

1911-2011

Celebrating 100 Years of Community Banking



## To Our Shareholders, Customers, and Friends:



**Tiney M. McComb**  
Chairman & CEO  
of Heartland BancCorp  
Chairman of  
Heartland Bank

This year we set out to celebrate 100 years of community banking and what a celebration and successful year it was! We were reassured of the dedication of our clients as they came to our branch birthday parties and Client Power Breakfasts. In September, we commemorated the history of our institution and memorialized the people and events of the past 100 years by unveiling the Heartland History Wall in the rotunda of the corporate office. Here you will see the founders of the Croton Banking Company, our first location, and many other images of 100 years of Heartland. This year we were constantly reminded of the quality of our people through our clients and shareholders, who were proud to point out and congratulate their Heartland Community Banker. Most importantly we were reassured that community banking is here to stay in America and especially here in the heartland. This coupled with the best earnings year ever for Heartland BancCorp solidifies our business model, and sets the stage for the next century for Heartland. Thank you to all of our clients who made the effort to come to our celebrations and congratulations on your Centennial!

Two thousand and eleven was a year of accomplishments for Heartland Bank and Heartland BancCorp. Heartland broke into the top 100 community banks in the country, as listed by U.S. Banker Magazine, based on ROAE (Return On Average Equity), coming in at #97 out of 7,500. This is an improvement over the 112th ranking the bank had in 2010. Heartland was recognized as one of the top SBA lenders in Columbus, coming in at #3 just behind a few national

competitors. We were also the first Central Ohio based bank to offer an iPhone and Android mobile banking application, further showing our commitment to technology. These honors and recognitions reflect the strength of your community bank, and the dedication of the team members who make these accomplishments possible.

We were hard at work in the communities we serve once again this year through many events and promotions. Our 4th Annual Money Matters Financial Summit helped promote financial literacy while, at the same time, introducing consumers and businesses alike to the community banking model. The bank was able to honor the men and women of America's Military by supporting the USO through the Gahanna Freedom Festival. Over ten thousand people were in attendance at the fireworks celebration, which would not have been possible without our involvement. The bank sponsored several other events and festivals in the communities we serve further demonstrating our local marketing efforts and volunteerism. I am particularly proud of our Heartland Charity Golf Classic which in 2011 reached a collective \$250,000 of funds raised and deployed to local charities for the development of children.

The Regulation Overhaul through the Dodd Frank Wall Street Reform Act continues to impact the industry and change the way banks do business with their clients. While many of the provisions of the Act do not effect community banking, others do and their impacts are yet to be determined. The changes in FDIC insurance premium calculations have had a positive effect on banks who are not highly leveraged and fund their balance sheets with local deposits. At the same time other provisions as well as regulatory interpretation of these new rules will have an effect on the industry. While the economy has not performed at optimum levels, we have made the commitment to stand behind our clients. Many businesses are still adjusting to the "New Economy" and we have been right there with them with education and advice to make sure they can rightly size their enterprise for success in this harsh and changing environment.

Our outlook for the coming year and the economy is more positive than in the immediate past and we indeed hope that the Nation can get back on track and address some of the key issues that caused the events of the past few years. Now here are the financial highlights of 2011.



The 2011 Unveiling of Our History Wall



*Tiney and Scott McComb  
at the 2011 Heartland  
Charity Golf Classic.*



*Offering our support along side  
the USO at the 2011 Gahanna  
Freedom Festival.*



*Scott McComb handing off the  
mic at the 4th Annual Money  
Matters Financial Summit.*

**Heartland BancCorp**  
**Consolidated Balance Sheets**  
**December 31, 2011 and 2010**

<b>Assets</b>	<b>2011</b>	<b>2010</b>
Cash and cash equivalents	\$ 25,478,749	\$ 7,825,727
Available-for-sale securities	130,740,499	115,223,173
Held-to-maturity securities	8,522,755	5,756,962
Loans, net of allowance for loan losses of \$4,016,082 and \$3,871,640 at December 31, 2011 and 2010, respectively	387,390,610	387,867,015
Premises and equipment	10,033,014	9,479,273
Federal Reserve and Federal Home Loan Bank stock	1,230,650	1,230,450
Foreclosed assets held for sale	2,029,957	2,615,688
Interest receivable	1,866,830	1,804,636
Goodwill	417,353	417,353
Prepaid FDIC insurance premium	1,305,828	1,770,653
Other	2,022,439	2,756,864
<b>Total assets</b>	<b>\$ 571,038,684</b>	<b>\$ 536,747,794</b>

**Liabilities and Shareholders' Equity**

**Liabilities**

Deposits

Demand	\$ 62,561,713	\$ 50,519,453
Savings, NOW and money market	173,901,359	159,720,953
Time	252,815,732	251,484,773

Total deposits 489,278,804 461,725,179

Short-term borrowings	24,725,158	23,500,430
Long-term debt	3,093,000	3,093,000
Interest payable and other liabilities	3,186,227	3,185,929

Total liabilities 520,283,189 491,504,538

**Shareholders' Equity**

Common stock, without par value; authorized  
5,000,000 shares; issued 2011 - 1,537,832 shares,  
2010 - 1,535,832 shares

	23,071,097	23,047,347
Retained earnings	24,370,699	21,282,467
Accumulated other comprehensive income	3,313,699	913,442

Total shareholders' equity 50,755,495 45,243,256

Total liabilities and shareholders' equity \$ 571,038,684 \$ 536,747,794

**Heartland BancCorp**  
**Consolidated Statements of Income**  
**Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Interest Income</b>		
Loans	\$ 22,823,350	\$ 23,893,785
Securities		
Taxable	2,284,007	2,676,959
Tax-exempt	1,677,482	1,394,671
Other	36,849	44,540
Federal funds sold	112	161
Total interest income	<u>26,821,800</u>	<u>28,010,116</u>
<b>Interest Expense</b>		
Deposits	5,305,838	7,244,675
Borrowings	388,194	382,357
Total interest expense	<u>5,694,032</u>	<u>7,627,032</u>
<b>Net Interest Income</b>	21,127,768	20,383,084
<b>Provision for Loan Losses</b>	2,589,000	1,921,000
<b>Net Interest Income After Provision for Loan Losses</b>	<u>18,538,768</u>	<u>18,462,084</u>
<b>Noninterest Income</b>		
Service charges	2,119,528	2,287,251
Net gains and commissions on loan sales	52,746	99,020
Net realized gains on sales of available-for-sale securities	10,265	274,350
Net realized (losses) gains on sales of foreclosed assets	37,117	(373,261)
Gains on sale of premises and equipment	93,446	-
Other	713,915	445,295
Total noninterest income	<u>3,027,017</u>	<u>2,732,655</u>
<b>Noninterest Expense</b>		
Salaries and employee benefits	8,297,596	8,030,257
Net occupancy and equipment expense	1,612,633	1,828,933
Data processing fees	806,668	754,310
Professional fees	621,853	616,568
Marketing expense	394,054	407,902
Printing and office supplies	207,272	220,232
State franchise taxes	550,335	539,393
FDIC Insurance premiums	493,000	908,756
Other	1,666,890	1,565,490
Total noninterest expense	<u>14,650,301</u>	<u>14,871,841</u>
Income Before Income Tax	6,915,484	6,322,898
Provision for Income Taxes	1,846,799	1,753,258
Net Income	<u>\$ 5,068,685</u>	<u>\$ 4,569,640</u>
Basic Earnings Per Share	<u>\$ 3.30</u>	<u>\$ 2.98</u>
Diluted Earnings Per Share	<u>\$ 3.27</u>	<u>\$ 2.96</u>

**Heartland Locations**

**CORPORATE OFFICE**  
850 North Hamilton Road  
Gahanna, Ohio 43230  
(614) 337-4600

**COLUMBUS**  
CAPITOL SQUARE  
65 East State Street  
Columbus, Ohio 43215  
(614) 416-0244

**CROTON**  
12 North Main Street  
Croton, Ohio 43013  
(740) 893-2191

**DUBLIN**  
6500 Frantz Road  
Dublin, Ohio 43017  
(614) 798-8818

**FRIENDSHIP VILLAGE OF DUBLIN**  
6000 Riverside Drive  
Dublin, Ohio 43017  
(614) 923-0575

**GAHANNA**  
850 North Hamilton Road  
Gahanna, Ohio 43230  
(614) 337-4605

**GAHANNA**  
NORTH STYGLER ROAD  
67 North Stygler Road  
Gahanna, Ohio 43230  
(614) 475-7024

**GROVE CITY**  
2365 Old Stringtown Road  
Grove City, Ohio 43123  
(614) 875-1884

**JOHNSTOWN**  
730 West Coshocton Street  
Johnstown, Ohio 43031  
(740) 967-6500

**NEWARK**  
6 North Park Place  
Newark, Ohio 43055  
(740) 349-7888

**REYNOLDSBURG**  
6887 East Main Street  
Reynoldsburg, Ohio 43068  
(614) 416-0400

**WEST COLUMBUS**  
130 North Wilson Road  
Columbus, Ohio 43204  
(614) 351-2100

**WESTERVILLE**  
450 South State Street  
Westerville, Ohio 43081  
(614) 839-2265

*Since 1911*

## [ 2011 Financial Review ]

2011 will undoubtedly be remembered as another year of challenge and opportunity for Heartland BancCorp as well as the banking industry. The economy and its ongoing impact on interest rates and record levels of unemployment continued to negatively impact consumer confidence and ultimately lower levels of business spending and investment. With these factors in mind we are pleased to report that we achieved record earnings for 2011, our 100th anniversary year. Net income for 2011 increased 11% to \$5.1 million or \$3.27 per share compared to earnings of \$4.6 million or \$2.96 per share for 2010. Earnings in 2011 reflect higher net interest income and lower non-interest expense. The primary source of Heartland BancCorp's revenue is net interest income from its investment and loan portfolios less its cost of deposits and borrowings. Net interest income before provision for loan loss for 2011 grew 4% to \$21.1 million compared to \$20.4 million for 2010. Provision for loan loss of \$2.6 million for 2011 compared to \$1.9 million for 2010. The higher provision expense was used to increase the allowance for loan loss in 2011, and provided for a higher level of loan charge-offs. Higher net interest income for 2011 resulted from the combined effect of a 26% decline in the Bank's cost of funds less a 7% drop in the yield on earning assets. Lower funding cost resulted from a positive shift in deposit mix to lower cost non-interest bearing transaction and money market accounts that increased by 24% and 9% respectively, while higher cost certificate of deposit accounts grew less than 1% compared to the prior year. This increase in transaction and money market accounts enabled Heartland Bank to experience lower funding cost, resulting in higher net interest income. These favorable contributors to net interest income were partially offset by a reduction in asset yields, as loans continued to re-price at lower interest rates in effect throughout the year, and lower yielding investment portfolio balances increased to compensate for sluggish loan demand.

Total non-interest income of \$3 million in 2011 compares to \$2.7 million for 2010, an increase of 11%. Income from the sale of alternative investment products increased to \$247 thousand, up 92% over 2010. Partially offsetting this increase were lower levels of loan origination fees and a reduction of fees for services provided on deposit accounts which declined \$168 thousand or 7% in 2011. The reduction in deposit fees resulted from the full year impact from implementation of Regulation E changes during the third quarter of 2010. Regulation E restricts banking institutions from charging overdraft fees on ATM and debit card transactions absent a customer's opt-in to overdraft coverage.

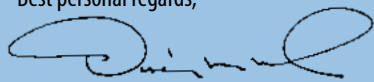
Non-interest or operating expense of \$14.7 million in 2011 declined by \$221 thousand or 1% from non-interest expense of \$14.9 million in 2010. Operating expense and earnings for 2011 have been positively impacted by lower FDIC insurance expense. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 resulted in significant statutory changes to the FDIC deposit insurance assessment program. It required that the FDIC redefine the deposit insurance assessment base used to calculate deposit insurance assessments for all insured depository institutions. As a result, FDIC insurance expense totaled \$493 thousand in 2011 compared to \$909 thousand in 2010, a decline of 46%. Operating expense increased \$194 thousand or 1% excluding the year-over-year decline in FDIC expense.

Total assets outstanding increased 6% to \$571 million at year-end 2011, an increase of \$34 million from assets of \$537 million at the end of 2010. Loan and deposit volumes have been influenced significantly during 2011 and 2010 by overall economic factors including market interest rates, consumer confidence, low unemployment rate, lower levels of business and consumer spending as well as changes in regulations on banking institutions. We continued to implement initiatives to enhance our loan quality and grow our retail deposit relationships while improving productivity during 2011. Net loans outstanding declined slightly to \$387.4 million, from \$387.9 million at the end of 2010. The decline in loan balances resulted from continued weak demand and a higher level of loan prepayments in both the commercial and retail lending sectors. Deposits increased 6% to \$489 million at December 31, 2011. A key element of Heartland's deposit strategy was focused on growing our transaction account deposit base while continuing to reduce our dependence on public funds and larger non-core certificate of deposit accounts throughout 2011.

Total shareholders' equity remained strong, growing 12% to \$50.8 million from \$45.2 million at year-end 2010. Based upon shares outstanding, the book value of Shareholders' equity increased from \$29.40 at year-end 2010 to \$33.00 per share at December 31, 2011. Among the financial strengths of Heartland BancCorp is our capital position, which exceeds regulatory guidelines and compares favorably to our peers and other Ohio based banks. Tier1 leverage, Tier 1 Risk based and Total Risk Based Capital ratios were 8.9%, 13.3%, and 14.4% respectively as of December 31, 2011. Regulatory requirements for a well-capitalized bank are 5%, 6%, and 10% for Tier 1 Leverage; Tier1 Risk based and Total Risk Based Capital Ratios respectively. In 2011, Heartland BancCorp paid a dividend of \$1.28 per share, representing a yield of 4.80% on the average market price of \$26.81 per share. Dividends paid resulted in a dividend payout ratio of 39% for 2011.

As we look beyond 2011 to the beginning of our second century, we are committed to maintaining our conservative culture and risk management practices that throughout our history have allowed us to perform well through many economic cycles. In response to the current economic challenges of higher credit losses, weak loan demand, declining fee income, and low interest rates, we remain focused on building long-term relationships with our clients, controlling expenses, managing risks, and enriching the knowledge of our employees through training. Heartland's long-term strategic plans are grounded in the fundamental principles of banking, including a strong balance sheet with active lending growth, attention to risk management, and continued emphasis on delivering consistently superior client service while supporting the communities in which you, our clients and shareholders, work and live. I would like to thank all of our Heartland employees, the Board of Directors, Ambassadors, our loyal stockholders, and clients for your investment, patronage, and relationship. I would encourage you to spread the good word of Heartland to your friends and family as it would mean a great deal to all of us.

Best personal regards,



Tim M. McComb  
Chairman and CEO

Heartland BancCorp is a registered Ohio Bank Holding company and the parent of Heartland Bank, which operates eleven full-service banking offices. Alternative investment services are provided through Inflex Financial Group. Heartland Bank is a member of the Federal Reserve, a member of the FDIC, and an Equal Housing Lender. Heartland BancCorp is currently quoted on the over-the-counter (OTC) Bulletin Board Service under the symbol HLAN.



Golfers warm up before the start of the 2011 Heartland Charity Golf Classic.



Honoring our men and women of America's Military at the Gahanna Freedom Festival.



Enjoying the evening at Holiday Lights 2011

## Heartland BancCorp and Bank Directors

I. Robert Amerine  
Chairman, ISCO, Inc.

Arthur G.H. Bing M.D.  
Plastic & Reconstructive Surgeon

William A. Dodson, Jr.  
EVP/Community Relations Director, Rhema Christian  
Center

Jay B. Eggspuehler, Esq.  
Wiles, Boyle, Burkholder & Bringardner Co., L.P.A.

Jodi L Garrison, CPA  
Partner, Hirth, Norris & Garsion, LLP

John R. Haines  
Retired, John R. Haines Insurance Agency

David C. Kotary  
Principal, Brower Insurance Agency, LLC

Gerald K. McClain  
President, The Jerry McClain Company, Inc.

G. Scott McComb  
President & CEO, Heartland Bank

Tiney M. McComb  
Chairman & CEO, Heartland BancCorp

## Directors Emeritus

Jack J. Eggspuehler  
President, Aerosafe, Inc.

Cheryl C. Poulton  
President, Tech International

## Heartland BancCorp Officers

Tiney M. McComb  
Chairman & CEO

G. Scott McComb  
Vice Chairman & President

I. Robert Amerine  
Secretary

George R. Smith  
Executive Vice President, Chief Financial Officer

## Heartland Bank Senior Management

Tiney M. McComb  
Chairman

G. Scott McComb  
President and CEO

George R. Smith  
Executive Vice President, Chief Financial Officer

David P. Curby  
Senior Vice President, Mortgage Lending

Robert F. Halley  
Senior Vice President, Commercial Relationship  
Manager

Steven C. Hines  
Senior Vice President, Commercial Banking  
Management

Donna J. Holycross  
Vice President, Director of Marketing

Cheryl L. Krouse  
Vice President, Retail Administration Manager

Mark A. Matthews  
Vice President, Credit Review

Linda E. Miller  
Vice President, Corporate Secretary

Edmund W. Smallwood, Jr.  
Vice President, Retail Sales Administrative Officer

Stephanie W. Toalston  
Vice President, Director of Human Resources

Jennifer L. Eckert  
Assistant Vice President, Compliance Officer

## Heartland Investment Services

Mark Posey  
Investment Representative

Jason Ellinger  
Investment Representative



**HEARTLAND BANK**  
*Central Ohio's Community Bank®*