

# 2013

Annual Report

Invest in  
**your**  
community.



**Heartland BancCorp**

## MISSION STATEMENT

It is Heartland Bank's mission to provide the best personalized financial services at competitive prices for the economic growth and well being of individuals and businesses within our communities. This goal shall be accomplished through well-trained, caring employees with unquestionable integrity, who practice sound and innovative banking principles, which will maximize bank profits and growth.

## HEARTLAND BANK'S SHARED VALUES

- Superior service is our highest priority
- Productivity is an integral part of our corporate strategy
- Team players receive the highest rewards
- Quality is rewarded as well as quantity
- Rewards will include advancement, recognition and/or incentive compensation
- Through access to accurate information, we will strive to keep ourselves and our customers informed
- We will constantly seek to improve how we are perceived by our customers
- We will empower our employees to perform their duties in a responsible manner
- We will seek to know our cost of doing business
- We encourage the exploring of new ideas
- Our business is to provide customer satisfaction profitability
- We value loyalty, honesty and integrity in our relationships
- We are committed to the enrichment of our local communities through our involvement



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**HEARTLAND BANK**

## DEAR SHAREHOLDERS,

yOur Community .... yOur Community Bank

It is with great pride and excitement that we share yOur success of the last year. This is not a typo! It is simply a reinforcement that YOU, the shareholders, and WE, the community bankers have successfully grown the prosperity of OUR communities as a direct result of our collective efforts. yOur investment in capital, beliefs, time, hard work and financial education have lead each of the communities we serve to strive for better and far reaching success. Leveraging yOur capital for local success is now “popular,” however we have been strategically doing it since 1911. This effort was renewed and is alive today through the guidance, philosophies and generosity of Tiney M. McComb, our modern day founder. Rest assured in this changing world, this will remain the constant that melds our moral fabrics into one unbreakable bond.

Interest rates changed significantly in the second quarter as the Fed signaled that they were prepared to ease bond purchases and begin to unwind their layers of quantitative easing. This caused long-term interest rates to increase, sending the 10 year to 3.04% as of 12/31/13 from 1.78% as of the prior year end. While the effects of this move were not felt as much by businesses and consumers with short term borrowing, it did stop the refinance boom as 30-year fixed mortgages moved into the 4% plus range. This increase in rates allowed yOur community bank to begin a path of growth once again as it was economically viable and most importantly profitable to do so.

The Federal Reserve’s move also signaled an improving economy. Both nationally and locally we have seen the economy improve and begin to return to somewhat normal levels of production, sales and commerce. While government spending has been cut, America’s business community has begun to add significantly to the GDP. Even with the

Federal Government’s continued suppression of the business world and banking sector in the form of the Affordable Care Act, Dodd Frank, and the endless list of Executive orders, the private economy is still growing. In light of this adversity and change, yOur community bank posted its second best earnings in its 102 year existence.

Locally, we find Columbus having one of the fastest growing job markets in the nation. Housing has rebounded while construction and development of our city’s core is fast paced. Through the efforts of our Governor and the Ohio legislature, the state is once again competitive in attracting businesses and retaining the talent that is born, raised and educated right here in Ohio.

yOur continued success could not be made possible without the dedication and hard work of our talented staff. We strive to make improvements in execution, focus on growing talent from within, and look to provide the best relationship banking experience possible.

Community banking is alive and well in the Heartland.

Invest in yOur Community.



G. Scott McComb  
Chairman, President and CEO



# TAKING STOCK IN HEARTLAND

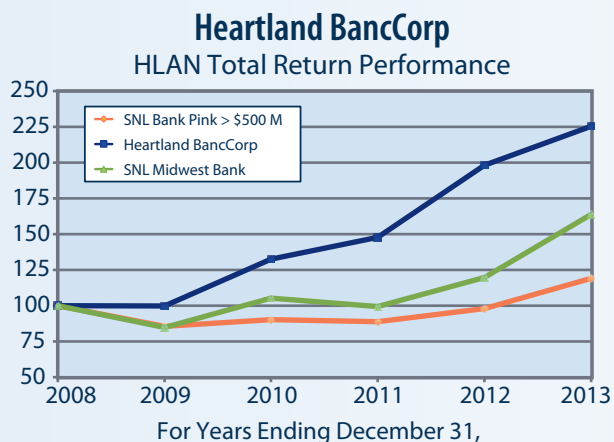
Heartland Bank has been invested in your community, its people and its businesses since the bank was founded in 1911. You have the opportunity to invest in us as Heartland BancCorp, the parent company of Heartland Bank.

## Interested in becoming a Shareholder?

We invite you to support your community!

To learn more about Heartland BancCorp shares, please contact one of the following

- Greig McDonald at Community Banc Investments, (740) 826-7601
- Your personal broker or Investment Advisor
- Heartland Investment Services, (614) 839-2265
- Scott McComb, Chairman, President and CEO of Heartland Bank or Linda Miller, Vice President, Corporate Secretary, (614) 337-4600
- Visit us online at [ir.HeartlandBank.com](http://ir.HeartlandBank.com)



*This graph depicts the yearly percentage change in Heartland BancCorp's cumulative total shareholder return against the cumulative return of the SNL Bank Pink Sheet index of banking institutions over \$500 million in total assets and the SNL Midwest Bank index over the last 5-year fiscal periods. Calculations include the reinvestment of dividends and are indexed to the base year measurement point (closing price on the last trading day before the beginning of the registrant's fifth preceding fiscal year).*

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Statements made are a reflection of past performance of the bank and holding company and should not be considered a projection of future performance. Investments involve varying degrees of risk, including possible loss of principal. Funds held in corporate stock are not considered a deposit of the bank or bank holding company, not guaranteed by the bank or holding company and are not insured by the FDIC or any government agency and may lose value.

## KEEPING YOUR COMMUNITY SMILING



**Hinda Mitchell** stated, "Heartland feels like the banks I grew up with and visited with my parents (except they haven't given me a toaster yet.) But it's not old-fashioned, except in its values. All the technologies I need – online banking, mobile banking, ATMs and more – are available to me."



**BJ Roach** stated, "Heartland feels like a hometown bank. They care about you, and you can get your questions answered fast. I still prefer going personally to the Grove City office as does my son, Chris." Chris states, "We like to come into the bank whenever possible. We love the staff at Grove City. I also utilize online banking to check balances, cleared checks, etc. Although I don't use the mobile app much, it's good to know it's there if I need it. My daughter has her checking account at Heartland and uses her debit card extensively. She also uses Heartland's online banking and mobile app. My granddaughter comes in with me and makes deposits to her own savings account."



**Bishop Donald J. Washington**, Senior Pastor of the Mount Hermon Missionary Baptist Church stated, "By refinancing with Heartland Bank, and lowering our interest rate, we were given much needed 'breathing room'. In my estimation, Heartland Bank 'has heart for this community,' and I will be eternally grateful for their very professional but personal and passionate touch."



**Randy Malloy**, Owner and General Manager of WWCD (CD102.5 FM) stated, "I decided to entrust my financial future to them and moved all of my business accounts to Heartland Bank. Heartland has a small bank feel with a large bank capacity. They are locally owned and operated, just like us. My faith in financial institutions was reborn."



**Mark Wood**, President of The Wood Companies said, "I am thankful that Heartland Bank had the confidence in my company to lend on the speculative project at a time that most lenders weren't providing construction financing. All 10,000 square feet of the office space has now been pre-leased and residential leasing is extremely strong."



## 2013 FINANCIAL REVIEW

Heartland BancCorp once again posted solid earnings in 2013 with net income topping \$5.216 million or \$3.34 per share compared to earnings of \$6.699 million or \$4.32 per share for the year ended December 31, 2012. Earnings in 2013 reached the second highest level of annual earnings historically. Net income for the year ended December 31, 2013 totaled \$5.216 million or \$3.34 per share compared to earnings of \$6.699 million or \$4.32 per share for the year ended December 31, 2012. Net interest income, before provision for loan loss for 2013 of \$21.785 million increased \$48 thousand, compared to \$21.737 million for 2012. Provision for loan loss of \$1.970 million for 2013 declined \$1.416 million or 42% compared to provision expense of \$3.386 million for the full year 2012. The decrease in the bank's loan loss provision resulted from a continued improvement in credit quality as evidenced by a lower level of non-performing loans at the end of 2013. Total non-interest income of \$3.647 million in 2013 declined \$1.731 million or 32% compared to \$5.378 million for 2012. The higher level of earnings and non-interest income in 2012 was due to the receipt of \$1.983 million of net key man life insurance proceeds from the loss of Heartland BancCorp's former chairman during 2012. Non-interest or operating expense of \$16.575 million in 2013 increased 7% from \$15.506 million in 2012.

Earnings for the fourth quarter ending December 31, 2013 totaled \$1.404 million or \$0.90 per share up 79% or \$619 thousand compared to earnings of \$785 thousand or \$0.50 per share for the fourth quarter of 2012. Net interest income before provision for loan loss was \$5.761 million up 1% or \$70 thousand from the prior year amount of \$5.690 million. Provision for loan loss of \$405 thousand for the fourth quarter of 2013 declined \$1.575 million or 80% below provision expense of \$1.980 million in the fourth quarter of 2012. Net interest income after the provision for loan loss totaled \$5.356 million for the fourth quarter 2013 up 44% from \$3.711 million for the prior year fourth quarter. Non-interest income for the fourth quarter of 2013 was \$783 thousand down 28% compared to \$1.096 million for the same period in 2012. Included in fourth quarter 2012 non-interest income were gains recorded on the sale of securities totaling \$286 thousand.

Operating expense was \$4.315 million up 9% from \$3.945 million for the fourth quarter 2012.

Total assets outstanding increased to \$580 million at year-end 2013. Net loans outstanding increased to \$423 million, up 7% compared to net loans of \$396 million at the end of 2012. Transaction accounts grew \$13.4 million or 5% year over year improving the mix of transaction verses time deposits. A key element of Heartland's deposit strategy over the past three years has been focused on growing our relationships through our transaction account base while continuing to reduce our dependence on public funds and large non-core certificates of deposits. Total shareholders' equity at the end of 2013 totaled \$54.2 million, a decrease of 3% from \$55.7 million at year-end 2012. The year over year decline in shareholders' equity resulted from a \$4.9 million after tax decrease in the bank's available for sale securities portfolio as rising interest rates have reduced the fair market value of these securities. Partially offsetting the market value adjustment was a \$3.2 million or an 11% increase in retained earnings resulting from current year earnings of \$5.2 million reduced by dividends paid totaling \$2.015 million. Based upon shares outstanding the book value of shareholders' equity totaled \$35.00 as of December 31, 2013 down \$1.15 from \$36.15 as of year-end 2012. Among the financial strengths of Heartland BancCorp is its capital position which exceeds regulatory guidelines and compares favorably to our peers and other Ohio based banks. Tier 1 Leverage, Tier 1 Risk Based, and Total Risk Based capital ratios were 9.5%, 13.6% and 14.7% respectively as of December 31, 2013. Regulatory requirements for a well-capitalized bank are 5%, 6% and 10% for Tier 1 Leverage, Tier 1 Risk Based and Total Risk Based capital respectively. During October 2013 Heartland BancCorp increased its quarterly cash dividend 5% to \$0.3378 per share or \$1.35 annually. Dividends paid resulted in a dividend payout ratio of 29% in 2013.

In closing, we believe the local economy will continue to strengthen in 2014 presenting further growth opportunities for Heartland and continued benefits for our clients and shareholders. Thank you for your continued support and investment.

**Heartland BancCorp**  
**Consolidated Balance Sheets**  
**December 31, 2013 and 2012**

<b>Assets</b>	<b>2013</b>	<b>2012</b>
Cash and cash equivalents	\$ 15,943,266	\$ 22,196,209
Available-for-sale securities	112,421,722	133,165,503
Held-to-maturity securities, fair value \$6,929 and \$7,685 at December 31, 2013 and 2012, respectively	6,626,777	6,865,393
Loans, net of allowance for loan losses of \$4,676,231 and \$5,425,761 at December 31, 2013 and 2012, respectively	422,967,223	395,597,738
Premises and equipment	11,969,597	11,292,861
Federal Reserve and Federal Home Loan Bank stock	1,889,950	1,889,050
Foreclosed assets held for sale	1,616,294	2,606,427
Interest receivable	1,807,632	1,878,136
Goodwill	417,353	417,353
Deferred income taxes	2,600,821	756,631
Other	2,097,943	1,951,232
Total assets	<u>\$580,358,578</u>	<u>\$578,616,533</u>

**Liabilities and Shareholders' Equity**

<b>Liabilities</b>		
Deposits		
Demand	\$ 82,076,014	\$ 74,237,342
Saving, NOW and money market	188,825,641	183,228,633
Time	219,921,798	229,579,340
Total deposits	<u>490,823,453</u>	<u>487,045,315</u>
Short-term borrowing	31,136,220	29,897,750
Long-term debt	-	3,093,000
Interest payable and other liabilities	4,152,059	2,855,547
Total liabilities	<u>526,111,732</u>	<u>522,891,612</u>

**Shareholders' Equity**

Common stock, without par value; authorized 5,000,000 shares; issued 2013- 1,549,922, 2012- 1,541,507 shares	23,355,806	23,131,730
Retained earnings	32,287,838	29,086,743
Accumulated other comprehensive income (loss)	(1,396,798)	3,506,448
Total shareholders' equity	<u>54,246,846</u>	<u>55,724,921</u>
Total liabilities and shareholders' equity	<u>\$580,358,578</u>	<u>\$578,616,533</u>
Book value per share	<u>\$ 35.00</u>	<u>\$ 36.15</u>

**Heartland BancCorp**  
**Consolidated Statements of Income**  
**December 31, 2013 and 2012**

<b>Interest Income</b>	<b>2013</b>	<b>2012</b>
Loans	\$ 21,596,152	\$ 22,032,899
Securities		
Taxable	1,454,271	2,129,644
Tax-exempt	1,792,899	1,786,602
Other	42,375	41,400
Total interest income	<u>24,885,697</u>	<u>25,990,545</u>
<b>Interest Expense</b>		
Deposits	2,868,355	3,900,074
Borrowings	232,171	353,244
Total interest expense	<u>3,100,526</u>	<u>4,253,318</u>
<b>Net Interest Income</b>	21,785,171	21,737,227
<b>Provision for Loan Losses</b>	<u>1,970,000</u>	<u>3,386,100</u>
<b>Net Interest Income After Provision for Loan Losses</b>	<u>19,815,171</u>	<u>18,351,127</u>
<b>Noninterest income</b>		
Service charges	1,949,909	1,957,488
Net Gains and commissions on loan sales	70,045	53,134
Net realized gains on available-for-sale securities	687,248	459,201
Net realized gains/(losses) on sales of foreclosed assets	(29,129)	21,359
Benefit in excess of life insurance cash value	-	1,983,025
Other	968,914	903,903
Total noninterest income	<u>3,646,987</u>	<u>5,378,110</u>
<b>Noninterest Expense</b>		
Salaries and employee benefits	8,990,953	8,503,139
Net occupancy and equipment expense	1,780,983	1,784,499
Data processing fees	926,392	849,418
Professional fees	785,666	754,361
Marketing expense	346,260	395,228
Printing and office supplies	161,958	188,775
State franchise taxes	619,566	586,829
FDIC Insurance premiums	478,982	466,849
Other	2,483,963	1,976,430
Total noninterest expense	<u>16,574,723</u>	<u>15,505,528</u>
Income before Income Tax	6,887,435	8,223,709
Provision for Income Taxes	<u>1,671,275</u>	<u>1,524,985</u>
<b>Net Income</b>	<u>\$ 5,216,160</u>	<u>\$ 6,698,724</u>
Basic Earnings Per Share	<u>\$ 3.38</u>	<u>\$ 4.35</u>
Diluted Earnings Per Share	<u>\$ 3.34</u>	<u>\$ 4.32</u>

# CONNECTING WITH OUR COMMUNITIES

## Heartland Bank Sponsored Events

- Creekside Blues & Jazz Festival
- Johnstown Fireman's Festival
- Hartford Fair
- Reynoldsburg Tomato Festival
- Grove City Arts in the Alley
- Westerville Music & Arts Festival
- North Market's Columbus Microbrew Festival

## Heartland Bank Hosted Events

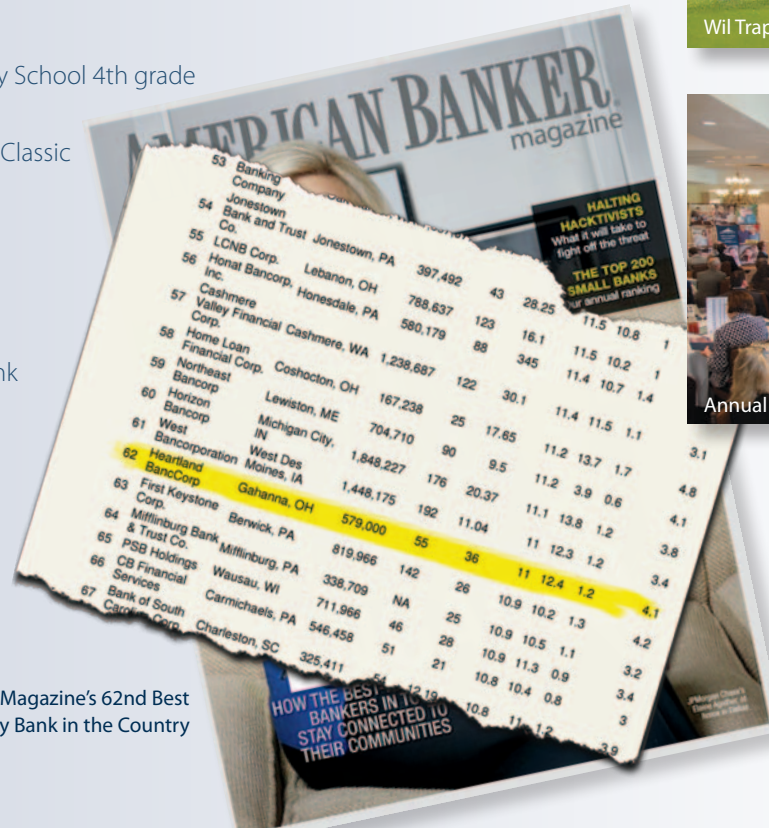
- Annual Economic Forum
- Power Breakfast Series
- Spotlight Series

## Employee Initiatives

- Money Matters Free Financial Summit
- Johnstown Monroe's Searfoss Elementary School 4th grade Financial Literacy Initiative
- 16th annual Heartland Bank Charity Golf Classic
- Silent Auction at Annual Holiday Party to benefit local food banks
- Pelotonia

## Digital World

- Financial Advice Videos on Heartland Bank YouTube Channel
- Updated look to Online Banking
- E-Money Matters monthly newsletters
- Updated Mobile App Capability



American Banker Magazine's 62nd Best Community Bank in the Country



Bob Crow, Bill Daily, Laurie Pfeiffer and Joe Duffey



Wil Trapp of the Columbus Crew



Annual Economic Forum

WWR Outstanding Community Partner Award







Reynoldsburg Farmer's Market



Columbus Microbrew Festival



Money Matters Free Financial Summit



Creekside Blues & Jazz Festival



Johnstown Monroe's Searfoss Elementary School



Build out of 101 South High Street

## Accolades

- 62nd Best Community Bank in the Country
- WWR Outstanding Community Partner Award
- Ohio Statewide Development Corporation Community Bank of the Year
- Ohio Statewide Development Corporation Lender of the Year, Bob Crow



Hartford Fair



Grove City Arts in the Alley

## 2014 and Beyond

- Columbus Crew partnership development
- Build out of 101 South High Street







Board of Directors

## HEARTLAND BANCCORP AND BANK DIRECTORS

Arthur G.H. Bing M.D., Plastic & Reconstructive Surgeon  
William A. Dodson, Jr., EVP/Community Relations Director,  
Rhema Christian Center  
Jay B. Eggspuehler, Esq., Isaac Wiles  
Jodi L Garrison, CPA, Partner, Hirth, Norris & Garrsion, LLP  
John R. Haines, Retired, John R. Haines Insurance Agency  
David C. Kotary, Senior Vice President, Brower Insurance  
Gerald K. McClain, President, The Jerry McClain Company, Inc.  
G. Scott McComb, Chairman, President and CEO  
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Richard A. Vincent, President & CEO, Osteopathic Heritage Foundation  
and Osteopathic Heritage Foundation of Nelsonville

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Jack J. Eggspuehler, President, Aerosafe, Inc.  
Tiney M. McComb, Founder, Heartland BancCorp  
Cheryl C. Poulton, Executive Chairman, Tech International

## HEARTLAND BANCCORP OFFICERS

G. Scott McComb, Chairman, President and CEO  
Jay B. Eggspuehler, Esq., Vice Chairman  
Jodi L. Garrison, Secretary  
George R. Smith, Executive Vice President, Chief Financial Officer

## HEARTLAND BANK SENIOR MANAGEMENT

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Chairman, President and CEO  
Steven C. Hines  
Executive Vice President, Chief Operating Officer  
George R. Smith  
Executive Vice President, Chief Financial Officer  
Carrie L. Almendinger  
Senior Vice President, Controller  
David P. Curby  
Senior Vice President, Mortgage Lending  
William A. Daily, Jr.  
Senior Vice President, Commercial Lending Manager  
Benjamin J. Babcanec  
Vice President, Retail Sales Manager  
Joseph A. Duffey  
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Jennifer L. Eckert  
Vice President, Compliance Officer  
Linda E. Miller  
Vice President, Corporate Secretary  
Ashley A. Trout  
Vice President, Retail Operations Manager  
Mindy N. King  
AAO, Director of Human Resources  
Gretchen A. Hof  
Director of Marketing

## HEARTLAND INVESTMENT SERVICES

Mark J. Posey  
VP, Director of Investment Services, Heartland; Investment Executive, Infinex

## HEARTLAND INSURANCE SERVICES, LLC.

Agent Representation  
Brower Insurance: a Marsh & McLennan Agency, LLC. Company

## Heartland Locations to Serve You

**Corporate Office**, Gahanna (614) 337-4600

**Columbus**, 101 South High Street (614) 416-0244

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

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

**Friendship Village of Dublin**, 6000 Riverside Drive (614) 923-0575

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

**Gahanna**, 67 North Stygler Road (614) 475-7024

**Grove City**, 2365 Old Stringtown Road (614) 875-1884

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

**Newark**, 44 West Locust Street (740) 349-7888

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

**West Columbus**, 130 North Wilson Road (614) 351-2100

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

**Heartland Client Services**, (614) 416-BANK (2265), (800) 697-0049

**Heartland Insurance Services, LLC**, (614) 918-2300

**Heartland Investment Services**, (614) 839-2265



**HEARTLAND BANK**  
*Central Ohio's Community Bank*<sup>®</sup>

[heartlandbank.com](http://heartlandbank.com)

Member FDIC

