and distributed to participants and beneficiaries, and all notices required by ERISA or the Code or other law with respect to all TFC Plans have been proper as to form and content and have been provided timely.

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- (ix) No event has occurred which would constitute grounds for an enforcement action by any party under Part 5 of Title I of ERISA with respect to any TFC Plan.
- (x) There are no examinations, audits, enforcement actions or proceedings, or any other investigations, pending, threatened or currently in process by any governmental agency involving any TFC Plan.
- (xi) There are no actions, suits, proceedings or claims pending (other than routine claims for benefits) or threatened against TFC or any ERISA Affiliate in connection with any TFC Plan or the assets of any TFC Plan.
- (xii) Any TFC Plan may be amended and terminated at any time without any Material Adverse Effect, subject to any restrictions in Section 409A of the Code, and these rights have always been maintained by TFC and its ERISA Affiliates.
- (xiii) TFC does not maintain and is not required to contribute to any defined benefit retirement plan which is subject to Title IV of ERISA and does not have any liability with respect to any plan that is, (i) a defined benefit pension plan subject to Title IV of ERISA, (ii) a pension plan subject to Section 302 of ERISA or Section 412 of the Code, or (iii) a multi-employer pension plan (as that term is defined in Sections 4001(a)(3) and 3(37) of ERISA).
- (b) TFC has provided or made available to ONB true, accurate and complete copies and, in the case of any plan or program which has not been reduced to writing, a materially complete summary, of all of the following, as applicable:
- (i) Plan documents for each pension, retirement, profit-sharing, savings, stock purchase, stock bonus, stock ownership, stock option, restricted stock, restricted stock unit, phantom stock, performance share and stock appreciation right plans, all amendments thereto, and, if required under the reporting and disclosure requirements of ERISA, all summary plan descriptions thereof (including any modifications thereto);
- (ii) All employment, deferred compensation (whether funded or unfunded), salary continuation, consulting, bonus, severance and collective bargaining, agreements, arrangements or understandings;
- (iii) All executive and other incentive compensation plans, programs and agreements;
- (iv) All group insurance, medical and prescription drug arrangements, policies or plans and all summary plan descriptions thereof;

(v) All other incentive, welfare or employee benefit plans, understandings, arrangements or agreements, maintained or sponsored, participated in, or contributed or obligated to contribute to by TFC for its current or former directors, officers or employees;

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- (vi) All reports filed with the Internal Revenue Service or the Department within the preceding three years by TFC or any ERISA Affiliate with respect to any TFC Plan;
- (vii) All current participants in such plans and programs and all participants with benefit entitlements under such plans and programs;
- (viii) Valuations or allocation reports for any defined contribution and defined benefit plans as of the most recent allocation and valuation dates; and
- (ix) All notices provided to employees and participants in connection with any TFC Plan.
- (c) Except as set forth on the TFC Disclosure Schedule, no current or former director, officer or employee of TFC or any ERISA Affiliate (i) is entitled to or may become entitled to any benefit under any welfare benefit plans (as defined in ERISA Section 3(1)) after termination of employment with TFC or any ERISA Affiliate, except to the extent such individuals may be entitled to continue their group health care coverage pursuant to Code Section 4980B, or (ii) is currently receiving, or entitled to receive, a disability benefit under a long-term or short-term disability plan maintained by TFC or an ERISA Affiliate.
- (d) With respect to all group health plans as defined in ERISA Section 607(1), sponsored or maintained by TFC or any ERISA Affiliate, no director, officer, employee or agent of TFC or any ERISA Affiliate has engaged in any action or failed to act in such a manner that, as a result of such action or failure to act, would cause a tax to be imposed on TFC or any ERISA Affiliate under Code Section 4980B(a), or would cause a penalty to be imposed under ERISA and the regulations promulgated thereunder. With respect to all such plans, all applicable provisions of Code Section 4980B and ERISA Sections 601-606 have been complied with in all material respects by TFC or any ERISA Affiliate, and all other provisions of ERISA and the regulations promulgated thereunder have been complied with in all material respects.
- (e) Except as otherwise set forth in TFC's SEC Reports as of the date of this Agreement or provided in the TFC Disclosure Schedule, there are no collective bargaining, employment, management, consulting, deferred compensation, reimbursement, indemnity, retirement, early retirement, severance or similar plans or agreements, commitments or understandings, or any employee benefit or retirement plan or agreement, binding upon TFC or any ERISA Affiliate and no such agreement, commitment, understanding or plan is under discussion or negotiation by management with any employee or group of employees, any member of management or any other Person.
- (f) Except as otherwise provided in the TFC Disclosure Schedule, no Voluntary Employees' Beneficiary Association (VEBA), as defined in Code Section 501(c)(9), is sponsored, maintained or contributed to by TFC or any ERISA Affiliate.
- (g) Except as otherwise provided in the TFC Disclosure Schedule or as contemplated in this Agreement, there are no benefits or liabilities under any employee benefit plan or program that will be accelerated or otherwise come due as a result of the transactions

contemplated by the terms of this Agreement.

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(h) Except as may be disclosed in the TFC Disclosure Schedule, TFC and all ERISA Affiliates are and have been in material compliance with all applicable laws respecting employment and employment practices, terms and conditions of employment and wages and hours, including, without limitation, any such laws respecting employment discrimination and occupational safety and health requirements.

(i) Except as may be disclosed in the TFC Disclosure Schedule, all of the TFC Plans have been funded in accordance with the minimum funding requirements of ERISA Section 302 and Code Section 412, and effective January 1, 2009, ERISA Section 303 and Code Section 430 to the extent applicable, and no funding requirement has been waived, nor does TFC or any ERISA Affiliate has any liability or potential liability as a result of the underfunding of, or termination of or participation in any such plan by TFC or any ERISA Affiliate.

(j) As a result, directly or indirectly, of the transactions contemplated by this Agreement (including without limitation any termination of employment relating thereto and occurring prior to, at or following the Effective Time), TFC, its ERISA Affiliates and their respective successors will not be obligated to make a payment that would be characterized as an excess parachute payment to an individual who is a disqualified individual, as such terms are defined in Code Section 280G.

(k) Neither TFC nor any ERISA Affiliate has made any promises or commitments, whether legally binding or not, to create any new plan, agreement or arrangement, or to modify or change in any material way TFC Plans.

3.15 Obligations to Employees. All obligations and liabilities of and all payments by TFC or any ERISA Affiliate and all TFC Plans, whether arising by operation of law, by contract or by past custom, for payments to trusts or other funds, to any government agency or authority or to any present or former director, officer, employee or agent (or his or her heirs, legatees or legal representatives) have been and are being paid to the extent required by applicable law or by the plan, trust, contract or past custom or practice, and adequate actuarial accruals and reserves for such payments have been and are being made by TFC or an ERISA Affiliate in accordance with GAAP and applicable law applied on a consistent basis and sound actuarial methods with respect to the following: (a) withholding taxes or unemployment compensation; (b) TFC Plans; (c) employment, salary continuation, consulting, retirement, early retirement, severance or reimbursement; and (d) collective bargaining plans and agreements. All accruals and reserves referred to in this Section 3.15 are correctly and accurately reflected and accounted for in all material respects in the TFC Financial Statements and the books, statements and records of TFC.

3.16 Taxes, Returns and Reports. Each of TFC and its Subsidiaries has since January 1, 2008(a) duly and timely filed all federal, state, local and foreign tax returns of every type and kind required to be filed, and each such return is true, accurate and complete in all material respects; (b) paid or otherwise adequately reserved in accordance with GAAP for all taxes, assessments and other governmental charges due or claimed to be due upon it or any of its income, properties or assets; and (c) not requested an extension of time for any such payments (which extension is still in force). TFC has established, and shall establish in the Subsequent TFC Financial Statements (as hereinafter defined), in accordance with GAAP, a reserve for taxes in the TFC Financial Statements adequate to cover all of TFC's and its Subsidiaries tax liabilities

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(including, without limitation, income taxes, payroll taxes and withholding, and franchise fees) for the periods then ending. Neither TFC nor any of its Subsidiaries has, nor will any of them have, any liability for material taxes of any nature for or with respect to the operation of its business, from the date hereof up to and including the Effective Time, except to the extent set forth in the Subsequent TFC Financial Statements (as hereinafter defined) or as accrued or reserved for on the books and records of TFC or its Subsidiaries. To the knowledge of TFC, neither TFC nor any of its Subsidiaries is currently under audit by any state or federal taxing authority. Other than local property tax audits, no federal, state or local tax returns of TFC or any of its Subsidiaries have been audited by any taxing authority during the past five (5) years.

3.17 Deposit Insurance. The deposits of TBT are insured by the Federal Deposit Insurance Corporation in accordance with the Federal Deposit Insurance Act, as amended, to the fullest extent provided by applicable law and TFC or TBT has paid or properly reserved or accrued for all current premiums and assessments with respect to such deposit insurance.

3.18 Insurance. TFC has provided ONB with a list and, if requested, a true, accurate and complete copy thereof of all policies of insurance (including, without limitation, bankers blanket bond, directors and officers liability insurance, property and casualty insurance, group health or hospitalization insurance and insurance providing benefits for employees) owned or held by TFC or any of its Subsidiaries on the date hereof or with respect to which TFC or any of its Subsidiaries pays any premiums. Each such policy is in full force and effect and all premiums due thereon have been paid when due.

3.19 Books and Records. The books and records of TFC are, in all material respects, complete, correct and accurately reflect the basis for the financial condition, results of operations, business, assets and capital of TFC on a consolidated basis set forth in the TFC Financial Statements.

3.20 Broker s, Finder s or Other Fees. Except for reasonable fees and expenses of TFC s attorneys, accountants and investment bankers, all of which shall be paid by TFC at or prior to the Effective Time, and except as set forth in the TFC Disclosure Schedule, no agent, broker or other Person acting on behalf of TFC or under any authority of TFC is or shall be entitled to any commission, broker s or finder s fee or any other form of compensation or payment from any of the parties hereto relating to this Agreement and the Merger contemplated hereby.

3.21 Interim Events. Except as otherwise permitted hereunder, since June 30, 2013 or as set forth in the TFC Disclosure Schedule, neither TFC nor any of its Subsidiaries has:

(a) experienced any events, changes, developments or occurrences which have had, or are reasonably likely to have, a Material Adverse Effect on TFC;

(b) Suffered any damage, destruction or loss to any of its properties, not fully paid by insurance proceeds, in excess of \$100,000 individually or in the aggregate;

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(c) Declared, distributed or paid any dividend or other distribution to its shareholders, except for payment of dividends as permitted by Section 5.03(a)(iii) hereof;

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- (d) Repurchased, redeemed or otherwise acquired shares of its common stock, issued any shares of its common stock or stock appreciation rights or sold or agreed to issue or sell any shares of its common stock, including the issuance of any stock options, or any right to purchase or acquire any such stock or any security convertible into such stock or taken any action to reclassify, recapitalize or split its stock;
- (e) Granted or agreed to grant any increase in benefits payable or to become payable under any pension, retirement, profit sharing, health, bonus, insurance or other welfare benefit plan or agreement to employees, officers or directors of TFC or a Subsidiary;
- (f) Increased the salary of any director, officer or employee, except for normal increases in the ordinary course of business and in accordance with past practices, or entered into any employment contract, indemnity agreement or understanding with any officer or employee or installed any employee welfare, pension, retirement, stock option, stock appreciation, stock dividend, profit sharing or other similar plan or arrangement;
- (g) Leased, sold or otherwise disposed of any of its assets except in the ordinary course of business or leased, purchased or otherwise acquired from third parties any assets except in the ordinary course of business;
- (h) Except for the Merger contemplated by this Agreement, merged, consolidated or sold shares of its common stock, agreed to merge or consolidate with or into any third party, agreed to sell any shares of its common stock or acquired or agreed to acquire any stock, equity interest, assets or business of any third party;
- (i) Incurred, assumed or guaranteed any obligation or liability (fixed or contingent) other than obligations and liabilities incurred in the ordinary course of business;
- (j) Mortgaged, pledged or subjected to a lien, security interest, option or other encumbrance any of its assets except for tax and other liens which arise by operation of law and with respect to which payment is not past due and except for pledges or liens: (i) required to be granted in connection with acceptance by TBT of government deposits; or (ii) granted in connection with repurchase or reverse repurchase agreements;
- (k) Canceled, released or compromised any loan, debt, obligation, claim or receivable other than in the ordinary course of business;
- (l) Entered into any transaction, contract or commitment other than in the ordinary course of business;

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(m) Agreed to enter into any transaction for the borrowing or loaning of monies, other than in the ordinary course of its lending business; or

(n) Conducted its business in any manner other than substantially as it was being conducted as of June 30, 2013.

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3.22 TFC Securities and Exchange Commission Filings. TFC has filed all SEC Reports required to be filed by it. All such SEC Reports were true, accurate and complete in all material respects as of the dates of the filings, and no such SEC Reports contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements, at the time and in the light of the circumstances under which they were made, not false or misleading. TFC has made available to ONB copies of all comment letters received by TFC from the SEC since January 1, 2008, relating to the SEC Reports, together with all written responses of TFC thereto. As of the date of this Agreement, there are no outstanding or unresolved comments in such comment letters received by TFC, and to the knowledge of TFC, none of the SEC Reports is the subject of any ongoing review by the SEC.

3.23 Insider Transactions. Except as set forth in the TFC Disclosure Schedule, since December 31, 2008, no officer or director of TFC or any of its Subsidiaries or member of the immediate family or related interests (as such terms are defined in Regulation O) of any such officer or director has currently, or has had during such time period, any direct or indirect interest in any property, assets, business or right which is owned, leased, held or used by TFC or any Subsidiary or in any liability, obligation or indebtedness of TFC or any Subsidiary, except for deposits of TBT.

3.24 Indemnification Agreements. (a) Other than as set forth in the TFC Disclosure Schedule, neither TFC nor any of its Subsidiaries is a party to any indemnification, indemnity or reimbursement agreement, contract, commitment or understanding to indemnify any present or former director, officer, employee, shareholder or agent against liability or hold the same harmless from liability other than as expressly provided in the Articles of Incorporation or By-Laws of TFC or the charter documents of a Subsidiary.

(b) Since January 1, 2008, no claims have been made against or filed with TFC or any of its Subsidiaries nor have, to the knowledge of TFC, any claims been threatened against TFC or a Subsidiary, for indemnification against liability or for reimbursement of any costs or expenses incurred in connection with any legal or regulatory proceeding by any present or former director, officer, shareholder, employee or agent of TFC or any of its Subsidiaries.

3.25 Shareholder Approval. The affirmative vote of the holders of a majority of the TFC Common Stock (which are issued and outstanding on the record date relating to the meeting of shareholders contemplated by Section 5.01 of this Agreement) is required for shareholder approval of this Agreement and the Merger.

3.26 Intellectual Property. (a) TFC and its Subsidiaries own, or are licensed or otherwise possess sufficient legally enforceable rights to use, all material Intellectual Property (as such term is defined below) that is used by TFC or its Subsidiaries in their respective businesses as currently conducted. Neither TFC nor any of its Subsidiaries has (A) licensed any Intellectual Property owned by it or its Subsidiaries in source code form to any third party or (B) entered into any exclusive agreements relating to Intellectual Property owned by it.

(b) TFC and its Subsidiaries have not infringed or otherwise violated any material Intellectual Property rights of any third party since January 1, 2008. There is no claim asserted, or to the knowledge of TFC threatened, against TFC and/or its Subsidiaries or any indemnitee

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thereof concerning the ownership, validity, registerability, enforceability, infringement, use or licensed right to use any Intellectual Property.

(c) To the knowledge of TFC, no third party has infringed, misappropriated or otherwise violated TFC or its Subsidiaries Intellectual Property rights since January 1, 2008. There are no claims asserted or threatened by TFC or its Subsidiaries, nor has TFC or its Subsidiaries decided to assert or threaten a claim, that (i) a third party infringed or otherwise violated any of their Intellectual Property rights; or (ii) a third party's owned or claimed Intellectual Property interferes with, infringes, dilutes or otherwise harms any of their Intellectual Property rights.

(d) TFC and its Subsidiaries have taken reasonable measures to protect the confidentiality of all trade secrets that are owned, used or held by them.

(e) For purposes of this Agreement, Intellectual Property shall mean all patents, trademarks, trade names, service marks, domain names, database rights, copyrights, and any applications therefor, mask works, technology, know-how, trade secrets, inventory, ideas, algorithms, processes, computer software programs or applications (in both source code and object code form), and tangible or intangible proprietary information or material and all other intellectual property or proprietary rights.

3.27 Community Reinvestment Act. TBT received a rating of satisfactory or better in its most recent examination or interim review with respect to the Community Reinvestment Act.

3.28 Bank Secrecy Act. Neither TFC nor TBT has been advised of any supervisory criticisms regarding their compliance with the Bank Secrecy Act (41 USC 5422, et seq.) or related state or federal anti-money laundering laws, regulations and guidelines, including without limitation those provisions of federal regulations requiring (i) the filing of reports, such as Currency Transaction Reports and Suspicious Activity Reports, (ii) the maintenance of records and (iii) the exercise of due diligence in identifying customers.

3.29 Agreements with Regulatory Agencies. Except as set forth in the TFC Disclosure Schedule, neither TFC nor any of its Subsidiaries is subject to any cease-and-desist, consent order or other order or enforcement action issued by, or is a party to any written agreement, consent agreement or memorandum of understanding with, or is a party to any commitment letter or similar undertaking to, or is subject to any order or directive by, or has been ordered to pay any civil money penalty by, or has been since January 1, 2008, a recipient of any supervisory letter from, or since January 1, 2008, has adopted any policies, procedures or board resolutions at the request or suggestion of any regulatory agency or other governmental entity that currently restricts in any material respect the conduct of its business or that in any material manner relates to its capital adequacy, its ability to pay dividends, its credit or risk management policies, its management or its business, other than those of general application that apply to similarly situated bank holding companies or their subsidiaries, whether or not set forth in the TFC Disclosure Schedule (a TFC Regulatory Agreement), nor has TFC or any of its Subsidiaries been advised since January 1, 2008, by any regulatory agency or other governmental entity that it is considering issuing, initiating, ordering, or requesting any such TFC Regulatory Agreement.

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There are no refunds or restitutions required to be paid as a result of any criticism of any regulatory agency or body cited in any examination report of TFC or any of its Subsidiaries as a result of an examination by any regulatory agency or body, or set forth in any accountant's or auditor's report to TFC or any of its Subsidiaries.

3.30 Internal Controls. (a) None of TFC or its Subsidiaries' records, systems, controls, data or information are recorded, stored, maintained, operated or otherwise wholly or partly dependent on or held by any means (including any electronic, mechanical or photographic process, whether computerized or not) which (including all means of access thereto and therefrom) are not under the exclusive ownership and direct control of it or its Subsidiaries or accountants except as would not, individually or in the aggregate, reasonably be expected to result in a materially adverse effect on the system of internal accounting controls described in the next sentence. TFC and its Subsidiaries have devised and maintain a system of internal accounting controls sufficient to provide reasonable assurances regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

(b) TFC (x) has implemented and maintains disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) to ensure that material information relating to TFC including its Subsidiaries, is made known to the chief executive officer and the chief financial officer of TFC by others within those entities, and (y) has disclosed, based on its most recent evaluation prior to the date hereof, to TFC's outside auditors and the audit committee of TFC's Board of Directors (i) any significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) which are reasonably likely to adversely affect TFC's ability to record, process, summarize and report financial information, and (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in TFC's internal controls over financial reporting. These disclosures were made in writing by management to TFC's auditors and audit committee and a copy has previously been made available to ONB. As of the date hereof, there is no reason to believe that its outside auditors and its chief executive officer and chief financial officer will not be able to give the certifications and attestations required pursuant to the rules and regulations adopted pursuant to Section 404 of the Sarbanes-Oxley Act, without qualification, when next due.

(c) Since December 31, 2012, (i) through the date hereof, neither TFC nor any of its Subsidiaries has received or otherwise had or obtained knowledge of any material complaint, allegation, assertion or claim, whether written or oral, regarding the accounting or auditing practices, procedures, methodologies or methods of TFC or any of its Subsidiaries or their respective internal accounting controls, including any material complaint, allegation, assertion or claim that TFC or any of its Subsidiaries has engaged in questionable accounting or auditing practices, and (ii) no attorney representing TFC or any of its Subsidiaries, whether or not employed by TFC or any of its Subsidiaries, has reported evidence of a material violation of securities laws, breach of fiduciary duty or similar violation by TFC or any of its officers, directors, employees or agents to the Board of Directors of TFC or any committee thereof or to any director or officer of TFC.

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3.31 Fiduciary Accounts. TFC and each of its Subsidiaries has properly administered in all material respects all accounts for which it acts as a fiduciary, including but not limited to accounts for which it serves as a trustee, agent, custodian, personal representative, guardian, conservator or investment advisor, in accordance with the terms of the governing documents and applicable laws and regulations. Neither TFC nor any of its Subsidiaries, nor any of their respective directors, officers or employees, has committed any breach of trust to TFC's knowledge with respect to any fiduciary account and the records for each such fiduciary account are true and correct and accurately reflect the assets of such fiduciary account.

3.32 Opinion of Financial Advisor. The Board of Directors of TFC, at a duly constituted and held meeting at which a quorum was present throughout, has been informed orally by Keefe, Bruyette & Woods, a Stifel Company (KBW), that the Merger Consideration is fair to TFC from a financial point of view.

ARTICLE IV.

REPRESENTATIONS AND WARRANTIES OF ONB

On or prior to the date hereof, ONB has delivered to TFC a schedule (the ONB Disclosure Schedule) setting forth, among other things, items the disclosure of which is necessary or appropriate either in response to an express disclosure requirement contained in a provision hereof or as an exception to one or more representations or warranties contained in this Article IV or to one or more of its covenants contained in Article VI.

For the purpose of this Agreement, and in relation to ONB and its Subsidiaries (as such term is defined below), a Material Adverse Effect on ONB means any effect that (i) is material and adverse to the results of operations, properties, assets, liabilities, condition (financial or otherwise), prospects, value or business of ONB and its Subsidiaries taken as a whole, or (ii) would materially impair the ability of ONB to perform its obligations under this Agreement or otherwise materially threaten or materially impede the consummation of the Merger and the other transactions contemplated by this Agreement; provided, however, that Material Adverse Effect on ONB shall not be deemed to include the impact of (a) changes in banking and similar laws of general applicability to banks or savings associations or their holding companies or interpretations thereof by courts or governmental authorities, (b) changes in GAAP or regulatory accounting requirements applicable to banks, savings associations, or their holding companies generally, (c) the impact of the announcement of this Agreement and the transactions contemplated hereby, and compliance with this Agreement on the business, financial condition or results of operations of ONB and its Subsidiaries, (d) changes resulting from expenses (such as legal, accounting and investment bankers' fees) incurred in connection with this Agreement or the transactions contemplated herein, and (e) the occurrence of any military or terrorist attack within the United States or any of its possessions or offices; provided that in no event shall a change in the trading price of the shares of ONB Common Stock, by itself, be considered to constitute a Material Adverse Effect on ONB and its Subsidiaries taken as a whole (it being understood that the foregoing proviso shall not prevent or otherwise affect a determination that any effect underlying such decline has resulted in a Material Adverse Effect).

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For the purpose of this Agreement, and in relation to ONB, knowledge means those facts that are known or should have been known after due inquiry by the directors and executive officers of ONB and its Subsidiaries. Additionally, for the purpose of this Agreement, and in relation to ONB, its Subsidiaries shall mean any entity which is required to be consolidated with ONB for financial reporting purposes pursuant to GAAP.

Accordingly, ONB represents and warrants to TFC as follows, except as set forth in the ONB Disclosure Schedule:

4.01 Organization and Authority. (a) ONB is a corporation duly organized and validly existing under the laws of the state of Indiana and is a registered bank holding company under the BHC Act. ONB has full power and authority (corporate and otherwise) to own and lease its properties as presently owned and leased and to conduct its business in the manner and by the means utilized as of the date hereof. ONB has previously provided TFC with a complete list of its Subsidiaries. Except for its Subsidiaries, ONB owns no voting stock or equity securities of any corporation, partnership, association or other entity.

(b) Old National Bank is a national bank chartered and existing under the laws of the United States. Old National Bank has full power and authority (corporate and otherwise) to own and lease its properties as presently owned and leased and to conduct its business in the manner and by the means utilized as of the date hereof. Except as set forth on the list previously provided to TFC, Old National Bank has no subsidiaries and owns no voting stock or equity securities of any corporation, partnership, association or other entity.

(c) Each of ONB's Subsidiaries other than Old National Bank is duly organized and validly existing under the laws of its jurisdiction of organization, and has full power and authority (corporate and otherwise) to own and lease its properties as presently owned and leased and to conduct its business in the manner and by the means utilized as of the date hereof.

4.02 Authorization. (a) ONB has the requisite corporate power and authority to enter into this Agreement and to perform its obligations hereunder, subject to the fulfillment of the conditions precedent set forth in Sections 7.01(e) and (f) hereof. This Agreement and its execution and delivery by ONB have been duly authorized and approved by the Board of Directors of ONB and, assuming due execution and delivery by TFC, constitutes a valid and binding obligation of ONB, subject to the fulfillment of the conditions precedent set forth in Section 7.01 hereof, and is enforceable in accordance with its terms, except to the extent limited by general principles of equity and public policy and by bankruptcy, insolvency, fraudulent transfer, reorganization, liquidation, moratorium, readjustment of debt or other laws of general application relating to or affecting the enforcement of creditors' rights.

(b) Neither the execution of this Agreement nor consummation of the Merger contemplated hereby: (i) conflicts with or violates the Articles of Incorporation or By-Laws of ONB or the charter documents of any of ONB's Subsidiaries; (ii) conflicts with or violates any local, state, federal or foreign law, statute, ordinance, rule or regulation (provided that the approvals of or filings with applicable government regulatory agencies or authorities required for consummation of the Merger are obtained) or any court or administrative judgment, order, injunction, writ or decree; (iii) conflicts with, results in a breach of or constitutes a default under

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any note, bond, indenture, mortgage, deed of trust, license, lease, contract, agreement, arrangement, commitment or other instrument to which ONB or any of its Subsidiaries is a party or by which ONB or any of its Subsidiaries is subject or bound; (iv) results in the creation of or gives any Person the right to create any lien, charge, claim, encumbrance or security interest, or results in the creation of any other rights or claims of any other party (other than TFC) or any other adverse interest, upon any right, property or asset of ONB or any of its Subsidiaries which would be material to ONB; or (v) terminates or gives any Person the right to terminate, accelerate, amend, modify or refuse to perform under any note, bond, indenture, mortgage, agreement, contract, lease, license, arrangement, deed of trust, commitment or other instrument to which ONB or any of its Subsidiaries is bound or with respect to which ONB or any of its Subsidiaries is to perform any duties or obligations or receive any rights or benefits.

(c) Other than in connection or in compliance with the provisions of the applicable federal and state banking, securities, antitrust and corporation statutes, all as amended, and the rules and regulations promulgated thereunder, no notice to, filing with, exemption by or consent, authorization or approval of any governmental agency or body is necessary for consummation of the Merger by ONB.

4.03 Capitalization. (a) The authorized capital stock of ONB consists of (i) One Hundred Fifty Million (150,000,000) shares of ONB Common Stock, of which, as of June 30, 2013, approximately One Hundred Million Eight Hundred Eighty-One Thousand (100,881,000) shares were issued and outstanding, and (ii) Two Million (2,000,000) shares of preferred stock, of which none are issued and outstanding. All of the issued and outstanding shares of ONB Common Stock have been duly and validly authorized by all necessary corporate action of ONB, are validly issued, fully paid and nonassessable and have not been issued in violation of any pre-emptive rights of any present or former ONB shareholder. Except as set forth in the ONB Disclosure Schedule, ONB has no capital stock authorized, issued or outstanding other than as described in this Section 4.03(a) and has no intention or obligation to authorize or issue any other capital stock or any additional shares of ONB Common Stock. Each share of ONB Common Stock is entitled to one vote per share. A description of the ONB Common Stock is contained in the Articles of Incorporation of ONB.

(b) Subject to 12 U.S.C. § 55, all of the issued and outstanding shares of capital stock or other equity ownership interests of each Subsidiary of ONB are owned by ONB free and clear of all liens, pledges, charges, claims, encumbrances, restrictions, security interests, options and pre-emptive rights and of all other rights or claims of any other Person with respect thereto.

(c) Except as set forth in the ONB Disclosure Schedule or as disclosed in its SEC Reports, there are no options, warrants, commitments, calls, puts, agreements, understandings, arrangements or subscription rights relating to any shares of ONB Common Stock or any of ONB's Subsidiaries, or any securities convertible into or representing the right to purchase or otherwise acquire any common stock or debt securities of ONB or its Subsidiaries, by which ONB is or may become bound. ONB does not have any outstanding contractual or other obligation to repurchase, redeem or otherwise acquire any of the issued and outstanding shares of ONB Common Stock. To the knowledge of ONB, there are no voting trusts, voting arrangements, buy-sell agreements or similar arrangements affecting the capital stock of ONB or its Subsidiaries.

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(d) Except as disclosed in its SEC Reports, ONB has no knowledge of any Person which beneficially owns (as defined in Rule 13d-3 under the 1934 Act) 5% or more of its outstanding shares of common stock.

4.04 Organizational Documents. The Articles of Incorporation and By-Laws of ONB and the charter documents for each of ONB's Subsidiaries, representing true, accurate and complete copies of such corporate documents in effect as of the date of this Agreement, have been delivered to TFC.

4.05 Compliance with Law. (a) None of ONB or any of its Subsidiaries is currently in violation of, and since January 1, 2008, none has been in violation of, of any local, state, federal or foreign law, statute, regulation, rule, ordinance, order, restriction or requirement, and none is in violation of any order, injunction, judgment, writ or decree of any court or government agency or body, except where such violation would not have a Material Adverse Effect on ONB. ONB and its Subsidiaries possess and hold all licenses, franchises, permits, certificates and other authorizations necessary for the continued conduct of their business without interference or interruption, except where the failure to possess and hold the same would not have a Material Adverse Effect on ONB.

(b) As of the date hereof, set forth on the ONB Disclosure Schedule is a list of all agreements, understandings and commitments with, and all orders and directives of, all government regulatory agencies or authorities with respect to the financial condition, results of operations, business, assets or capital of ONB or its Subsidiaries which presently are binding upon or require action by, or at any time during the last five (5) years have been binding upon or have required action by, ONB or its Subsidiaries, and all documents relating thereto have been made available to TFC, including, without limitation, all correspondence, written communications and written commitments related thereto. There are no refunds or restitutions required to be paid as a result of any criticism of any regulatory agency or body cited in any examination report of ONB or any of its Subsidiaries as a result of an examination by any regulatory agency or body, or set forth in any accountant's or auditor's report to ONB or any of its Subsidiaries.

(c) Since the enactment of the Sarbanes-Oxley Act, ONB has been and is in compliance in all material respects with the applicable provisions of the Sarbanes-Oxley Act.

(d) All of the existing offices and branches of Old National Bank have been legally authorized and established in accordance with all applicable federal, state and local laws, statutes, regulations, rules, ordinances, orders, restrictions and requirements, except such as would not have a Material Adverse Effect on ONB. Old National Bank has no approved but unopened offices or branches.

4.06 Accuracy of Statements Made and Materials Provided to TFC. No representation, warranty or other statement made, or any information provided, by ONB in this Agreement or, in the ONB Disclosure Schedule (and any update thereto), or provided by ONB to TFC in the course of TFC's due diligence investigation and no written information which has been or shall be supplied by ONB with respect to its financial condition, results of operations, business, assets, capital or directors and officers for inclusion in the proxy statement-prospectus

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relating to the Merger, contains or shall contain (in the case of information relating to the proxy statement-prospectus at the time it is first mailed to TFC's shareholders) any untrue statement of material fact or omits or shall omit to state a material fact necessary to make the statements contained herein or therein, in light of the circumstances in which they are made, not false or misleading, except that no representation or warranty has been made by ONB with respect to statements made or incorporated by reference in the Form S-4 or the proxy statement-prospectus therein based on information supplied by TFC specifically for inclusion or incorporation by reference in the Form S-4 or the proxy statement-prospectus therein.

4.07 Litigation and Pending Proceedings. Except as set forth in the ONB Disclosure Schedule:

(a) Except for lawsuits involving collection of delinquent accounts and lawsuits which would not have a Material Adverse Effect on ONB, there are no claims, actions, suits, proceedings, mediations, arbitrations or investigations pending and served against ONB or any of its Subsidiaries or, to the knowledge of ONB or any of its Subsidiaries, threatened in any court or before any government agency or authority, arbitration panel or otherwise against ONB or any of its Subsidiaries. ONB does not have knowledge of a basis for any claim, action, suit, proceeding, litigation, arbitration or investigation against ONB or any of its Subsidiaries.

(b) Neither ONB nor any of its Subsidiaries is: (i) subject to any material outstanding judgment, order, writ, injunction or decree of any court, arbitration panel or governmental agency or authority; (ii) presently charged with or, to the knowledge of ONB, under governmental investigation with respect to, any actual or alleged material violations of any law, statute, rule, regulation or ordinance; or (iii) the subject of any material pending or, to the knowledge of ONB, threatened proceeding by any government regulatory agency or authority having jurisdiction over their respective business, assets, capital, properties or operations.

4.08 Financial Statements and Reports. (a) ONB has delivered to TFC copies of the following financial statements and reports of ONB and its Subsidiaries, including the notes thereto (collectively, the "ONB Financial Statements"):

(i) Consolidated Balance Sheets and the related Consolidated Statements of Income and Consolidated Statements of Changes in Shareholders' Equity of ONB as of and for the fiscal years ended December 31, 2012, 2011 and 2010, and as of and for the six months ended June 30, 2013;

(ii) Consolidated Statements of Cash Flows of ONB for the fiscal years ended December 31, 2012, 2011 and 2010, and as of and for the six months ended June 30, 2013;

(iii) Call Reports ("Call Reports") for Old National Bank as of the close of business on December 31, 2012, 2011 and 2010, and as of and for the six months ended June 30, 2013;

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(b) The ONB Financial Statements present fairly the consolidated financial position of ONB as of and at the dates shown and the consolidated results of operations for the periods covered thereby and are complete, correct, represent bona fide transactions, and have been

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prepared from the books and records of ONB and its Subsidiaries. The ONB Financial Statements described in clauses (i) and (ii) above for completed fiscal years are audited financial statements and have been prepared in conformance with GAAP, except as may otherwise be indicated in any accountants' notes or reports with respect to such financial statements.

(c) Since June 30, 2013 on a consolidated basis ONB and its Subsidiaries have not incurred any material liability other than in the ordinary course of business consistent with past practice.

4.09 Title to Properties. Except as described in this Section 4.10 or the ONB Disclosure Schedule, ONB or one of its Subsidiaries, as the case may be, has good and marketable title in fee simple absolute to all real property (including, without limitation, all real property used as bank premises and all other real estate owned) which is reflected in the ONB Financial Statements as of September 30, 2011; good and marketable title to all personal property reflected in the ONB Financial Statements as of September 30, 2011, other than personal property disposed of in the ordinary course of business since September 30, 2011; good and marketable title to or right to use by valid and enforceable lease or contract all other properties and assets (whether real or personal, tangible or intangible) which ONB or any of its Subsidiaries purports to own or which ONB or any of its Subsidiaries uses in its respective business and which are in either case material to its respective business; good and marketable title to, or right to use by terms of a valid and enforceable lease or contract, all other property used in its respective business to the extent material thereto; and good and marketable title to all material property and assets acquired and not disposed of or leased since September 30, 2011. All of such properties and assets are owned by ONB or its Subsidiaries free and clear of all land or conditional sales contracts, mortgages, liens, pledges, restrictions, options, security, interests, charges, claims, rights of third parties or encumbrances of any nature except: (i) as set forth in the ONB Disclosure Schedule; (ii) as specifically noted in reasonable detail in the ONB Financial Statements; (iii) statutory liens for taxes not yet delinquent or being contested in good faith by appropriate proceedings; (iv) pledges or liens required to be granted in connection with the acceptance of government deposits or granted in connection with repurchase or reverse repurchase agreements; and (v) easements, encumbrances and liens of record, imperfections of title and other limitations which are not material in amounts to ONB on a consolidated basis and which do not detract from the value or materially interfere with the present or contemplated use of any of the properties subject thereto or otherwise materially impair the use thereof for the purposes for which they are held or used. All real property owned or, to ONB's knowledge, leased by ONB or its Subsidiaries is in compliance in all material respects with all applicable zoning and land use laws. All real property, machinery, equipment, furniture and fixtures owned or leased by ONB or its Subsidiaries that is material to their respective businesses is structurally sound, in good operating condition (ordinary wear and tear excepted) and has been and is being maintained and repaired in the ordinary condition of business.

4.10 Employee Benefit Plans. With respect to the employee benefit plans, as defined in Section 3(3) of the ERISA, sponsored or otherwise maintained by ONB or any of its Subsidiaries which are intended to be tax-qualified under Section 401(a) of the Code (collectively, ONB Plans), all such ONB Plans have, on a continuous basis since their adoption, been, in all material respects, maintained in compliance with the requirements prescribed by all applicable statutes, orders and governmental rules or regulations, including,

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without limitation, ERISA and the Department Regulations promulgated thereunder and the Code and Treasury Regulations promulgated thereunder.

4.11 Taxes, Returns and Reports. Except as set forth in the ONB Disclosure Schedule, each of ONB and its Subsidiaries has since January 1, 2008 (a) duly and timely filed all federal, state, local and foreign tax returns of every type and kind required to be filed, and each such return is true, accurate and complete in all material respects; (b) paid or otherwise adequately reserved in accordance with GAAP for all taxes, assessments and other governmental charges due or claimed to be due upon it or any of its income, properties or assets; and (c) not requested an extension of time for any such payments (which extension is still in force). ONB has established, and shall establish in the Subsequent ONB Financial Statements (as hereinafter defined), in accordance with GAAP, a reserve for taxes in the ONB Financial Statements adequate to cover all of ONB's and its Subsidiaries tax liabilities (including, without limitation, income taxes, payroll taxes and withholding, and franchise fees) for the periods then ending. Neither ONB nor any of its Subsidiaries has, nor will any of them have, any liability for material taxes of any nature for or with respect to the operation of its business, from the date hereof up to and including the Effective Time, except to the extent set forth in the Subsequent ONB Financial Statements (as hereinafter defined) or as accrued or reserved for on the books and records of ONB or its Subsidiaries, except as set forth on the ONB Disclosure Schedule. Except as set forth on the ONB Disclosure Schedule, to the knowledge of ONB, neither ONB nor any of its Subsidiaries is currently under audit by any state or federal taxing authority. Except as set forth on the ONB Disclosure Schedule, no federal, state or local tax returns of ONB or any of its Subsidiaries have been audited by any taxing authority during the past five (5) years.

4.12 Deposit Insurance. The deposits of Old National Bank are insured by the Federal Deposit Insurance Corporation in accordance with the Federal Deposit Insurance Act, as amended, to the fullest extent provided by applicable law and ONB or Old National Bank has paid or properly reserved or accrued for all current premiums and assessments with respect to such deposit insurance.

4.13 Insurance. ONB has provided TFC with a list and, if requested, a true, accurate and complete copy thereof, of all policies of insurance (including, without limitation, bankers' blanket bond, directors' and officers' liability insurance, property and casualty insurance, group health or hospitalization insurance and insurance providing benefits for employees) owned or held by ONB or any of its Subsidiaries on the date hereof or with respect to which ONB or any of its Subsidiaries pays any premiums. Each such policy is in full force and effect and all premiums due thereon have been paid when due.

4.14 Books and Records. The books and records of ONB are, in all material respects, complete, correct and accurately reflect the basis for the financial condition, results of operations, business, assets and capital of ONB on a consolidated basis set forth in the ONB Financial Statements.

4.15 Broker's, Finder's or Other Fees. Except for reasonable fees and expenses of ONB's attorneys, accountants and investment bankers, all of which shall be paid by ONB at or prior to the Effective Time, and except as set forth in the ONB Disclosure Schedule, no agent, broker or other Person acting on behalf of ONB or under any authority of ONB is or shall be

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entitled to any commission, broker's or finder's fee or any other form of compensation or payment from any of the parties hereto relating to this Agreement and the Merger contemplated hereby.

4.16 ONB Securities and Exchange Commission Filings. ONB has filed all SEC Reports required to be filed by it. All such SEC Reports were true, accurate and complete in all material respects as of the dates of the SEC Reports, and no such filings contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements, at the time and in the light of the circumstances under which they were made, not false or misleading. ONB has made available to TFC copies of all comment letters received by ONB from the SEC since January 1, 2008, relating to the SEC Reports, together with all written responses of ONB thereto. As of the date of this Agreement, there are no outstanding or unresolved comments in such comment letters received by ONB, and to the knowledge of ONB, none of the SEC Reports is the subject of any ongoing review by the SEC.

4.17 Community Reinvestment Act. Old National Bank received a rating of satisfactory or better in its most recent examination or interim review with respect to the Community Reinvestment Act.

ARTICLE V.

COVENANTS OF TFC

TFC covenants and agrees with ONB and covenants and agrees to cause its Subsidiaries to act as follows (and ONB covenants and agrees with TFC as follows):

5.01 Shareholder Approval. TFC shall submit this Agreement to its shareholders for approval and adoption at a meeting to be called and held in accordance with applicable law and the Articles of Incorporation and By-Laws of TFC at the earliest possible reasonable date. Subject to Section 5.06 hereof, the Board of Directors of TFC shall recommend to TFC's shareholders that such shareholders approve and adopt this Agreement and the Merger contemplated hereby and will solicit proxies voting in favor of this Agreement from TFC's shareholders.

5.02 Other Approvals. (a) TFC shall proceed expeditiously, cooperate fully and use commercially reasonable efforts to assist ONB in procuring upon terms and conditions consistent with the condition set forth in Section 7.01(e) hereof all consents, authorizations, approvals, registrations and certificates, in completing all filings and applications and in satisfying all other requirements prescribed by law which are necessary for consummation of the Merger on the terms and conditions provided in this Agreement at the earliest possible reasonable date.

(b) TFC will use commercially reasonable efforts to obtain any required third party consents to agreements, contracts, commitments, leases, instruments and documents described in the TFC Disclosure Schedule and to which TFC and ONB agree are material.

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(c) Any materials or information provided by TFC to ONB for use by ONB in any filing with any state or federal regulatory agency or authority shall not contain any untrue or misleading statement of material fact or shall omit to state a material fact necessary to make the

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statements contained therein, in light of the circumstances in which they are made, not false or misleading.

5.03 Conduct of Business. (a) On and after the date of this Agreement and until the Effective Time or until this Agreement is terminated as herein provided, TFC will not, and will cause its Subsidiaries to not, without the prior written consent of ONB:

(i) make any changes in its capital stock accounts (including, without limitation, any stock issuance, stock split, stock dividend, recapitalization or reclassification);

(ii) authorize a class of stock or issue, or authorize the issuance of, securities other than or in addition to the issued and outstanding common stock as set forth in Section 3.03 hereof;

(iii) distribute or pay any dividends on its shares of common or preferred stock, or authorize a stock split, or make any other distribution to its shareholders, except that (A) each of the Subsidiaries may pay cash dividends to TFC in the ordinary course of business for payment of reasonable and necessary business and operating expenses of TFC and to provide funds for TFC's dividends to its shareholders in accordance with this Agreement, and (B) TFC may pay to its shareholders its usual and customary cash dividend of no greater than \$.08 per share for any quarterly period, provided that no dividend may be paid for the quarterly period in which the Merger is scheduled to be consummated or consummated if, during such period, TFC shareholders will become entitled to receive dividends on their shares of ONB Common Stock received pursuant to this Agreement;

(iv) redeem any of its outstanding shares of common stock;

(v) merge, combine or consolidate or effect a share exchange with or sell its assets or any of its securities to any other Person or enter into any other similar transaction not in the ordinary course of business;

(vi) purchase any assets or securities or assume any liabilities of a bank holding company, bank, corporation or other entity, except in the ordinary course of business necessary to manage its investment portfolio and then only to the extent that such securities have a quality rating of AAA by either Standard & Poor's Ratings Services or Moody's Investors Services for corporate bonds;

(vii) which consent shall be deemed received unless ONB shall object thereto within five (5) business days after receipt of written notice from TFC to:

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(A) renew or otherwise modify any loan, loan commitment, letter of credit or other extension of credit (individually, a Loan and collectively, Loans) to any Person if the Loan is an existing credit on the books of TFC or any Subsidiary and (y) is, or in accordance with bank regulatory definitions should be, classified as Substandard, Doubtful or Loss, or (z) such Loan is

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in an amount in excess of \$100,000 and is, or in accordance with bank regulatory definitions should be, classified as special mention ;

(B) effective one week following the date of this Agreement, make, renew or otherwise modify any Loan or Loans if immediately after making a Loan or Loans, such Person would be directly indebted to TFC or any Subsidiary in an aggregate amount in excess of \$1,000,000;

(C) make, renew or otherwise modify any Loan or Loans secured by an owner-occupied 1-4 single-family residence with a principal balance in excess of \$417,000 (except for any such Loan or Loans secured by an owner-occupied 1-4 single-family residence which TBT originates, underwrites in accordance with the secondary market standards and holds for sale into the secondary market, in which case such dollar threshold shall be \$750,000);

(C) make, renew or otherwise modify any Loan or Loans secured by an owner-occupied 1-4 single-family residence with loan-to-values ratios of greater than 80% without private mortgage insurance; or

(D) make, renew or otherwise modify any Loan which does not conform with TFC's General Credit Policy and Procedures, is in excess of \$50,000 and exceeds 120 days to maturity (notice to ONB of such proposed Loan shall set forth, with specificity, the manner in which such Loan does not conform to TFC's General Credit Policy and Procedures).

(viii) except as provided in the Disclosure Schedule and for the acquisition or disposition in the ordinary course of business of other real estate owned, acquire or dispose of any real or personal property or fixed asset constituting a capital investment in excess of \$100,000 individually or \$250,000 in the aggregate;

(ix) make any investment subject to any restrictions, whether contractual or statutory, which materially impairs the ability of TFC or any Subsidiary to dispose freely of such investment at any time; subject any of their properties or assets to a mortgage, lien, claim, charge, option, restriction, security interest or encumbrance, except for tax and other liens which arise by operation of law and with respect to which payment is not past due or is being contested in good faith by appropriate proceedings, pledges or liens required to be granted in connection with acceptance by TFC or any Subsidiary of government deposits and pledges or liens in connection with Federal Home Loan Bank (FHLB) borrowings;

(x) except as contemplated by this Agreement, promote to a new position (other in the ordinary course of business except with respect to a promotion to a senior officer position) or increase the rate of compensation, or enter into any agreement to promote to a new position (other in the ordinary course of business except with respect to a promotion to a senior officer position) or increase the rate of compensation, of any director, officer or employee of TFC or any Subsidiary, modify, amend or institute new employment policies or practices, or enter into, renew or extend any employment,

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indemnity, reimbursement, consulting, compensation or severance agreements with respect to any present or former directors, officers or employees of TFC or any Subsidiary;

(xi) except as contemplated by this Agreement, execute, create, institute, modify, amend or terminate any pension, retirement, savings, stock purchase, stock bonus, stock ownership, stock option, stock appreciation or depreciation right or profit sharing plans; any employment, deferred compensation, consulting, bonus or collective bargaining agreement; any group insurance or health contract or policy; or any other incentive, retirement, welfare or employee welfare benefit plan, agreement or understanding for current or former directors, officers or employees of TFC or any Subsidiary; or change the level of benefits or payments under any of the foregoing or increase or decrease any severance or termination of pay benefits or any other fringe or employee benefits other than as required by law or regulatory authorities or the terms of any of the foregoing;

(xii) amend, modify or restate TFC's or any of its Subsidiaries organizational documents from those in effect on the date of this Agreement and as delivered to ONB;

(xiii) give, dispose of, sell, convey or transfer; assign, hypothecate, pledge or encumber, or grant a security interest in or option to or right to acquire any shares of common stock or the assets (other than in the ordinary course consistent with past practice) of TFC or any of its subsidiaries, or enter into any agreement or commitment relative to the foregoing;

(xiv) fail to accrue, pay, discharge and satisfy all debts, liabilities, obligations and expenses, including, but not limited to, trade payables, incurred in the regular and ordinary course of business as such debts, liabilities, obligations and expenses become due, unless the same are being contested in good faith;

(xv) issue, or authorize the issuance of, any securities convertible into or exchangeable for any shares of the capital stock of TFC or any of its Subsidiaries;

(xvi) except for obligations disclosed within this Agreement or the TFC Disclosure Schedule, FHLB advances, Federal Funds purchased by TBT, trade payables and similar liabilities and obligations incurred in the ordinary course of business and the payment, discharge or satisfaction in the ordinary course of business of liabilities reflected in the TFC Financial Statements or the Subsequent TFC Financial Statements, borrow any money or incur any indebtedness including, without limitation, through the issuance of debentures, or incur any liability or obligation (whether absolute, accrued, contingent or otherwise), in an aggregate amount exceeding \$100,000;

(xvii) open, close, move or, in any material respect, expand, diminish, renovate, alter or change any of its offices or branches, other than as disclosed in the TFC Disclosure Schedule;

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(xviii) pay or commit to pay any management or consulting or other similar type of fees other than as disclosed in the TFC Disclosure Schedule;

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(xix) change in any material respect its accounting methods, except as may be necessary and appropriate to conform to changes in tax laws requirements, changes in GAAP or regulatory accounting principles or as required by TFC's independent auditors or its regulatory authorities;

(xx) change in any material respects its underwriting, operating, investment or risk management or other similar policies of TFC or any of its Subsidiaries except as required by applicable law or policies imposed by any regulatory authority or governmental entity;

(xxi) make, change or revoke any material tax election, file any material amended tax return, enter into any closing agreement with respect to a material amount of taxes, settle any material tax claim or assessment or surrender any right to claim a refund of a material amount of taxes; or

(xxii) enter into any contract, agreement, lease, commitment, understanding, arrangement or transaction or incur any liability or obligation (other than as contemplated by Section 5.03(a)(vii) hereof and legal, accounting and fees related to the Merger) requiring payments by TFC or any of its Subsidiaries which exceed \$100,000, whether individually or in the aggregate, or that is not a trade payable or incurred in the ordinary course of business.

(b) On and after the date of this Agreement and until the Effective Time or until this Agreement is terminated as herein provided, each of TFC and its Subsidiaries shall: (i) carry on its business diligently, substantially in the manner as is presently being conducted and in the ordinary course of business; (ii) use commercially reasonable efforts to preserve its business organization intact, keep available the services of the present officers and employees and preserve its present relationships with customers and Persons having business dealings with it; (iii) use commercially reasonable efforts to maintain all of the properties and assets that it owns or utilizes in the operation of its business as currently conducted in good operating condition and repair, reasonable wear and tear excepted; (iv) maintain its books, records and accounts in the usual, regular and ordinary manner, on a basis consistent with prior years and in compliance in all material respects with all statutes, laws, rules and regulations applicable to them and to the conduct of its business; (v) timely file all SEC Reports; and (vi) not knowingly do or fail to do anything which will cause a breach of, or default in, any contract, agreement, commitment, obligation, understanding, arrangement, lease or license to which it is a party or by which it is or may be subject or bound which would reasonably be expected to have a Material Adverse Effect on TFC.

5.04 Insurance. TFC and its Subsidiaries shall maintain, or cause to be maintained, in full force and effect, insurance on its assets, properties and operations, fidelity coverage and directors' and officers' liability insurance in such amounts and with regard to such liabilities and hazards as are currently insured by TFC or its Subsidiaries as of the date of this Agreement.

5.05 Accruals for Loan Loss Reserve and Expenses. (a) Prior to the Effective Time, TFC shall and shall cause its Subsidiaries to make, consistent with GAAP, the rules and regulations of the SEC and applicable banking laws and regulations, such appropriate accounting

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entries in its books and records and use commercially reasonable efforts to take such other actions as TFC and its Subsidiaries shall deem to be necessary or desirable in anticipation of the Merger including, without limitation, accruals or the creation of reserves for employee benefits and Merger-related expenses.

(b) TFC recognizes that ONB may have adopted different loan and accounting policies and practices (including loan classifications and levels of loan loss allowances). Subject to applicable law (including without limitation the rules and regulations of the SEC, U.S Department of Justice and Federal Trade Commission guidelines regarding pre-merger information exchange between competitors (the Guidelines), applicable banking laws and regulations and GAAP), and in a manner that is not inconsistent with TFC's need to operate its business in the ordinary course consistent with past practices, from and after the date hereof TFC shall consult and cooperate in good faith with ONB with respect to conforming the loan and accounting policies and practices of TFC to those policies and practices of ONB for financial accounting and/or income tax reporting purposes, as reasonably specified in each case in writing from ONB to TFC, based upon such consultation and subject to the conditions in Section 5.05(d).

(c) Subject to applicable law (including without limitation the rules and regulations of the SEC, applicable banking laws and regulations and GAAP), TFC shall consult and cooperate in good faith with ONB with respect to determining, as reasonably specified in a written notice from ONB to TFC, based upon such consultation and subject to the conditions in Section 5.05(d), the amount and the timing for recognizing for financial accounting and/or income tax reporting purposes of TFC's expenses of the Merger.

(d) Subject to applicable law (including without limitation the rules and regulations of the SEC, applicable banking laws and regulations and GAAP), TFC shall consult and cooperate in good faith to (i) make such conforming entries to conform the loan and accounting policies and practices of TFC to the policies and practices of ONB as contemplated in Section 5.05(b) above and (ii) recognize TFC's expenses of the Merger for financial accounting and/or income tax reporting purposes at such times as are reasonably requested in writing by ONB as contemplated in Section 5.05(c) above, but in no event prior to the 5th day next preceding the Closing Date and only after ONB acknowledges that all conditions to its obligation to consummate the Merger have been satisfied and certifies to TFC that ONB will at the Effective Time deliver to TFC the certificate contemplated in Section 7.02(g).

(e) TFC's representations, warranties and covenants contained in this Agreement shall not be deemed to be untrue or breached in any respect for any purpose as a consequence of any modifications or changes undertaken on account of Section 5.05(d).

5.06 Acquisition Proposals. (a) TFC will, and will cause each of its Subsidiaries to, and its and their respective officers, directors and representatives (including KBW) to, immediately cease and cause to be terminated any existing solicitations, discussions or negotiations with any Person that has made or indicated an intention to make an Acquisition Proposal (as defined below). During the period from the date of this Agreement through the Effective Time, TFC shall not terminate, amend, modify or waive any material provision of any

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confidentiality or similar agreement to which TFC or any of its Subsidiaries is a party (other than any involving ONB).

(b) Except as permitted in this Section 5.06, TFC shall not, and shall cause its Subsidiaries and any of their respective directors, officers and representatives (including KBW) not to, (i) solicit, initiate or knowingly encourage or facilitate, or take any other action designed to, or that could reasonably be expected to facilitate (including by way of furnishing non-public information) any inquiries with respect to an Acquisition Proposal, or (ii) initiate, participate in or knowingly encourage any discussions or negotiations or otherwise knowingly cooperate in any way with any Person regarding an Acquisition Proposal; provided, however, that, at any time prior to obtaining the approval of the Merger by TFC's shareholders, if TFC receives a bona fide Acquisition Proposal that the TFC Board of Directors determines in good faith constitutes or would reasonably be expected to lead to a Superior Proposal (as defined below) that was not solicited after the date hereof and did not otherwise result from a breach of TFC's obligations under this Section 5.06, TFC may furnish, or cause to be furnished, non-public information with respect to TFC and its Subsidiaries to the Person who made such proposal (provided that all such information has been provided to ONB prior to or at the same time it is provided to such Person) and may participate in discussions and negotiations regarding such proposal if (A) the TFC Board of Directors determines in good faith, and following consultation with financial advisors and outside legal counsel, that failure to do so would be reasonably likely to result in a breach of its fiduciary duties to TFC's shareholders under applicable law and (B) prior to taking such action, TFC has used its best reasonable efforts to enter into a confidentiality agreement with respect to such proposal that contains a standstill agreement on customary terms. Without limiting the foregoing, it is agreed that any violation of the restrictions contained in the first sentence of this Section 5.06 by any representative (including KBW) of TFC or its Subsidiaries shall be a breach of this Section 5.06 by TFC.

(c) Neither the TFC Board of Directors nor any committee thereof shall (or shall agree or resolve to) (i) fail to make, withdraw or modify in a manner adverse to ONB or propose to withdraw or modify in a manner adverse to ONB (or take any action inconsistent with) the recommendation by such TFC Board of Directors or any such committee of this Agreement or the Merger, or approve or recommend, or propose to recommend, the approval or recommendation of any Acquisition Proposal (any of the foregoing being referred to herein as an Adverse Recommendation Change), or (ii) cause or permit TFC or TBT to enter into any letter of intent, memorandum of understanding, agreement in principle, acquisition agreement, merger agreement, option agreement, joint venture agreement, partnership agreement or other agreement (each, an Acquisition Agreement) constituting or related to, or which is intended to or would be reasonably likely to lead to, any Acquisition Proposal (other than a confidentiality agreement referred to in Section 5.06(b)). Notwithstanding the foregoing, at any time prior to the special meeting of TFC's shareholders to approve the Merger, the TFC Board of Directors may, in response to a Superior Proposal, effect an Adverse Recommendation Change; provided, that the TFC Board of Directors determines in good faith, after consultation with its outside legal counsel and financial advisors, that the failure to do so would be reasonably likely to result in a breach of its fiduciary duties to the shareholders of TFC under applicable Law, and provided, further, that the TFC Board of Directors may not effect such an Adverse Recommendation Change unless (A) the TFC Board shall have first provided prior written notice to ONB (an Adverse Recommendation Change Notice) that it is prepared to effect an Adverse Recommendation

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Change in response to a Superior Proposal, which notice shall, in the case of a Superior Proposal, attach the most current version of any proposed written agreement or letter of intent relating to the transaction that constitutes such Superior Proposal (it being understood that any amendment to the financial terms or any other material term of such Superior Proposal shall require a new notice and a new five business day period) and (ii) ONB does not make, within five business days after receipt of such notice, a proposal that would, in the reasonable good faith judgment of the TFC Board of Directors (after consultation with financial advisors and outside legal counsel), cause the offer previously constituting a Superior Proposal to no longer constitute a Superior Proposal or that the Adverse Recommendation Change is no longer required to comply with the TFC Board's fiduciary duties to the shareholders of TFC under applicable law. TFC agrees that, during the five business day period prior to its effecting an Adverse Recommendation Change, TFC and its officers, directors and representatives shall negotiate in good faith with ONB and its officers, directors, and representatives regarding any revisions to the terms of the transactions contemplated by this Agreement proposed by ONB.

(d) In addition to the obligations of TFC set forth in paragraphs (a), (b) and (c) of this Section 5.06, TFC shall as promptly as possible, and in any event within two business days after TFC first obtains knowledge of the receipt thereof, advise ONB orally and in writing of (i) any Acquisition Proposal or any request for information that TFC reasonably believes could lead to or contemplates an Acquisition Proposal or (ii) any inquiry TFC reasonably believes could lead to any Acquisition Proposal, the terms and conditions of such Acquisition Proposal, request or inquiry (including any subsequent amendment or other modification to such terms and conditions) and the identity of the Person making any such Acquisition Proposal or request or inquiry. In connection with any such Acquisition Proposal, request or inquiry, if there occurs or is presented to TFC any offer, material change, modification or development to a previously made offer, letter of intent or any other material development, TFC (or its outside counsel) shall (A) advise and confer with ONB (or its outside counsel) regarding the progress of negotiations concerning any Acquisition Proposal, the material resolved and unresolved issues related thereto and the material terms (including material amendments or proposed amendments as to price and other material terms) of any such Acquisition Proposal, request or inquiry, and (B) promptly upon receipt or delivery thereof provide ONB with true, correct and complete copies of any document or communication related thereto.

(e) Nothing contained in this Section 5.06 shall prohibit TFC from at any time taking and disclosing to its shareholders a position contemplated by Rule 14e-2(a) promulgated under the 1934 Act or from making any other disclosure to its shareholders or in any other regulatory filing if, in the good faith judgment of the TFC Board of Directors, after consultation with its outside counsel, failure to so disclose would be reasonably likely to result in a breach of their or TFC's obligations under applicable law.

(f) For purposes of this Agreement, Acquisition Proposal shall mean (i) any inquiry, proposal or offer from any Person or group of Persons (other than as contemplated by this Agreement) relating to, or that could reasonably be expected to lead to, any direct or indirect acquisition or purchase, in one transaction or a series of transactions, of (A) assets or businesses that constitute 20% or more of the revenues, net income or assets of TFC and its Subsidiaries, taken as a whole, or (B) 20% or more of any class of equity securities of TFC or any of its Subsidiaries; (ii) any tender offer or exchange offer that, if consummated, would result in any

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Person beneficially owning 20% or more of any class of equity securities of TFC or any of its Subsidiaries; (iii) any merger, consolidation, business combination, recapitalization, liquidation, dissolution, joint venture, binding share exchange or similar transaction involving TFC, TBT or any of its other Subsidiaries pursuant to which any Person or the shareholders of any Person would own 20% or more of any class of equity securities of TFC, TBT, or any of TFC's other Subsidiaries or of any resulting parent company of TFC or TBT; or (iv) any other transaction the consummation of which could reasonably be expected to impede, interfere with, prevent or materially delay the Merger or that could reasonably be expected to dilute materially the benefits to ONB of the transactions contemplated hereby, other than the transactions contemplated hereby. For purposes of this Section 5.06, a Person shall include a natural Person, or any legal, commercial, or Governmental Authority, including, a corporation, general partnership, joint venture, limited partnership, limited liability company, trust, business association, group acting in concert, or any Person acting in a representative capacity.

(g) For purposes of this Agreement, Superior Proposal shall mean any Acquisition Proposal (but changing the references to 20% or more in the definition of Acquisition Proposal to 50% or more) that the TFC Board determines in good faith (after having received the advice of its financial advisors and outside legal counsel), to be (i) more favorable to the shareholders and other constituencies of TFC, including, but not limited to, from a financial point of view, than the Merger (taking into account all the terms and conditions of such proposal and this Agreement (including any break-up fees, expense reimbursement provisions and conditions to consummation and any changes to the financial terms of this Agreement proposed by ONB in response to such offer or otherwise)) and (ii) reasonably capable of being completed without undue delay taking into account all financial, legal, regulatory and other aspects of such proposal.

5.07 Press Releases. Unless prior notice and comment is not possible or practicable as the result of applicable law or any listing or exchange rule, neither TFC nor ONB will issue any press or news releases or make any other public announcements or disclosures relating to the Merger without providing a final copy of such press or news release to the other party and providing such party with a reasonable opportunity to comment on such press or news release.

5.08 Material Changes to Disclosure Schedules. TFC shall promptly supplement, amend and update, upon the occurrence of any change prior to the Effective Time, and as of the Effective Time, the TFC Disclosure Schedule with respect to any matters or events hereafter arising which, if in existence or having occurred as of the date of this Agreement, would have been required to be set forth or described in the TFC Disclosure Schedule or this Agreement and including, without limitation, any fact which, if existing or known as of the date hereof, would have made any of the representations or warranties of TFC contained herein materially incorrect, untrue or misleading. No such supplement, amendment or update shall become part of the TFC Disclosure Schedule unless ONB shall have first consented in writing with respect thereto.

5.09 Access: Information. ONB and TFC, and their representatives and agents, shall, upon reasonable notice to the other party, in a manner not inconsistent with the Guidelines, at all times during normal business hours prior to the Effective Time, have full and continuing access to the properties, facilities, operations, books and records of the other party. ONB and TFC, and their representatives and agents may, prior to the Effective Time, make or cause to be made such

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reasonable investigation of the operations, books, records and properties of the other party and their Subsidiaries and of their financial and legal condition as deemed necessary or advisable to familiarize themselves with such operations, books, records, properties and other matters; provided, however, that such access or investigation shall not interfere unnecessarily with the normal business operations of TFC or ONB or either of their Subsidiaries. Upon request, TFC and ONB will furnish the other party or its representatives or agents, their attorneys' responses to external auditors requests for information, management letters received from their external auditors and such financial, loan and operating data and other information reasonably requested by ONB or TFC which has been or is developed by the other party, its auditors, accountants or attorneys (provided with respect to attorneys, such disclosure would not result in the waiver by the other party of any claim of attorney-client privilege), and will permit ONB or TFC or their representatives or agents to discuss such information directly with any individual or firm performing auditing or accounting functions for TFC or ONB, as applicable, and such auditors and accountants will be directed to furnish copies of any reports or financial information as developed to ONB or TFC or its representatives or agents, as applicable. No investigation by ONB or TFC shall affect the representations and warranties made by TFC or ONB herein. Any confidential information or trade secrets received by ONB, TFC or their representatives or agents in the course of such examination will be treated confidentially, and any correspondence, memoranda, records, copies, documents and electronic or other media of any kind containing such confidential information or trade secrets or both shall be destroyed by ONB or TFC, as applicable, or at ONB's or TFC's request, returned to ONB or TFC, as applicable, in the event this Agreement is terminated as provided in Article VIII hereof. Additionally, any confidential information or trade secrets received by ONB or TFC, or either of their agents or representatives in the course of their examinations (whether conducted prior to or after the date of this Agreement) shall be treated confidentially and in accordance with the Confidentiality Agreement (as defined in Section 11.09 hereof). This Section 5.09 will not require the disclosure of any information to ONB or TFC which would be prohibited by law. The ability of ONB or TFC to consult with any tax advisor (including a tax advisor independent from all other entities involved in the transactions contemplated hereby) shall not be limited by this Agreement in any way, provided that any such tax advisor is otherwise subject to and is bound by this Section 5.09. Notwithstanding anything herein to the contrary (other than the preceding sentence), except as reasonably necessary to comply with applicable securities laws, ONB and TFC (and each employee, representative or agent of ONB and TFC) may disclose to any and all Persons, without limitation of any kind, the tax treatment (as defined in Treas. Reg. § 1.6011-4) of the transactions contemplated hereby and all materials of any kind (including opinions or other tax analyses) that are or have been provided to ONB or TFC relating to such tax structure, provided that, in the case of any materials that contain information other than the tax treatment or tax structure of the transactions contemplated hereby (including, but not limited to, any information relating to the pricing or any cost of the transactions contemplated hereby or the identity of any party to the transactions contemplated hereby), this sentence shall apply to such materials only to the extent that such materials contain the tax treatment or tax structure of the transactions contemplated hereby and ONB and TFC shall take all action necessary to prevent the disclosure of such other information as otherwise provided herein. The immediately preceding sentence shall not be effective until the earliest of (a) the date of the public announcement of discussions relating to any of the transactions contemplated hereby, (b) the date of the public announcement

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of any of the transactions contemplated hereby or (c) the date of the execution of an agreement, with or without conditions, to enter into any of the transactions contemplated hereby.

5.10 Financial Statements. As soon as reasonably available after the date of this Agreement, TFC will deliver to ONB any additional audited consolidated financial statements which have been prepared on its behalf or at its direction, the monthly consolidated unaudited balance sheets and profit and loss statements of TFC prepared for its internal use, TFC's Call Reports for each quarterly period completed prior to the Effective Time, and all other financial reports or statements submitted to regulatory authorities after the date hereof, to the extent permitted by law (collectively, Subsequent TFC Financial Statements). The Subsequent TFC Financial Statements will be prepared on a basis consistent with past accounting practices and GAAP to the extent applicable and shall present fairly the financial condition and results of operations as of the dates and for the periods presented (except in the case of unaudited financials or Call Report information for the absence of notes and/or year-end adjustments). The Subsequent TFC Financial Statements, including the notes thereto, will not include any assets, liabilities or obligations or omit to state any assets, liabilities or obligations, absolute or contingent, or any other facts, which inclusion or omission would render such financial statements inaccurate, incomplete or misleading in any material respect. As soon as internally available after the date of this Agreement, ONB will deliver to TFC any additional audited consolidated financial statements which have been prepared on its behalf or at its direction and the quarterly consolidated unaudited balance sheets and profit and loss statements of ONB (collectively, Subsequent ONB Financial Statements). The Subsequent ONB Financial Statements will be prepared on a basis consistent with past accounting practices and GAAP to the extent applicable and shall present fairly the financial condition and results of operations as of the dates and for the periods presented (except in the case of unaudited financials or Call Report information for the absence of notes and/or year-end adjustments). The Subsequent ONB Financial Statements, including the notes thereto, will not include any assets, liabilities or obligations or omit to state any assets, liabilities or obligations, absolute or contingent, or any other facts, which inclusion or omission would render such financial statements inaccurate, incomplete or misleading in any material respect.

5.11 Environmental. (a) If requested by ONB, TFC will cooperate with an environmental consulting firm designated by ONB in connection with the conduct by such firm of a phase one and/or phase two environmental investigation on all real property owned or leased by TFC or any of its Subsidiaries as of the date of this Agreement, and any real property acquired or leased by TFC or any of its Subsidiaries after the date of this Agreement. ONB shall be responsible for the costs of the phase ones and, if any phase twos are determined to be advisable by the environmental consulting firm, TFC and ONB shall each be responsible for 50% of the costs of the phase twos.

(b) If the environmental consultant's good faith estimate, based upon the results of the environmental studies and other diligence conducted by the environmental consultant, of the dollar amount, if any, that TFC and its Subsidiaries would be required to expend under applicable Environmental Laws for clean-up, remediation and penalties relating to pollutants, contaminants, wastes, toxic substances, petroleum, petroleum products and any other materials regulated under the Environmental Laws with respect to TFC or its Subsidiaries owned or leased real properties or any adjoining properties, is in excess of \$1.5 million, then ONB shall have the

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right to terminate this Agreement pursuant to Section 8.01(c)(iv), which termination shall be ONB's sole remedy in such event.

5.12 Governmental Reports and Shareholder Information. Promptly upon its becoming available, TFC shall furnish to ONB one (1) copy of each financial statement, report, notice, or proxy statement sent by TFC to any Governmental Authority or to TFC's shareholders generally and of each SEC Report filed by TFC, and of any order issued by any Governmental Authority in any proceeding to which TFC is a party. For purposes of this Agreement, Governmental Authority shall mean any government (or any political subdivision or jurisdiction thereof), court, bureau, agency or other governmental entity having or asserting jurisdiction over the applicable party or its business, operations or properties.

5.13 Adverse Actions. TFC shall not knowingly take any action that is intended or is reasonably likely to result in (a) any of its representations and warranties set forth in this Agreement being or becoming untrue in any respect at any time at or prior to the Effective Time, subject to the standard set forth in Section 7.01(a), (b) any of the conditions to the Merger set forth in Article VII not being satisfied, (c) a material violation of any provision of this Agreement or (d) a material delay in the consummation of the Merger except, in each case, as may be required by applicable law or regulation.

5.14 Employee Benefits. Except as contemplated by Section 6.03(j) hereof, neither the terms of Section 6.03 hereof nor the provision of any employee benefits by ONB or any of its Subsidiaries to employees of TFC or any of its Subsidiaries shall: (a) create any employment contract, agreement or understanding with or employment rights for, or constitute a commitment or obligation of employment to, any of the officers or employees of TFC or any of its Subsidiaries; or (b) prohibit or restrict ONB or its Subsidiaries, whether before or after the Effective Time, from changing, amending or terminating any employee benefits provided to its employees from time to time.

5.15 Disposition Welfare Benefit and Code Section 125 Plans. All welfare benefit (health, dental/vision, life/AD&D, LTD), and Internal Revenue Code Section 125, or cafeteria, plans currently sponsored by TFC shall continue as separate plans after the Effective Time, until such time as ONB determines, in its sole discretion, that it will terminate any or all of such plans.

As of the Effective Time TFC shall take, or cause to be taken, all actions necessary to assign any and all applicable group insurance policies to ONB and to provide ONB all necessary financial, enrollment, eligibility, contractual and other information related to its welfare benefit and cafeteria plans to assist ONB in the administration of such plans.

From the date of this Agreement through the Effective Time TFC shall continue to: (i) pay the applicable insurance premiums necessary to continue the benefits under TFC's fully insured welfare benefit plans; (ii) accrue, as an expense, in accordance with past practice, monthly amounts to be used to satisfy claims under its self-insured dental and short-term disability plans and (iii) contribute to the cafeteria plan the pre-tax amounts which the cafeteria plan participants elect to defer from compensation.

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As of the date of any future termination of the TFC cafeteria plan, the balances in the health and dependent care flexible spending accounts thereunder shall be transferred to the ONB cafeteria plan, and the benefit and compensation deferral elections in effect at that time shall be continued under the ONB cafeteria plan, subject to subsequent changes as provided in the ONB plan. All benefit payments related to the transferred balances shall be made in accordance with the ONB cafeteria plan.

5.16 Nonqualified Plans. TFC or any Subsidiary, as applicable, shall terminate each nonqualified deferred compensation plan for employees and/or directors sponsored by TFC or any Subsidiary in accordance with Treasury Regulation §1.409A-3(j)(4)(ix)(B). Accrued benefits under the plans will be distributed on, or prior to, the Closing Date.

5.17 TFC Incentive Plans. TFC or any Subsidiary shall continue all incentive and/or bonus plans through December 31, 2013. All incentive or bonus compensation which is earned based on performance metrics achieved under those plans as of December 31, 2013 shall be paid in a lump sum on March 15, 2014, unless historically the incentive or bonus compensation has been paid sooner in which case it will be paid at the same time as historical practice. Effective January 1, 2014, employees of TFC or any Subsidiary who are covered by an incentive and/or bonus plan will continue to be covered by either a TFC or Subsidiary incentive or bonus plan, or an ONB or ONB subsidiary incentive or bonus plan, as determined by ONB in its sole discretion. To the extent ONB determines not to cover any TFC or Subsidiary employee under a TFC or Subsidiary incentive or bonus plan, that plan will be terminated effective as of the later of the date of such determination or December 31, 2013.

5.18 Supplemental Executive Retirement Plan. TFC or any Subsidiary, as applicable, shall accelerate payment under the terminated Supplemental Executive Retirement Plan (SERP) sponsored by TFC or any Subsidiary in accordance with Treasury Regulation §1.409A-3(j)(4)(ix)(B). Accrued benefits under the SERP will be distributed on the Closing Date.

5.19 TFC 401(k) Plan. Prior to the Effective Time:

(a) TFC, by resolution of its directors, shall terminate the 401(k) Plan as of the day before the Effective Time. The account balances of the TFC 401(k) Plan participants, including any alternate payees or beneficiaries of deceased participants, including any accrued but unpaid contributions, as determined by the TFC 401(k) Plan administrator, shall thereafter be distributed or otherwise transferred in accordance with the applicable plan termination provisions of the TFC 401(k) Plan, as soon as administratively feasible following the plan termination date.

(b) TFC shall continue to make all non-discretionary employer contributions which it is required to make to the TFC 401(k) Plan, including, but not limited to, elective deferral contributions of those TFC 401(k) Plan participants who are employed by TFC or its Subsidiaries. In addition, TFC shall continue in full force and effect, until the Effective Time: (i) the fidelity bond, if any, issued to TFC as described in ERISA Sec. 4.12; and (ii) the ERISA fiduciary liability insurance policy currently in effect, if any, for the benefit of the covered fiduciaries of the TFC 401(k) Plan.

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5.20 Prohibition Against Further Stock Option Grants. From and after the date of this Agreement TFC shall not award any additional grants or awards of any kind under any of the TFC Stock Option Plans.

5.21 Short-Swing Trading Exception. TFC's Board of Directors shall adopt such resolutions as are necessary to cause any shares of TFC Common Stock owned by executive officers and directors of TFC and canceled in the Merger to qualify for the exemptions provided in Rule 16b-3(d) under the 1934 Act.

5.22 Trust Preferred Securities. TFC shall cooperate with ONB and use commercially reasonable efforts to execute and deliver such instruments and take such actions as may be required or necessary prior to the Effective Time for ONB to assume at the Effective Time the obligations of TFC under any indenture or other agreement to which TFC is a party with respect to trust preferred securities that are identified on the TFC Disclosure Schedule, including but not limited to executing and delivering one or more supplemental indentures and providing any required opinions of counsel to the applicable trustees.

5.23 Tower Bank. Prior to the Effective Time, TFC shall cause TBT to cooperate with ONB and take such action as reasonable necessary to (i) reconstitute the directors and officers of TBT as of the Effective Time to be the same as the directors and officers of Old National Bank at the Effective Time; and (ii) if requested by ONB, amend the Articles of Incorporation and By-Laws of TBT as of the Effective Time.

5.24 Tower Trust Company. Prior to the Effective Time, TBT shall, and shall cause Tower Trust Company to, cooperate with ONB and take such action as reasonable necessary to (i) reconstitute the directors and officers of Tower Trust Company as of the Effective Time to be the same as the directors and officers of Old National Trust Company at the Effective Time; (ii) if requested by ONB, amend the Articles of Incorporation and By-Laws of Tower Trust Company as of the Effective Time; and (iii) take any action reasonably requested by ONB to allow for the merger or other business combination involving Tower Trust Company and an affiliate of ONB at or following the Effective Time.

5.25 Written Opinion of Financial Advisor. TFC shall receive within ten (10) days of this Agreement the written fairness opinion of KBW that the Merger Consideration is fair to TFC from a financial point of view.

ARTICLE VI.

COVENANTS OF ONB

ONB covenants and agrees with TFC as follows:

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6.01 Other Approvals. ONB shall have primary responsibility for the preparation, filing and costs of all bank regulatory applications require for consummation of the Merger, and shall file such applications within 60 days after the execution of this Agreement. ONB shall provide to TFC s counsel copies of all applications filed and copies of all material written communications with all state and federal bank regulatory agencies relating to such applications. ONB shall proceed expeditiously, cooperate fully and use its best efforts to procure, upon terms

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and conditions reasonably acceptable to ONB, all consents, authorizations, approvals, registrations and certificates, to complete all filings and applications and to satisfy all other requirements prescribed by law which are necessary for consummation of the Merger on the terms and conditions provided in this Agreement at the earliest possible reasonable date.

6.02 SEC Registration. (a) ONB shall file with the SEC as promptly as practicable and in the most expeditious manner practicable a Registration Statement on an appropriate form under the 1933 Act covering the shares of ONB Common Stock to be issued pursuant to this Agreement and shall use its best reasonable efforts to cause the same to become effective and thereafter, until the Effective Time or termination of this Agreement, to keep the same effective and, if necessary, amend and supplement the same. Such Registration Statement and any amendments and supplements thereto are referred to in this Agreement as the Registration Statement. The Registration Statement shall include a proxy statement-prospectus reasonably acceptable to ONB and TFC, prepared for use in connection with the meeting of shareholders of TFC referred to in Section 5.01 hereof, all in accordance with the rules and regulations of the SEC. ONB shall, as soon as practicable after filing the Registration Statement, make all filings required to obtain all blue sky exemptions, authorizations, consents or approvals required for the issuance of ONB Common Stock.

(b) Any materials or information provided by ONB for use in any filing with any state or federal regulatory agency or authority shall not contain any untrue or misleading statement of material fact or shall omit to state a material fact necessary to make the statements contained therein, in light of the circumstances in which they are made, not false or misleading.

(c) ONB will use reasonable best efforts to list for trading on the NASDAQ Global Market (subject to official notice of issuance) prior to the Effective Time, the shares of ONB Common Stock to be issued in the Merger.

6.03 Employee Benefit Plans.

(a) ONB shall make available to the officers and employees of TFC or any Subsidiary who continue as employees of TFC or any Subsidiary after the Effective Time (Continuing Employees), substantially the same employee benefits, including severance benefits, on substantially the same terms and conditions as ONB offers to similarly situated officers and employees. Continuing Employees will receive credit for prior service with TFC or its Subsidiaries, or their predecessors, for purposes of eligibility and vesting under the employee benefit plans of ONB and its Subsidiaries. To the extent that ONB determines, in its sole discretion, that TFC's employee benefit plans should be terminated, Continuing Employees shall become eligible to participate in ONB's employee benefit plans as soon as reasonably practicable after termination. In the event that ONB determines, in its sole discretion, to terminate the TFC health plan, retirees of TFC and any Subsidiary who are participating in the TFC health plan as of the date it is terminated (Eligible Retirees) will be eligible to participate in the ONB health plans in accordance with terms of the ONB health plans. Continuing Employees who become covered under the health or dental plans of ONB, and shall not be subject to any waiting periods or additional pre-existing condition limitations under the health and dental plans of ONB or its Subsidiaries in which they are eligible to participate than they otherwise would have been subject to under the health and dental plans of TFC. Eligible

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Retirees who become covered under the health plans of ONB shall not be subject to any waiting periods or additional pre-existing condition limitations under the health plans of ONB or its Subsidiaries in which they are eligible to participate than they otherwise would have been subject to under the health plan of TFC. To the extent that the initial period of coverage for Continuing Employees or any Eligible retirees under age 65 under any such ONB employee benefit plans is not a full 12-month period of coverage, Continuing Employees and any Eligible Retirees under age 65 shall be given credit under the applicable plan for any deductibles and co-insurance payments made by such Continuing Employees and any Eligible Retirees under age 65 under the corresponding TFC plan during the balance of such 12-month period of coverage provided that ONB can obtain, in a manner satisfactory to ONB, as determined in its sole discretion, the necessary data.

(b) As of the Effective Time, subject to applicable law and the requirements of the Old National Bancorp Employee Stock Ownership and Savings Plan (ONB KSOP), ONB shall amend as necessary the ONB KSOP so that, (i) from and after the Effective Time, Continuing Employees will accrue benefits pursuant to the ONB KSOP, and (ii) Continuing Employees participating in the ONB KSOP shall receive credit for eligibility and vesting purposes, for the service of such employees with TFC and its Subsidiaries or their predecessors prior to the Effective Time, as if such service were with ONB or its Subsidiaries.

(c) In accordance with Section 6.03(a) hereof, after the Effective Time, ONB shall continue to maintain all employee welfare benefit, and cafeteria plans currently in effect at the Effective Time, until such time as ONB determines, in its sole discretion, to modify or terminate any or all of those plans. Claims incurred under the employee welfare benefit and cafeteria plans prior to plan termination shall be paid in accordance with the applicable plan s claim submission procedures and deadlines.

(d) All Continuing Employees shall be subject to ONB s vacation policy as of the Effective Time.

(e) After the Effective Time, mileage for Continuing Employees business-related travel shall be reimbursed according to ONB s reimbursement policy for mileage, consistent with the applicable provisions of the Code.

(f) After the Effective Time, TFC s sick time policy shall terminate and all Continuing Employees shall be subject to ONB s sick time policy. Notwithstanding the foregoing, all accrued and unpaid sick time of employees of TFC and its Subsidiaries at the Effective Time, up to but not beyond one hundred and sixty (160) hours per Continuing Employee, shall be carried over to ONB s sick time policy.

(g) After the Effective Time, ONB shall continue to maintain and administer, in accordance with the provisions thereof, the TFC Stock Option Plans until such time as all options granted or awarded thereunder as of the Effective Time have been exercised or lapse, whichever occurs first.

(h) Until the Effective Time, TFC or a Subsidiary of TFC, whichever is applicable, shall be liable for all obligations for continued health coverage pursuant to Section 4980B of the

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Code and Section 601 through 609 of ERISA (COBRA) for eligible employees who incur a qualifying event before the Effective Time. ONB or an ONB Subsidiary, whichever is applicable, shall after the Effective Time be liable for (i) all obligations for continued health coverage under COBRA with respect to each qualified beneficiary of TFC or a Subsidiary of TFC who incurs a termination on and after the Effective Time, and (ii) for continued health coverage under COBRA from and after the Effective Time for each qualified beneficiary of TFC or a Subsidiary of TFC who incurs a qualifying event before the Effective Time.

(i) Notwithstanding any contrary provision of ONB s Severance Pay Plan (the Severance Policy), for purposes of calculating the severance benefits payable under the Severance Policy, each TFC Employee shall be given full credit for prior years of employment with TFC or a Subsidiary of TFC.

(j) As of the Effective Time, ONB shall assume all obligations under the Employment Agreements, Change in Control Agreements and Retention Agreements between a Subsidiary and those individuals specified in Schedule 6.03(j).

6.04 Adverse Actions. ONB shall not knowingly take any action that is intended or is reasonably likely to result in (a) any of its representations and warranties set forth in this Agreement being or becoming untrue in any respect at any time at or prior to the Effective Time, subject to the standard set forth in Section 7.02(b), (b) any of the conditions to the Merger set forth in Article VII not being satisfied, (c) a material violation of any provision of this Agreement or (d) a material delay in the consummation of the Merger except, in each case, as may be required by applicable law or regulation.

6.05 D&O Insurance. ONB shall cause the individuals serving as officers and directors of TFC and TBT immediately before the Effective Time to be covered for a period of one (1) year from the Effective Time by the directors and officers liability insurance policy maintained by TFC (provided that ONB may substitute therefor policies of at least the same coverage and amounts containing terms and conditions that are not less advantageous to such officers and directors than such policy) with respect to acts or omissions occurring before the Effective Time; provided, further, that in no event shall ONB be required to expend pursuant to this Section 6.05 more than an amount per year equal to 150% of the annual premiums paid by TFC as of the Effective Time for such insurance; provided, however, that if the cost exceeds such limit, ONB shall use its reasonable efforts to obtain as much comparable insurance as is available for the Insurance Amount.

6.06 Short-Swing Trading Exemption. Prior to the Closing Date, the Board of Directors of ONB shall adopt such resolutions as necessary to cause any shares of ONB Common Stock to be received by executive officers and directors of TFC as part of the Merger Consideration to qualify for the exemptions provided in Rule 16b-3(d) under the 1934 Act.

6.07 Material Changes to ONB Disclosure Schedules. ONB shall promptly supplement, amend and update, upon the occurrence of any change prior to the Effective Time, and as of the Effective Time, the ONB Disclosure Schedule with respect to any matters or events hereafter arising which, if in existence or having occurred as of the date of this Agreement, would have been required to be set forth or described in the ONB Disclosure Schedule or this

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Agreement and including, without limitation, any fact which, if existing or known as of the date hereof, would have made any of the representations or warranties of ONB contained herein materially incorrect, untrue or misleading. No such supplement, amendment or update shall become part of the ONB Disclosure Schedule unless TFC shall have first consented in writing with respect thereto.

6.08 Governmental Report and Shareholder Information. Promptly upon its becoming publicly available, ONB shall furnish to TFC one (1) copy of each financial statement, report, notice, or proxy statement sent by ONB to any Governmental Authority or to ONB's shareholders generally and of each SEC Report filed by ONB with the SEC or any successor agency, and of any order issued by any Governmental Authority in any proceeding to which ONB is a party.

ARTICLE VII.

CONDITIONS PRECEDENT TO THE MERGER

7.01 ONB. The obligation of ONB to consummate the Merger is subject to the satisfaction and fulfillment of each of the following conditions on or prior to the Effective Time, unless waived in writing by ONB:

(a) Representations and Warranties at Effective Time. Each of the representations and warranties of TFC contained in this Agreement shall be true, accurate and correct in all material respects at and as of the Effective Time as though such representations and warranties had been made or given on and as of the Effective Time (except that representations and warranties that by their express terms speak as of the date of this Agreement or some other date shall be true and correct only as of such date); provided that no representation or warranty of TFC, except for Section 3.03(a) hereof, shall be deemed untrue, inaccurate or incorrect for purposes hereunder as a consequence of the existence of any fact, event or circumstance inconsistent with such representation or warranty, unless such fact, event or circumstance, individually or taken together with all other facts, events or circumstances inconsistent with any representations or warranty of TFC, has had or would result in a Material Adverse Effect on TFC.

(b) Covenants. Each of the covenants and agreements of TFC shall have been fulfilled or complied with in all material respects from the date of this Agreement through and as of the Effective Time.

(c) Deliveries at Closing. ONB shall have received from TFC at the Closing (as hereinafter defined) the items and documents, in form and content reasonably satisfactory to ONB, set forth in Section 10.02(b) hereof.

(d) Registration Statement Effective. ONB shall have registered its shares of ONB Common Stock to be issued to shareholders of TFC in accordance with this Agreement with the SEC pursuant to the 1933 Act, and all state securities and blue sky approvals, authorizations and exemptions required to offer and sell such shares shall have been received by ONB. The

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Registration Statement with respect thereto shall have been declared effective by the SEC and no stop order shall have been issued or threatened.

(e) Regulatory Approvals. All regulatory approvals required to consummate the transactions contemplated hereby (Regulatory Approvals) shall have been obtained and shall remain in full force and effect and all statutory waiting periods in respect thereof shall have expired and no such approvals shall contain any conditions, restrictions or requirements which the Board of Directors of ONB reasonably determines in good faith would (i) following the Effective Time, have a Material Adverse Effect on TFC or (ii) reduce the benefits of the transactions contemplated hereby to such a degree that ONB would not have entered into this Agreement had such conditions, restrictions or requirements been known at the date hereof.

(f) Shareholder Approval. The shareholders of TFC shall have approved and adopted this Agreement as required by applicable law and its Articles of Incorporation.

(g) Officers Certificate. TFC shall have delivered to ONB a certificate signed by its President and its Secretary, dated as of the Effective Time, certifying that: (i) the representations and warranties of TFC contained in Article III are true, accurate and correct in all respects on and as of the Effective Time, subject to the standard specified in Section 7.01(a) above; (ii) all the covenants of TFC have been complied with in all material respects from the date of this Agreement through and as of the Effective Time; and (iii) TFC has satisfied and fully complied with all conditions necessary to make this Agreement effective as to it.

(h) Tax Opinion. The Board of Directors of ONB shall have received a written opinion of the law firm of Krieg DeVault LLP, dated as of the Effective Time, in form and content reasonably satisfactory to ONB, to the effect that the Merger to be effected pursuant to this Agreement will constitute a tax-free reorganization under the Code (as described in Section 1.03 hereof) to each party hereto and to the shareholders of TFC, except with respect to cash received by the shareholders of TFC for fractional shares resulting from application of the Exchange Ratio and pursuant to Section 2.03 hereof. In rendering such opinion, counsel may require and rely upon customary representation letters of the parties hereto and rely upon customary assumptions.

(i) 280G Opinion. ONB shall have received a letter of tax advice, in a form satisfactory to ONB, from TFC's outside, independent certified public accountants to the effect that any amounts that are paid by TFC before the Effective Time, or required under TFC's Plans or this Agreement to be paid at or after the Effective Time, to Persons who are disqualified individuals in respect of TFC, its Subsidiaries or their successors, and that otherwise should be allowable as deductions for federal income tax purposes, should not be disallowed as deductions for such purposes by reason of Section 280G of the Code.

(j) Material Proceedings. None of ONB, TFC, or either of their Subsidiaries, shall be subject to any statute, rule, regulation, injunction, order or decree, which shall have been enacted, entered, promulgated or enforced, which prohibits, prevents or makes illegal completion of the Merger, and no material claim, litigation or proceeding shall have been initiated or threatened relating to the Agreement or the Merger or seeking to prevent the completion of the Merger.

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(k) Listing. The shares of ONB Common Stock to be issued in the Merger shall have been approved for listing on the NASDAQ Global Market, subject to official notice of issuance.

(l) Delinquent Loans. As of the tenth (10th) day prior to the Effective Time (the Computation Date), TFC shall not hold TFC Delinquent Loans in an amount in excess of \$24 million. TFC Delinquent Loans shall mean the total of (i) all loans with principal or interest that are 30 to 89 days past due, (ii) all Loans with principal or interest that are at least 90 days past due and still accruing, (iii) all Loans with principal or interest that are nonaccruing, (iv) restructured and impaired Loans, including Loans reported as troubled debt restructurings (TDRs), or in accordance with bank regulatory guidance should be reported as TDRs, (v) other real estate owned and other repossessed assets, (vi) net charge offs from the date of this Agreement through the Computation Date, and (vii) write-downs of other real estate owned and other repossessed assets from the date of this Agreement through the Computation Date.

(m) TFC Consolidated Shareholders Equity. As of the end of the month prior to the Effective Time, the TFC Consolidated Shareholders Equity (as such term is defined below), shall not be less than \$57,117,844. TFC Consolidated Shareholders Equity shall be the consolidated shareholders equity of TFC excluding the net accumulated other comprehensive income/(loss), each as of the Computation Date, determined in accordance with GAAP to which shall be added the following amounts (which amounts shall also be calculated in accordance with GAAP): (i) any accruals, reserves, or charges resulting from expenses of the Merger and other transactions contemplated by this Agreement, and (ii) any accruals, reserves or charges taken by TFC at the request of ONB pursuant to Section 5.05 hereof.

7.02 TFC. The obligation of TFC to consummate the Merger is subject to the satisfaction and fulfillment of each of the following conditions on or prior to the Effective Time, unless waived in writing by TFC:

(a) Representations and Warranties at Effective Time. Each of the representations and warranties of ONB contained in this Agreement shall be true, accurate and correct in all material respects on and as of the Effective Time as though the representations and warranties had been made or given at and as of the Effective Time (except that representations and warranties that by their express terms speak as of the date of this Agreement or some other date shall be true and correct only as of such date); provided that no representation or warranty of ONB shall be deemed untrue, inaccurate or incorrect for purposes hereunder as a consequence of the existence of any fact, event or circumstance inconsistent with such representation or warranty, unless such fact, event or circumstance, individually or taken together with all other facts, events or circumstances inconsistent with any representations or warranty of ONB, has had or would result in a Material Adverse Effect on ONB.

(b) Covenants. Each of the covenants and agreements of ONB shall have been fulfilled or complied with in all material respects from the date of this Agreement through and as of the Effective Time.

(c) Deliveries at Closing. TFC shall have received from ONB at the Closing the items and documents, in form and content reasonably satisfactory to TFC, listed in Section 10.02(a) hereof.

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- (d) Registration Statement Effective. ONB shall have registered its shares of ONB Common Stock to be issued to shareholders of TFC in accordance with this Agreement with the SEC pursuant to the 1933 Act, and all state securities and Blue Sky approvals, authorizations and exemptions required to offer and sell such shares shall have been received by ONB. The Registration Statement with respect thereto shall have been declared effective by the ONB and no stop order shall have been issued or threatened.
- (e) Regulatory Approvals. All Regulatory Approvals shall have been obtained and shall remain in full force and effect and all statutory waiting periods in respect thereof shall have expired.
- (f) Shareholder Approvals. The shareholders of TFC shall have approved and adopted this Agreement as required by applicable law and such entity's Articles of Incorporation.
- (g) Officers Certificate. ONB shall have delivered to TFC a certificate signed by its Chairman or President and its Secretary, dated as of the Effective Time, certifying that: (i) the representations and warranties of ONB contained in Article IV are true, accurate and correct in all respects on and as of the Effective Time, subject to the standard specified in Section 7.02(a) above; (ii) all the covenants of ONB have been complied with in all material respects from the date of this Agreement through and as of the Effective Time; and (iii) ONB has satisfied and fully complied with all conditions necessary to make this Agreement effective as to it.
- (h) Tax Opinion. The Board of Directors of TFC shall have received a written opinion of the law firm of Krieg DeVault LLP, dated as of the Effective Time, in form and content reasonably satisfactory to TFC, to the effect that the Merger to be effected pursuant to this Agreement will constitute a tax-free reorganization under the Code (as described in Section 1.03 hereof) to each party hereto and to the shareholders of TFC, except with respect to cash received by the shareholders of TFC for fractional shares resulting from application of the Exchange Ratio and pursuant to Section 2.03 hereof. In rendering such opinion, counsel may require and rely upon customary representation letters of the parties hereto and rely upon customary assumptions.
- (i) Listing. The shares of ONB Common Stock to be issued in the Merger shall have been approved for listing on the NASDAQ Global Market, subject to official notice of issuance.
- (j) Material Proceedings. None of ONB, TFC, or any Subsidiary of ONB or TFC, shall be subject to any statute, rule, regulation, injunction, order or decree, which shall have been enacted, entered, promulgated or enforced, which prohibits, prevents or makes illegal completion of the Merger, and no material claim, litigation or proceeding shall have been initiated or threatened relating to the Agreement or the Merger or seeking to prevent the completion of the Merger.

ARTICLE VIII.

TERMINATION OF MERGER

8.01 Termination. This Agreement may be terminated and abandoned at any time prior to the Closing Date, only as follows:

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- (a) by the mutual written consent of ONB and TFC;

- (b) by either of TFC or ONB by written notice to the other:
 - (i) if the Agreement and the Merger are not approved by the requisite vote of the shareholders of TFC at the meeting of shareholders of TFC contemplated in Section 5.01;

 - (ii) if any Governmental Authority of competent jurisdiction shall have issued an order, decree, judgment or injunction or taken any other action that permanently restrains, enjoins or otherwise prohibits or makes illegal the consummation of the Merger, and such order, decree, judgment, injunction or other action shall have become final and non-appealable or if any consent or approval of any Governmental Authority whose consent or approval is required to consummate the Merger has been denied and such denial has become final and non-appealable; or

 - (iii) if the consummation of the Merger shall not have occurred on or before June 30, 2014 (the Outside Date), except as extended by mutual agreement of the parties; provided that the right to terminate this Agreement under this Section 8.01(b)(iv) shall not be available to any party whose breach of any provision of this Agreement causes the failure of the Merger to occur on or before the Outside Date;

- (c) by written notice from ONB to TFC, if:
 - (i) any event shall have occurred which is not capable of being cured prior to the Outside Date and would result in any condition set forth in Section 7.01 not being satisfied prior to the Outside Date;

 - (ii) TFC breaches or fails to perform any of its representations, warranties or covenants contained in this Agreement, which breach or failure to perform would give rise to the failure of a condition set forth in Section 7.01, and such condition is incapable of being satisfied by the Outside Date or such breach has not been cured by TFC within 20 business days after TFC's receipt of written notice of such breach from ONB;

 - (iii) there has been a Material Adverse Effect on TFC on a consolidated basis as of the Effective Time, as compared to that in existence as of the date of this Agreement; or

 - (iv) ONB elects to exercise its right to terminate pursuant to Section 5.11.

(d) by written notice from TFC to ONB if:

(i) any event shall have occurred which is not capable of being cured prior to the Outside Date and would result in any condition set forth in Section 7.02 not being satisfied prior to the Outside Date;

(ii) ONB breaches or fails to perform any of its representations, warranties or covenants contained in this Agreement, which breach or failure to perform would give

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rise to the failure of a condition set forth in Section 7.02 and such condition is incapable of being satisfied by the Outside Date or such breach has not been cured by ONB within 20 business days after ONB's receipt of written notice of such breach from TFC; or

(iii) there has been a Material Adverse Effect on ONB on a consolidated basis as of the Effective Time, as compared to that in existence as of the date of this Agreement.

(e) by written notice of ONB to TFC:

(i) if the TFC Board of Directors shall fail to include its recommendation to approve the Merger in the proxy statement/prospectus;

(ii) in the event of an Adverse Recommendation Change or an Adverse Recommendation Change Notice;

(iii) if the TFC Board shall approve any Acquisition Proposal or publicly recommend that the holders of TFC Common Stock accept or approve any Acquisition Proposal; or

(iv) if TFC shall have entered into, or publicly announced its intention to enter into, a definitive agreement, agreement in principle or letter of intent with respect to any Acquisition Proposal; or

(v) if the TFC Board fails to publicly reaffirm its recommendation of this Agreement, the Merger or the other transactions contemplated by this Agreement within five business days of a written request by ONB to provide such reaffirmation.

(f) by written notice by ONB to TFC if a quorum could not be convened at the meeting of shareholders of TFC contemplated in Section 5.01 or at a reconvened meeting held at any time prior to or on the Outside Date.

(g) by written notice by TFC to ONB if, and only if both of the following conditions are satisfied at any time during the five-day period commencing on the Determination Date, such termination to be effective on the tenth day following the Determination Date:

(i) The ONB Market Value on the Determination Date is less than \$10.85; and

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(ii) the number obtained by dividing the ONB Market Value by the Initial ONB Market Value shall be less than the number obtained by dividing (x) the Final Index Price by (y) the Initial Index Price minus 0.20;

subject, however, to the following three sentences. If TFC elects to exercise its termination right pursuant to this Section 8.01(g), it shall give prompt written notice thereof to ONB. During the five business day period commencing with its receipt of such notice, ONB shall have the option to increase the Exchange Ratio to equal the lesser of (x) a quotient, the numerator of which is equal to the product of the Initial ONB Market Value, the Exchange Ratio (as then in effect), and

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the Index Ratio minus 0.20 and the denominator of which is equal to the ONB Market Value on the Determination Date; or (y) the quotient determined by dividing the Initial ONB Market Value by the ONB Market Value on the Determination Date, and multiplying the quotient by the product of the Exchange Ratio (as then in effect) and 0.80. If within such five business day period, ONB delivers written notice to TFC that it intends to proceed with the Merger by paying such additional consideration as contemplated by the preceding sentence, and notifies TFC of the revised Exchange Ratio, then no termination shall have occurred pursuant to this Section 8.01(g), and this Agreement shall remain in full force and effect in accordance with its terms (except that the Exchange Ratio shall have been so modified). For purposes of clarification, the adjustments to the Exchange Ratio contemplated by Sections 2.02 of this Agreement shall be calculated and applied subsequent to any adjustment to the Exchange Ratio pursuant to this Section 8.01(g).

For purposes of this Section 8.01(g), the following terms shall have the meanings indicated below:

Determination Date shall mean the first date on which all Regulatory Approvals (and waivers, if applicable) necessary for consummation of the Merger have been received (disregarding any waiting period).

Final Index Price means the average of the daily closing value of the Index for the five consecutive trading days immediately preceding the Determination Date.

Index means the NASDAQ Bank Index or, if such Index is not available, such substitute or similar Index as substantially replicates the NASDAQ Bank Index.

Index Ratio means the Final Index Price divided by the Initial Index Price.

Initial ONB Market Value means \$13.56, adjusted as indicated in the last sentence of this Section 8.01(g).

Initial Index Price means the closing value of the Index on the date of this Agreement.

ONB Market Value means, as of any specified date, the average of the daily closing sales prices of a share of ONB Common Stock as reported on the NASDAQ Global Market for the ten (10) consecutive trading days immediately preceding such specified date.

If ONB or any company belonging to the Index declares or effects a stock dividend, reclassification, recapitalization, split-up, combination, exchange of shares or similar transaction between the date of this Agreement and the Determination Date, the prices for the common stock of such company shall be appropriately adjusted for the purposes of applying this Section 8.01(g).

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8.02 Effect of Termination. (a) Subject to the remainder of this Section 8.02, in the event of the termination of this Agreement pursuant to Section 8.01, this Agreement shall forthwith become null and void and have no effect, without any liability on the part of ONB or TFC and each of their respective directors, officers, employees, advisors, agents, or shareholders and all rights and obligations of any party under this Agreement shall cease, except for the agreements contained in this Section 8.02 and Section 11.11, which shall remain in full force and

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effect and survive any termination of this Agreement; provided, however, that nothing contained in this Section 8.02(a), except for the fees payable pursuant to subsections (b), (c) or (d), shall relieve any party hereto from liabilities or damages arising out of any fraud or intentional breach by such party of any of its representations, warranties, covenants or other agreements contained in this Agreement.

(b) TFC shall pay to ONB an amount in cash equal to \$4,500,000 (the Termination Fee) if:

(i) this Agreement is terminated by ONB pursuant to Section 8.01(e); or

(ii) this Agreement is terminated by either party pursuant to Section 8.01(b)(i) as a result of the failure of TFC's shareholders to approve the Agreement and the Merger by the requisite vote or by ONB pursuant to Section 8.01(f) and, in each case, prior to the date that is twelve months after such termination TFC or any of its Subsidiaries enters into any Acquisition Agreement or any Acquisition Proposal is consummated (regardless of whether such Acquisition Proposal is made or consummated before or after termination of this Agreement), provided, however, that in such case TFC shall only be liable to pay ONB the amount of the Termination Fee less the amount of any ONB Expenses previously paid to ONB pursuant to Section 8.02(d) by TFC; or

(iii) this Agreement is terminated by either TFC or ONB pursuant to Section 8.01(b)(iii) and (A) prior to the date of such termination, an Acquisition Proposal was made, and (B) prior to the date that is twelve months after such termination, TFC or any of its Subsidiaries enters into any Acquisition Agreement or any Acquisition Proposal is consummated.

(c) Any fee due under Section 8.02(b) shall be paid by TFC by wire transfer of same day funds:

(i) in the case of Section 8.02(b)(i), concurrently with such termination; and

(ii) in the case of Section 8.02(b)(ii) or Section 8.02(b)(iii), on the earlier of the date TFC enters into such Acquisition Agreement or consummates such Acquisition Proposal.

(d) In the event that this Agreement is terminated by either party pursuant to Section 8.01(b)(i) as a result of the failure of TFC's shareholders to approve the Agreement and the Merger by the requisite vote or by ONB pursuant to Section 8.01(f) under circumstances in which the Termination Fee is not then payable pursuant to this Section 8.02, then TFC shall promptly (but in any event within two business days) following receipt of an invoice therefor all of ONB's actual and reasonably documented out of pocket fees and expenses (including reasonable legal fees and expenses) actually incurred by ONB and its affiliates on or prior to the termination of this Agreement in connection with the transactions contemplated by this Agreement (ONB Expenses) as directed by ONB in writing; provided, however, that the existence of circumstances which could require the Termination Fee to become subsequently payable by TFC pursuant to Section 8.02(b)(ii) shall not relieve TFC of its obligations to pay the ONB Expenses pursuant to this Section 8.02(d); and provided, further, that the payment by TFC

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of ONB Expenses pursuant to this Section 8.02(d) shall not relieve TFC of any subsequent obligation to pay the Termination Fee pursuant to Section 8.02(b) except to the extent indicated in Section 8.02(b)(ii).

(e) In the event that TFC owes the Termination Fee and/or fees and expenses to ONB pursuant Sections 8.02(b), then the payment of such amounts shall be the sole and exclusive remedy for those termination events and shall constitute liquidated damages. TFC acknowledges that the agreements contained in this Section 8.02 are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, ONB would not have entered into this Agreement. Accordingly, if TFC fails promptly to pay the amounts due pursuant to this Section 8.02, and, in order to obtain such payment, ONB commences a suit that results in a judgment against TFC for the amounts set forth in this Section 8.02, TFC shall pay to ONB its reasonable costs and expenses (including attorneys' fees and expenses) in connection with such suit and any appeal relating thereto, together with interest on the amounts set forth in this Section 8.02 at the national prime rate in effect on the date such payment was required to be made.

ARTICLE IX.

EFFECTIVE TIME OF THE MERGER

Upon the terms and subject to the conditions specified in this Agreement, the Merger shall become effective on the day and at the time (the Closing Date) specified in the Articles of Merger of ONB and TFC as filed with the Indiana Secretary of State (the Effective Time). Unless otherwise mutually agreed to by the parties hereto, the Effective Time will occur on the last business day of the month following (a) the fulfillment of all conditions precedent to the Merger set forth in Article VII of this Agreement and (b) the expiration of all waiting periods in connection with the bank regulatory applications filed for the approval of the Merger.

ARTICLE X.

CLOSING

10.01 Closing Date and Place. So long as all conditions precedent set forth in Article VII hereof have been satisfied and fulfilled, the closing of the Merger (the Closing) will take place at the Effective Time at a location to be reasonably determined by ONB.

10.02 Deliveries. (a) At the Closing, ONB will deliver to TFC the following:

(i) the officers' certificate contemplated by Section 7.02(g) hereof;

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- (ii) copies of all approvals by government regulatory agencies necessary to consummate the Merger;

- (iii) copies of the resolutions adopted by the Board of Directors of ONB certified by the Secretary of ONB relative to the approval of this Agreement and the Merger;

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- (iv) the tax opinion required by Section 7.01(h) hereof; and
- (v) such other documents as TFC or its legal counsel may reasonably request.
- (b) At the Closing, TFC will deliver to ONB the following:
 - (i) the officers certificate contemplated by Section 7.01(g) hereof;
 - (ii) copies of the resolutions adopted by the Board of Directors and shareholders of TFC certified by the Secretary of TFC relative to the approval of this Agreement and the Merger;
 - (iii) the opinion required by Section 7.01(i) hereof;
 - (iv) the tax opinion required by Section 7.02(h) hereof;
 - (v) a certification of the TFC Delinquent Loans by an officer of TFC;
 - (vi) a certification of the TFC Consolidated Shareholders Equity as of the end of the month prior to the Effective Time from TFC s outside, independent certified public accountants; and
 - (vii) other documents as ONB or its legal counsel may reasonably request.

ARTICLE XI.

MISCELLANEOUS

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11.01 Effective Agreement. This Agreement and the recitals hereof shall be binding upon and inure to the benefit of and be enforceable by the respective parties hereto and their respective successors and assigns; provided, however, that neither this Agreement nor any of the rights, interests or obligations of the respective parties hereto under this Agreement may be assigned by any party hereto without the prior written consent of the other parties hereto. The representations, warranties, covenants and agreements contained in this Agreement, as well as the documents and instruments referred to herein, are for the sole benefit of the parties hereto and their successors and assigns, and they will not be construed as conferring any rights on any other Persons, except for Sections 1.01(b) and 11.08 hereof, other than the right of TFC, on behalf of its shareholders, to pursue damages in the event of fraud or an intentional breach of this Agreement as provided in Section 8.02(a) hereof.

11.02 Waiver; Amendment. (a) The parties hereto may by an instrument in writing: (i) extend the time for the performance of or otherwise amend any of the covenants, conditions or agreements of the other parties under this Agreement; (ii) waive any inaccuracies in the representations or warranties of the other parties contained in this Agreement or in any document delivered pursuant hereto or thereto; (iii) waive the performance by the other parties of any of the covenants or agreements to be performed by it or them under this Agreement; or (iv) waive the satisfaction or fulfillment of any condition, the nonsatisfaction or nonfulfillment of which is a condition to the right of the party so waiving to consummate the Merger. The waiver by any

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party hereto of a breach of or noncompliance with any provision of this Agreement will not operate or be construed as a continuing waiver or a waiver of any other or subsequent breach or noncompliance hereunder.

(b) This Agreement may be amended, modified or supplemented only by a written agreement executed by the parties hereto.

11.03 Notices. All notices, requests and other communications hereunder will be in writing (which will include telecopier communication) and will be deemed to have been duly given if delivered by hand and receipted for, delivered by certified United States Mail, return receipt requested, first class postage pre-paid, delivered by overnight express receipted delivery service or telecopied if confirmed immediately thereafter by also mailing a copy of such notice, request or other communication by certified United States Mail, return receipt requested, with first class postage pre-paid as follows:

If to ONB:

with a copy to (which will not constitute notice):

Old National Bancorp
One Main Street
Evansville, Indiana 47708
ATTN: Jeffrey L. Knight, Executive
Vice President, Corporate Secretary
and Chief Legal Counsel
Fax: (812) 468-0399

Krieg DeVault LLP
One Indiana Square
Suite 2800
Indianapolis, Indiana 46204
ATTN: Michael J. Messaglia
Fax: (317) 636-1507

If to TFC:

with a copy to (which will not constitute notice):

Tower Financial Corporation
116 East Berry Street
Fort Wayne, Indiana 46802
ATTN: Michael D. Cahill
Fax: (260) 427-7180

Barrett & McNagny, LLP
215 East Berry Street
Fort Wayne, Indiana 46802
ATTN: Robert S. Walters
Samuel J. Talarico, Jr.
Fax: (260) 423-8920

or such substituted address or Person as any of them have given to the other in writing. All such notices, requests or other communications shall be effective: (a) if delivered by hand, when delivered; (b) if mailed in the manner provided herein, five (5) business days after deposit with the United States Postal Service; (c) if delivered by overnight express delivery service, on the next business day after deposit with such service; and (d) if by telecopier, on the next business day if also confirmed by mail in the manner provided herein.

11.04 Headings. The headings in this Agreement have been inserted solely for ease of reference and should not be considered in the interpretation or construction of this Agreement.

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11.05 Severability. In case any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement, but this Agreement shall be construed as if such invalid, illegal or unenforceable provision or provisions had never been contained herein.

11.06 Counterparts; Facsimile. This Agreement may be executed in any number of counterparts and by facsimile, each of which will be an original, but such counterparts shall together constitute one and the same instrument.

11.07 Governing Law; Enforcement; Specific Performance; Jury Trial. This Agreement shall be governed by and construed in accordance with the laws of the State of Indiana and applicable federal laws, without regard to principles of conflicts of law. The parties hereto hereby agree that all claims, actions, suits and proceedings between the parties hereto relating to this Agreement shall be filed, tried and litigated only in the Circuit or Superior Courts of Marion County, Indiana or the United States District Court for the Southern Division. In connection with the foregoing, the parties hereto consent to the jurisdiction and venue of such courts and expressly waive any claims or defenses of lack of personal jurisdiction of or proper venue by such courts. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement was not performed in accordance with its specific terms on a timely basis or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or other equitable relief to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court identified above, this being in addition to any other remedy to which they are entitled at law or in equity. *WAIVER OF JURY TRIAL. EACH OF THE PARTIES HEREBY WAIVES TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY, IN ANY MATTERS (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS AGREEMENT OR THE TRANSACTION AGREEMENTS.*

11.08 Indemnification. (a) All rights to indemnification and exculpation from liabilities for acts or omissions occurring at or prior to the Effective Time now existing in favor of the current or former directors or officers of TFC and its Subsidiaries as provided in its charters or by-laws and any existing indemnification agreements or arrangements of TFC described in the TFC Disclosure Schedule, shall survive the Merger and shall continue in full force and effect in accordance with their terms to the extent permitted by law, and shall not be amended, repealed or otherwise modified for a period of six (6) years after the Effective Time in any manner that would adversely affect the rights thereunder of such individuals for acts or omissions occurring or alleged to occur at or prior to the Effective Time.

(b) In the event of any threatened or actual claim, action, suit, proceeding or investigation, whether civil, criminal or administrative, including, without limitation, any such claim, action suit, proceeding or investigation in which any individual who is now, or has been at any time prior to the date of this Agreement, or who becomes prior to the Effective Time, a director or officer of TFC (the Indemnified Parties), is, or is threatened to be, made a party based in whole or in part on, or arising in whole or in part out of, or pertaining to (i) the fact that he is or was a director, officer or employee of TFC or its predecessors or (ii) this Agreement or

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any of the transactions contemplated hereby, whether in any case asserted or arising before or after the Effective Time, the parties hereto agree to cooperate and use their best reasonable efforts to defend against and respond thereto.

(c) ONB shall cause any successor, whether by consolidation, merger or transfer of substantially all of its properties or assets, to comply with its obligations under this Article. The provisions of this Article shall survive the Effective Time and are intended to be for the benefit of, and shall be enforceable by, each Indemnified Party and other Person named herein and his or her heirs and representatives.

11.09 Entire Agreement. This Agreement and the Exhibits hereto supersede all other prior or contemporaneous understandings, commitments, representations, negotiations or agreements, whether oral or written, among the parties hereto relating to the Merger or matters contemplated herein and constitute the entire agreement between the parties hereto, except as otherwise provided herein and except for the Confidentiality Agreement dated May 16, 2013, by and between TFC and ONB (the Confidentiality Agreement). Upon the execution of this Agreement by all the parties hereto, any and all other prior writings of either party relating to the Merger, will terminate and will be rendered of no further force or effect. The parties hereto agree that each party and its counsel reviewed and revised this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party will not be employed in the interpretation of this Agreement or any amendments or exhibits hereto.

11.10 Survival of Representations, Warranties or Covenants. Except as set forth in the following sentence, none of the representations, warranties or covenants of the parties will survive the Effective Time or the earlier termination of this Agreement, and thereafter ONB, TFC and all the respective directors, officers and employees of ONB and TFC will have no further liability with respect thereto. The covenants contained in Section 8.02 shall survive termination of this Agreement. The covenants contained in Sections 1.01(b) and 11.08 shall survive the Effective Time.

11.11 Expenses. Except as provided elsewhere in this Agreement, each party to this Agreement shall pay its own expenses incidental to the Merger contemplated hereby.

11.12 Certain References. Whenever in this Agreement a singular word is used, it also will include the plural wherever required by the context and vice-versa, and the masculine or neuter gender shall include the masculine, feminine and neuter genders. Except expressly stated otherwise, all references in this Agreement to periods of days shall be construed to refer to calendar, not business, days. The term business day will mean any day except Saturday and Sunday when Old National Bank, in Evansville, Indiana, is open for the transaction of business.

11.13 Disclosure Schedules. The mere inclusion of an item in a party's Disclosure Schedule as an exception to a representation or warranty shall not be deemed an admission by such party that such item represents a material exception or fact, event or circumstance or that such item is reasonably likely to result in a Material Adverse Effect. Further, while each party will use commercially reasonable efforts to specifically reference each Section of this Agreement under which such disclosure is made pursuant to such party's Disclosure Schedule, any information disclosed with respect to one Section shall not be deemed to be disclosed for

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purposes of any other Section of this Agreement in such party's Disclosure Schedule unless it is reasonably apparent the disclosed information relates to another Section or Sections of this Agreement notwithstanding the absence of a specific cross-reference.

[Signature Page Follows]

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IN WITNESS WHEREOF, ONB and TFC have made and entered into this Agreement as of the day and year first above written and have caused this Agreement to be executed, attested in counterparts and delivered by their duly authorized officers.

OLD NATIONAL BANCORP

By: /s/ Robert G. Jones
Robert G. Jones, President and
Chief Executive Officer

TOWER FINANCIAL CORPORATION

By: /s/ Michael D. Cahill
Michael D. Cahill, President and
Chief Executive Officer

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Annex B

September 9, 2013

The Board of Directors

Tower Financial Corporation

116 East Berry Street

Fort Wayne, IN 46802

Members of the Board:

You have requested the opinion of Keefe, Bruyette & Woods, Inc. (KBW or we) as investment bankers as to the fairness, from a financial point of view, to Tower Financial Corporation (Tower) of the per share Merger Consideration (as defined below) in the proposed merger (the Merger) of Tower with and into Old National Bancorp (Old National). The terms of the Merger are set forth in the draft Agreement and Plan of Merger, dated as of September 6, 2013 (the most recent draft made available to us), between Tower and Old National (the Agreement). Pursuant to the terms of the Agreement, each outstanding share of common stock, no par value per share, of Tower not owned by Tower or Old National (other than shares owned in a fiduciary or agency capacity or as a result of debts previously contracted) shall be converted into the right to receive (a) \$6.75 per share in cash (the Cash Consideration); and (b) 1.2 shares of common stock, no par value per share, of Old National, (the Stock Consideration) and collectively with the Cash Consideration, the Merger Consideration , subject to terms as more fully described in the Agreement.

KBW has acted as financial advisor to Tower and not as an advisor to or agent of any other person. As part of our investment banking business, we are continually engaged in the valuation of bank and bank holding company securities in connection with acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for various other purposes. As specialists in the securities of banking companies, we have experience in, and knowledge of, the valuation of banking enterprises. In the ordinary course of our business as a broker-dealer, we may, from time to time purchase securities from, and sell securities to, Tower and Old National, and as a market maker in securities, we may from time to time have a long or short position in, and buy or sell, debt or equity securities of Tower and Old National for our own account and for the accounts of our customers. To the extent we have any such position as of the date of this opinion it has been disclosed to Tower. We have acted exclusively for the Board of Directors of Tower in rendering this fairness opinion and will receive a fee from Tower for our services. A portion of our fee is contingent upon the successful completion of the Merger. In addition, Tower has agreed to indemnify us for certain liabilities arising out of our engagement.

Explanation of Responses:

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In the past two years, we have not provided investment banking and financial advisory services to Tower or Old National. We may in the future provide investment banking and financial advisory services to Old National and receive compensation for such services.

Keefe, Bruyette & Woods, Inc. • 501 North Broadway, St. Louis, MO 63102

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In connection with this opinion, we have reviewed, analyzed and relied upon material bearing upon the financial and operating condition of Tower and Old National and the Merger, including among other things, the following: (i) a draft of the Agreement dated September 6, 2013 (the most recent draft made available to us); (ii) the Annual Report to Shareholders for the year ended December 31, 2012 and Annual Reports on Form 10-K for the three years ended December 31, 2012 of Tower; (iii) the Annual Reports to Shareholders and Annual Reports on Form 10-K for the three years ended December 31, 2012 of Old National; (iv) certain interim reports to shareholders and the Quarterly Reports on Form 10-Q for the three months ended March 31, 2013 and the three months ended June 30, 2013 of Tower and Old National, and certain other communications from Tower and Old National to their respective shareholders; and (v) other financial information concerning the businesses and operations of Tower and Old National furnished to us by Tower and Old National for purposes of our analysis. Our consideration of financial information and other factors that we deemed appropriate under the circumstances or relevant to our analyses included, among others, the following: (i) the historical and current financial position and results of operations of Tower and Old National; (ii) the assets and liabilities of Tower and Old National; (iii) the nature and terms of certain other merger transactions and business combinations in the banking industry; (iv) a comparison of certain financial and stock market information for Tower and Old National with similar information for certain other companies the securities of which are publicly traded. We have also performed such other studies and analyses as we considered appropriate and have taken into account our assessment of general economic, market and financial conditions and our experience in other transactions, as well as our experience in securities valuation and knowledge of the banking industry generally. We have also held discussions with senior management of Tower regarding the past and current business operations, regulatory relations, financial condition and future prospects of the Company and such other matters as we have deemed relevant to our inquiry.

In conducting our review and arriving at our opinion, we have relied upon and assumed the accuracy and completeness of all of the financial and other information provided to us or publicly available and we have not independently verified the accuracy or completeness of any such information or assumed any responsibility or liability for such verification, accuracy or completeness. We have relied upon the management of Tower and Old National as to the reasonableness and achievability of the financial and operating forecasts and projections (and the assumptions and bases therefor, including but not limited to any potential cost savings and operating synergies) prepared by and provided to us by management of Tower and Old National, and we have assumed, at the direction of Tower and Old National that such forecasts and projections reflect the best currently available estimates and judgments of such managements and that such forecasts and projections will be realized in the amounts and in the time periods currently estimated by such managements and that they provide a reasonable basis upon which we could form our opinion. Such forecasts and projections were not prepared with the expectation of public disclosure. All such projected financial information is based on numerous variables and assumptions that are inherently uncertain, including, without limitation, factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from those set forth in such projected financial information. We have relied on this projected information without independent verification or analysis and do not in any respect assume any responsibility or liability for the accuracy of completeness thereof.

We also assumed that there were no material changes in the assets, liabilities, financial condition, results of operations, business or prospects of either Tower or Old National since the date of the last financial statements of each such entity that were made available to us. We are not experts in the independent verification of the adequacy of allowances for loan and lease losses and we have assumed, without independent verification and with your consent that the aggregate allowances for loan and lease losses for Tower and Old National are adequate to cover such losses. In rendering our opinion, we have not made or obtained any evaluations or appraisals or physical inspection of the property, assets or liabilities of Tower or Old National, the collateral securing any of such assets or liabilities, or the collectability of any such assets, nor have we examined any individual loan or

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credit files, nor did we evaluate the solvency, financial capability or fair value of Tower or Old National under any state or federal laws, including those relating to bankruptcy, insolvency or other matters. Estimates of values of companies and assets do not purport to be appraisals or necessarily reflect the prices at which companies or assets may actually be sold. Because such estimates are inherently subject to uncertainty, we assume no responsibility or liability for their accuracy.

We have assumed that, in all respects material to our analyses, the following: (i) the Merger will be completed substantially in accordance with the terms set forth in the Agreement (the final terms of which will not differ in any respect material to our analyses from the draft reviewed) with no additional payments or adjustments to the per share Merger Consideration; (ii) the representations and warranties of each party in the Agreement and in all related documents and instruments referred to in the Agreement are true and correct; (iii) each party to the Agreement and all related documents will perform all of the covenants and agreements required to be performed by such party under such documents; (iv) all conditions to the completion of the Merger will be satisfied without any waivers or modifications to the Agreement; and (v) in the course of obtaining the necessary regulatory, contractual, or other consents or approvals for the Merger, no restrictions, including any divestiture requirements, termination or other payments or amendments or modifications, will be imposed that will have a material adverse effect on the future results of operations or financial condition of the combined entity or the contemplated benefits of the Merger, including the cost savings, revenue enhancements and related expenses expected to result from the Merger. We have assumed that the Merger will be consummated in a manner that complies with the applicable provisions of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and all other applicable federal and state statutes, rules and regulations. We have further assumed that Tower has relied upon the advice of its counsel, independent accountants and other advisors (other than KBW) as to all legal, financial reporting, tax, accounting and regulatory matters with respect to Tower, the Merger and the Agreement.

This opinion addresses only the fairness, from a financial point of view, as of the date hereof, of the per share Merger Consideration in the Merger to Tower. We express no view or opinion as to any terms or other aspects of the Merger, including without limitation, the form or structure of the Merger, any consequences of the Merger on Tower, its shareholders, creditors or otherwise, or any terms, aspects or implications of any voting, support, shareholder or other agreements, arrangements or understandings contemplated or entered into in connection with the Merger or otherwise. Our opinion is necessarily based upon conditions as they exist and can be evaluated on the date hereof and the information made available to us through the date hereof. It is understood that subsequent developments may affect the conclusion reached in this opinion and that KBW does not have an obligation to update, revise or reaffirm this opinion. Our opinion does not address, and we express no view or opinion with respect to, (i) the underlying business decision of Tower to engage in the Merger or enter into the Agreement, (ii) the relative merits of the Merger as compared to any strategic alternatives that are, have been or may be available to or contemplated by Tower or the Tower board of directors, (iii) the fairness of the amount or nature of any compensation to any of Tower's officers directors or employees, or any class of such persons, relative to the compensation to the public shareholders of Tower, (iv) the effect of the Merger on, or the fairness of the consideration to be received by, holders of any class of securities of Tower or any other party to any transaction contemplated by the Agreement, (v) any advice or opinions provided by any other advisor to any of the parties to the Merger or any other transaction contemplated by the Agreement, or (vi) any legal, regulatory, accounting, tax or similar matters relating to Tower, Old National, their respective shareholders, or relating to or arising out of the Merger, including whether or not the Merger would qualify as a tax-free reorganization for United States federal income tax purposes.

This opinion is solely for the information of, and directed to, the Tower board of directors for its information and assistance in connection with its consideration of the financial terms of the Merger and is not to be

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relied upon by any shareholder of Tower or Old National or any other person or entity. This opinion does not constitute a recommendation to the Tower board of directors as to how it should vote on the Merger or to any shareholder of Tower or Old National as to how any such shareholder should vote at any shareholders meeting at which the Merger is considered, or whether or not any shareholder of Tower or Old National should enter into a voting, shareholders agreement with respect to the Merger or exercise any dissenters or appraisal rights that may be available to such shareholder. In addition, this opinion does not in any manner address the prices at which the Old National common stock will trade following the announcement or consummation of the Merger.

This opinion has been reviewed and approved by our Fairness Opinion Committee in conformity with our policies and procedures established under the requirements of Rule 5150 of the Financial Industry Regulatory Authority. This opinion may not be published or otherwise used or referred to, nor shall any public reference to KBW be made, without our prior written consent.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the per share Merger Consideration in the Merger is fair, from a financial point of view, to Tower.

Very truly yours,

Keefe, Bruyette & Woods, Inc.

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 20. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Old National Bancorp (Old National) is an Indiana corporation. Old National's officers and directors are and will be indemnified under Indiana law, the Amended and Restated Articles of Incorporation and the Amended and Restated By-laws of Old National against certain liabilities. Chapter 37 of The Indiana Business Corporation Law (the IBCL) requires a corporation, unless limited by its articles of incorporation, to indemnify a director or an officer of the corporation who is wholly successful, on the merits or otherwise, in the defense of any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, or investigative and whether formal or informal, against reasonable expenses, including counsel fees, incurred in connection with the proceeding. Old National's Articles of Incorporation do not contain any provision limiting such indemnification.

The IBCL also permits a corporation to indemnify a director, officer, employee, or agent who is made a party to a proceeding because the person was a director, officer, employee, or agent of the corporation against liability incurred in the proceeding if (i) the individual's conduct was in good faith, and (ii) the individual reasonably believed (A) in the case of conduct in the individual's official capacity with the corporation, that the conduct was in the corporation's best interests, and (B) in all other cases, that the individual's conduct was at least not opposed to the corporation's best interests, and (iii) in the case of a criminal proceeding, the individual either (A) had reasonable cause to believe the individual's conduct was lawful, or (B) had no reasonable cause to believe the individual's conduct was unlawful. The IBCL also permits a corporation to pay for or reimburse reasonable expenses incurred before the final disposition of the proceeding and permits a court of competent jurisdiction to order a corporation to indemnify a director or officer if the court determines that the person is fairly and reasonably entitled to indemnification in view of all the relevant circumstances, whether or not the person met the standards for indemnification otherwise provided in the IBCL.

Old National's Amended and Restated Articles of Incorporation require it to provide indemnification to its officers and directors to the fullest extent authorized by the IBCL and to pay for or reimburse reasonable expenses incurred before the final disposition of the proceeding as authorized by the IBCL. Old National's Amended and Restated Articles of Incorporation also authorize it to maintain insurance at its expense to protect itself and any of its directors, officers, employees or agents or those of another corporation, partnership, joint venture, trust, or other entity against expense, liability or loss, whether or not Old National would have the power to indemnify such person against such expense, liability or loss under the IBCL. Old National currently maintains officer and director liability insurance.

Old National's By-laws contain indemnification provisions to substantially the same effect as in the Amended Restated Articles of Incorporation.

ITEM 21. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits

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The following exhibits are filed with this Registration Statement:

- 2 Agreement and Plan of Merger between Old National Bancorp and Tower Financial Corporation and (included as Annex A to this proxy statement/prospectus).
- 3.1 Articles of Incorporation of Old National Bancorp (incorporated by reference to Exhibit 3.1 of Old National's Annual Report on Form 8-K filed on October 28, 2013).
- 3.2 By-laws of Old National Bancorp (incorporated by reference to Exhibit 3.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 23, 2009).
- 5 Opinion of Krieg DeVault LLP regarding legality of the securities being registered.
- 8 Opinion of Krieg DeVault LLP regarding tax matters.
- 21 Subsidiaries of Old National Bancorp (incorporated by reference to Exhibit 21 of Old National's Annual Report on Form 10-K for the year-ended December 31, 2012).

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- 23.1 Consent of BKD LLP.
- 23.2 Consent of Crowe Horwath LLP.
- 23.3 Consent of Crowe Horwath LLP.
- 23.4 Consent of Krieg DeVault LLP (included in Exhibits 5 and 8).
- 23.5 Consent of Keefe, Bruyette & Woods, a Stifel Company.
- 24 Powers of Attorney.
- 99.1 Form of Tower Financial Corporation proxy card.
- 99.2 Voting Authorization Form of Tower Financial Corporation

(a) The undersigned registrant hereby undertakes:

(1) The undersigned registrant hereby undertakes as follows: that prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this registration statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other Items of the applicable form.

(2) The registrant undertakes that every prospectus (i) that is filed pursuant to paragraph (1) immediately preceding, or (ii) that purports to meet the requirements of section 10(a)(3) of the Securities Act of 1933 and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the registration statement and will not be used until such amendment is effective, and that, for the purposes of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(b) For purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) The registrant hereby undertakes to deliver or cause to be delivered with the prospectus, to each person to whom the prospectus is sent or given, the latest annual report to security holders that is incorporated by reference in the prospectus and furnished pursuant to and meeting the requirements of Rule 14a-3 or Rule 14c-3 under the Securities Exchange Act of 1934; and, where interim financial information required to be presented by Article 3 of Regulation S-X are not set forth in the prospectus, to deliver, or cause to be delivered to each person to whom the prospectus is sent or given, the latest quarterly report that is specifically incorporated by reference in the prospectus to provide such interim financial information.

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(d) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

(e) The undersigned registrant hereby undertakes to respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11 or 13 of this Form, within one business day of receipt of such

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request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

(f) The undersigned registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and TFC being acquired involved therein, that was not the subject of, and included in the registration statement when it became effective.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Evansville, Indiana, on the 5th day of December, 2013.

OLD NATIONAL BANCORP

By: /s/ Robert G. Jones
Robert G. Jones
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities indicated as of 5th day of December, 2013.

By: /s/ Alan W. Braun* Alan W. Braun, Director	By: /s/ Arthur H. McElwee Jr.* Arthur H. McElwee Jr., Director
By: /s/ Larry E. Dunigan* Larry E. Dunigan, Chairman of the Board of Directors	By: /s/ James T. Morris* James T. Morris, Director
By: /s/ Niel C. Ellerbrook* Niel C. Ellerbrook, Director	By: /s/ Randall T. Shepard* Randall T. Shepard, Director
By: /s/ Andrew E. Goebel* Andrew E. Goebel, Director	By: /s/ Becky Skillman* Becky Skillman, Director
By: /s/ Robert G. Jones* Robert G. Jones, Director, President and Chief Executive Officer (Principal Executive Officer)	By: /s/ Kelly N. Stanley* Kelly N. Stanley, Director
By: /s/ Phelps L. Lambert* Phelps L. Lambert, Director	By: /s/ Linda E. White* Linda E. White, Director
By: /s/ Joan M. Kissel Joan M. Kissel, Senior Vice President and Corporate Controller (Principal Accounting Officer)	By: /s/ Christopher A. Wolking Christopher A. Wolking, Senior Executive Vice President Chief Financial Officer (Principal Financial Officer)
By: /s/ Jeffrey L. Knight Jeffrey L. Knight, Attorney-in-Fact	

