Form **8937** (December 2011) Department of the Treasury Internal Revenue Service

# Report of Organizational Actions Affecting Basis of Securities

▶ See separate instructions.

OMB No. 1545-2224

## Part I Reporting Issuer

| | | | |
|---|---|---|---|
| 1 Issuer's name<br>MainSource Financial Group, Inc. | | | 2 Issuer's employer identification number (EIN)<br>35-1562245 |
| 3 Name of contact for additional information<br>James M. Anderson | 4 Telephone No. of contact<br>812-663-6734 | | 5 Email address of contact<br>janderson@mainsourcefinancial.com |
| 6 Number and street (or P.O. box if mail is not delivered to street address) of contact<br>2105 North State Road 3, Bypass | | | 7 City, town, or post office, state, and Zip code of contact<br>Greensburg, Indiana 47240 |
| 8 Date of action<br>May 20, 2016 | 9 Classification and description<br>Common Stock | | |
| 10 CUSIP number<br>56062Y102 | 11 Serial number(s)<br>N/A | 12 Ticker symbol<br>MSFG | 13 Account number(s)<br>N/A |

## Part II Organizational Action Attach additional statements if needed. See back of form for additional questions.

14 Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ▶ See Attached Statement

15 Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ▶ See Attached Statement

16 Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ▶ See Attached Statement

**Part II** **Organizational Action** (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶ See Attached Statement

18 Can any resulting loss be recognized? ▶ See Attached Statement

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ See Attached Statement

**Sign Here**

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Signature ▶ James M. Anderson Date ▶ 6/30/12

Print your name ▶ James M. Anderson Title ▶ Executive Vice President & CFO

**Paid Preparer Use Only**

| Print/Type preparer's name | Preparer's signature | Date | Check ☐ if self-employed | PTIN |
|---|---|---|---|---|
| | | | | |
| Firm's name ▶ | | | Firm's EIN ▶ | |
| Firm's address ▶ | | | Phone no. | |

Send Form 8937 (including accompanying statements) to: Department of the Treasury, Internal Revenue Service, Ogden, UT 84201-0054

**ATTACHMENT TO FORM 8937**
**REPORT OF ORGANIZATIONAL ACTIONS AFFECTING BASIS OF SECURITIES**

**MainSource Financial Group, Inc.**
**EIN: 35-1562245**

**Part II, Line 14:**

On May 20, 2016, Cheviot Financial Corp. ("Cheviot") was merged with and into MainSource Financial Group, Inc. ("MainSource"), with MainSource as the surviving entity, pursuant to the terms and conditions of the Agreement and Plan of Merger dated November 23, 2015 by and between Cheviot and MainSource ("Merger Agreement")

**Part II, Line 15:**

As a result of the Merger, each outstanding share of common stock of Cheviot was converted into the right to receive, either (i) 0.6916 shares of MainSource common stock ("Stock Consideration") plus cash in lieu of any fractional shares of MainSource common stock, or (ii) $15.00 in cash ("Cash Consideration"), subject to the proration and allocation procedures requiring that 50% of the shares of Cheviot common stock outstanding immediately prior to the completion of the Merger be exchanged for MainSource common stock. Cash was paid in lieu of fractional shares of MainSource common stock based on a price of $21.24 per share.

Each stockholder that received Stock Consideration will allocate basis between each share of common stock of Cheviot converted into the Stock Consideration. The Cash Consideration received for each share of common stock of Cheviot represents a reduction in the stockholders' basis as a return of capital.

**Part II, Line 16:**

The Merger should qualify as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code").

The effect of the Merger on the tax basis of Cheviot common stock held by Cheviot stockholders depends primarily on whether the shares were exchanged (i) solely for MainSource common stock, (ii) solely for cash, or (iii) for a combination of MainSource common stock and cash, and is summarized as follows:

<u>Cheviot Stockholders Who Received Only Stock</u>. The tax basis of the shares of MainSource common stock received by a Cheviot stockholder who received solely MainSource common stock in exchange for the stockholder's Cheviot common stock will be equal (except for the basis attributable to any fractional shares of MainSource common stock, as discussed below) to the basis of the Cheviot common stock surrendered in exchange for the MainSource common stock in the Merger.

<u>Cheviot Stockholders Who Received Only Cash</u>. A Cheviot stockholder who received solely cash in exchange for all of the stockholder's Cheviot common stock as a result of the Merger will

be treated as having received full payment for the stockholder's Cheviot common stock. Consequently, since the stockholder did not receive any MainSource common stock, there will be no new basis to compute.

Cheviot Stockholders Who Received MainSource Common Stock and Cash. The tax basis of the shares of MainSource common stock received by a Cheviot stockholder who receives a combination of MainSource common stock and cash in exchange for the stockholder's Cheviot common stock will be the same as the basis of the shares of Cheviot common stock surrendered in exchange for the shares of MainSource common stock, plus any gain recognized by such stockholder in the Merger, and minus any cash received by the stockholder in the Merger.

Cheviot Stockholders Who Received Cash in Lieu of Fractional Shares. A Cheviot stockholder who received cash in lieu of a fractional share interest in MainSource common stock will be treated as having received such cash in full payment for such fractional share of common stock. Consequently, since the stockholder did not receive MainSource common stock in exchange for the fractional share interest, there will be no new basis to compute.

As reported by NASDAQ, the closing price of a share of MainSource common stock on May 20, 2016, the Closing Date of the Merger, was $21.85.

The basis of MainSource shares received, once computed as per above, must be allocated to the individual MainSource shares received in accordance with Treasury Regulation §1.358-2(a). See also Proposed Treasury Regulation §1.358-2(b). Since fewer shares of MainSource common stock were received than shares of Cheviot common stock surrendered, the basis of the Cheviot shares surrendered must be allocated to the shares of MainSource stock received in a manner that reflects, to the greatest extent possible, that a share of MainSource stock received is received in respect of Cheviot shares of stock that were acquired on the same date and at the same price. To the extent it is not possible to allocate basis in this manner, the basis of the Cheviot shares surrendered must be allocated to the shares of MainSource stock received in a manner that minimizes the disparity in the holding periods of the surrendered shares whose basis is allocated to any particular MainSource share received. This could result in a single share of MainSource stock having a split basis and a split holding period. See Example (14) of Treasury Regulation §1.358-2(c) for an illustration of this principle.

**Part II, Line 17:**

The acquisition of Cheviot by MainSource should qualify as a tax-free reorganization within the meaning of Section 368(a) of the Code. In general, the federal income tax consequences to the Cheviot stockholders are determined under Code Sections 354, 356, 358, 368(a), 1001, 1011 and 1221.

**Part II, Line 18:**

In general, each Cheviot stockholder who received MainSource common stock and cash for all of the stockholder's Cheviot common stock cannot recognize any loss. A Cheviot stockholder who received solely cash in exchange for all of the stockholder's Cheviot common stock or cash in lieu of a fractional share of MainSource common stock may recognize loss if the amount of cash received is less than the tax basis in the stockholder's Cheviot common stock, or fractional share, as applicable.

**Part II, Line 19:**

In general, any adjustment to the tax basis that causes gain or loss recognized by the Cheviot stockholder as a result of the completion of the Merger should be reported for the taxable year which includes May 20, 2016 (e.g., a calendar year stockholder should report the transaction on the stockholder's federal income tax return filed for the 2016 calendar year).

For additional information, please refer to the full text of the Merger Agreement, which is included as Annex A to the Proxy Statement/Prospectus filed by MainSource with the U.S. Securities and Exchange Commission on February 11, 2016.

**No ruling from the Internal Revenue Service ("IRS") has been requested, or will be obtained, regarding the federal income tax consequences of the Merger described in this attachment. This attachment is not binding on the IRS and the IRS and the courts could disagree with one or more of the positions described herein.**

**The above information does not constitute tax advice. It does not address the tax consequences that may apply to any particular shareholder and each shareholder is urged to consult his or her own tax advisor regarding the tax consequences of the Merger.**