

Heartland BancCorp Ranked 97th Best Community Bank in the Nation

American Banker Magazine Top 200 Community Banks



*New office built to better serve
the Newark community.*



*In loving memory of Tiney M. McComb, Founder
Former Chairman, President and CEO
1943 - 2012*

**HEARTLAND BANCCORP
2012 ANNUAL REPORT**

To Our Shareholders, Customers, and Friends:



G. Scott McComb

Chairman, President & CEO
of Heartland BancCorp &
Heartland Bank

The year 2012 will be remembered in the archives of Heartland Bank due to the wide ranging magnitude of continued success and personal loss. The bank performed well, despite an underperforming economy overall. Growth in loans and deposits were a challenge and credit quality overall continues to reflect the slow economic recovery. Upgrading our systems and facilities was again a focus for the management team to foster the best delivery of our products and services. The bank was recognized for its ongoing commitment to provide consumers and businesses with the right advice and counsel which has become a hallmark of our brand. With the loss of our founder, Tiney M. McComb, the bank and the Central Ohio Community lost one its greatest entrepreneurs and the Heartland Family lost a good friend.

Earnings for the year were strong, despite the subdued Ohio economy. Protecting the net interest margin in preparation for future rises in interest rates and a focus on credit quality resulted in slower loan growth than in past years. While opportunities were available for significant loan growth, our pricing strategies were focused on preserving the bank's net interest margin and protecting our asset liability position. Controlled growth with quality opportunities remained the focal point of the loan portfolio with the consumer mortgage portfolio growing 13%.

A significant investment was made in our Licking County market with the construction of a new branch office at the corner of Locust and 4th Streets in Downtown Newark to replace the branch that had been "on the Courthouse Square" for over 18 years. The new location is highly visible in the gateway to Downtown Newark and features two drive-thru lanes, a drive-thru ATM, and the Georgian architecture that clients have come to know and recognize. Special thanks to Board member Jerry McClain, who,

without his leadership, the project would not have been possible. We honored Jerry and the McClain Family for their continued dedication to the Downtown Newark community with the installation and dedication of a clock tower from the renowned Verdin Clock Company of Cincinnati.

Our Internet banking, mobile apps, ATM network and transaction security were also projects that were completed in 2012. Investing in these systems is paramount to building a strong base to acquire a new generation of banking clients. This will allow Heartland to bridge the distance between our strategically located offices with more self-service opportunities. Cyber security is a focus in the banking industry and we remain committed to staying ahead of the issues that plague online transactions and commerce through risk mitigation strategies.

Heartland was awarded the Ethical Enterprising Award for Character Ethics in Business from the Central Ohio Better Business Bureau. This prestigious award has only been given to one other financial institution in its history. For an institution to be given this award during these trying times speaks volumes about how Heartland stands behind its clients and continues to operate with integrity, while the industry at large has not. You should be proud of the quality and excellence that is demonstrated each day from our caring and well trained employees who continue to practice sound banking principles.

In April 2012, we lost our Founder and Chairman Tiney M. McComb to cancer. With the help of good friends and clients, Tiney organized Heartland BancCorp and purchased the Croton Bank Company in 1988. He built this institution on quality service, competitive products, community banking principles, and a work ethic to go the extra mile for clients and to become their partner as well as their bank. While Tiney is no longer with us, his Heartland Spirit lives on in our business practices, employees shared values, and community involvement. He built Central Ohio's premiere community bank, one that is known throughout Ohio for its excellence and dedication to its clients, shareholders, and associates alike.

Thanks to our associates, clients and shareholders for helping us with another great year.



Newark Office Grand Opening with dedication to Jerry McClain



2012 Spotlight Series - Spotlight
on Business Insurance



Scott McComb accepting
the 2012 Torch Award



Heartland Bank iPad app and
mobile browser went live in 2012

2012 Financial Review

Financial Summary:

This past year marked an unequaled period of performance, in which Heartland BancCorp earned record levels of net income and earnings per common share. Net income in 2012 was \$6.7 million, an improvement of 32% from \$5.1 million in 2011. Diluted earnings per common share were \$4.32, an increase of \$1.05 or 32% from \$3.27 per share in the prior year. Net Income for each of years 2012 and 2011 represents record levels when compared to prior years results. Heartland BancCorp's financial performance in 2012 reflects both the strengths of our company and the challenges we face in this unprecedented economic environment. We ended the year with strong liquidity and exceeded all levels of regulatory capital requirements. Capital levels were further strengthened during 2012 as the result of these higher earnings. Even though the economy improved slightly during the 4th quarter of 2012 continued low interest rates pushed down net interest income while new banking regulations have resulted in lower levels of non interest or fee income from providing basic banking services and higher compliance cost.

Overview of Operations:

Net interest income (before provision for loan loss) for the year ended December 31, 2012 was \$21.7 million up 3% or \$609 thousand compared to 2011. Interest income of \$26.0 million for 2012 declined \$831 thousand or 3% while interest expense on deposits and borrowings declined \$1.4 million or 25% in 2012 compared to 2011. Lower interest income during 2012 reflects the continued macroeconomic operating environment that has artificially sustained low interest rates, high levels of unemployment and an overall soft housing market. The 25% decline in interest expense in 2012 compared to 2011 results from changing our deposit mix to a higher level of transaction accounts resulting in lower cost deposits coupled with favorable deposit pricing in a declining interest rate environment reducing both deposit and borrowing costs.

The expectation of a continued negative economic outlook and the elevated level of nonaccrual loans, combined with the need to establish reserves for new loans, led Heartland BancCorp to record a provision for loan loss of \$3.386 million in 2012. That addition to our allowance for loan loss, less the \$1.976 million of net loan charge-offs resulted in a net increase of \$1.410 million to the allowance which ended the year at \$5.426 million. The allowance as a % of loans outstanding was 1.35% at the end of 2012 which was an increase of 31% from 1.03% at the end of 2011. Net interest income after provision for loan loss totaled \$18.4 million down \$188 thousand or 1% in 2012 compared to 2011 as a result of the combined factors noted above. Non-Interest Income rose to \$5.4 million for 2012 representing an increase of \$2.4 million or 78% compared to 2011. The higher level of non-interest income in 2012 was due to the receipt of \$2.0 million of net key man life insurance proceeds from the loss of Heartland BancCorp's Chairman during 2012. Excluding the life insurance income, non-interest income for 2012 increased by \$368 thousand or 12% due primarily to net gains realized on the sale of available for sale investment securities from the Bank's investment portfolio. Non-Interest expense was \$15.5 million for 2012 up \$855 thousand or 6% over non-interest expense of \$14.7 million in the prior year. Total salary and employee benefit expense increased \$206 thousand or 2.5% in 2012 compared to 2011. Higher occupancy and equipment expense coupled with higher legal and collection fees increased 2012 non-interest expense by \$172 thousand and \$133 thousand respectively.

Financial Condition:

Total assets increased slightly ending 2012 at \$578.6 million up \$7.6 million or 1% year over year. Net loans outstanding as of December 31, 2012 were \$395.6 million up \$8.2 million or 2% from \$387.4 million at December 31, 2011. The increase in loans during 2012 resulted from an increase in Commercial (non-real estate) loans totaling \$6.2 million and Residential (single family) real estate loans which increased \$11.4 million in 2012. Partially offsetting the increase in Commercial and Residential Real Estate loans was a year-over-year 3% or \$6.8 million decline in Commercial Real Estate loans and an 8% or \$1.2 million decline in consumer loans. The low interest rates, especially in the area of residential real estate loans, have driven a higher level of refinance and purchase activity during 2012 compared to 2011. Heartland's funding requirements are mainly generated by deposits while borrowings have historically been maintained at insignificant levels. Total deposits at December 31, 2012 were \$487 million, down slightly from \$489 million for the same time in 2012. A key element of Heartland's deposit strategy continues to be focused on growing commercial and retail transaction accounts as a percent of our total deposits and borrowings.

Shareholders' Equity:

Total shareholders' equity remained strong, growing 10% to \$55.7 million from \$50.8 million at year-end 2011. Based upon shares outstanding, the book value of Shareholders' equity increased from \$33.00 at year-end 2011 to \$36.15 per share at December 31, 2012. 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 9.5%, 14.1%, and 15.3% respectively as of December 31, 2012. 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 Ratios respectively. In 2012, Heartland BancCorp paid a dividend of \$1.29 per share, representing a yield of 4.72% on the average market price of \$27.30 per share. Dividends paid resulted in a dividend payout ratio of 30% for 2012.

Conclusion:

I am especially pleased to share with you these strong financial results achieved in 2012. It is helpful to note that during the financial crisis that became known as the Great Recession, Heartland BancCorp never missed or reduced its dividend payment to our shareholders. Our earnings strength and stability is consistent with our vision to build a strong banking franchise that facilitates growth and prosperity for our clients, colleagues and communities thereby delivering attractive returns for our shareholders. Our goal is to build on this momentum as we embark upon this, our 102nd year of operations.

Sincerely,



G. Scott McComb
Chairman, President & 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. Insurance Services are provided through Heartland Insurance Services, LLC. 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.



Dr. Ed Seifried enlightens guests with his 2012 Economic Forecast



New Newark Office



2012 Power Breakfast - Getting the most out of your iPad!

Consolidated Financials

Heartland BancCorp Consolidated Balance Sheets December 31, 2012 and 2011

Assets	2012	2011
Cash and cash equivalents	\$ 22,196,209	\$ 25,478,749
Available-for-sale securities	133,165,503	130,740,499
Held-to-maturity securities	6,865,393	8,522,755
Loans, net of allowance for loan losses of \$5,425,761 and \$4,016,082 at December 31, 2012 and 2011, respectively	395,597,738	387,390,610
Premises and equipment	11,292,861	10,033,014
Federal Reserve and Federal Home Loan Bank stock	1,889,050	1,230,650
Foreclosed assets held for sale	2,606,427	2,029,957
Interest receivable	1,878,136	1,866,830
Goodwill	417,353	417,353
Prepaid FDIC insurance premium	873,214	1,305,828
Other	1,834,649	2,022,439
Total assets	\$ 578,616,533	\$ 571,038,684
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Demand	\$ 74,237,342	\$ 62,561,713
Savings, NOW and money market	183,228,633	173,901,359
Time	229,579,340	252,815,732
Total deposits	487,045,315	489,278,804
Short-term borrowings	29,897,750	24,725,158
Long-term debt	3,093,000	3,093,000
Interest payable and other liabilities	2,855,547	3,186,227
Total liabilities	522,891,612	520,283,189
Shareholders' Equity		
Common stock, without par value; authorized 5,000,000 shares; issued 2012- 1,541,507, 2011- 1,537,832 shares	23,131,730	23,071,097
Retained earnings	29,086,743	24,370,699
Accumulated other comprehensive income	3,506,448	3,313,699
Total shareholders' equity	55,724,921	50,755,495
Total liabilities and shareholders' equity	\$ 578,616,533	\$ 571,038,684

Heartland BancCorp
 Consolidated Statements of Income
 Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Interest Income		
Loans	\$ 22,032,899	\$ 22,823,350
Securities		
Taxable	2,129,644	2,284,007
Tax-exempt	1,786,602	1,677,482
Other	41,400	36,961
Total interest income	<u>25,990,545</u>	<u>26,821,800</u>
Interest Expense		
Deposits	3,900,074	5,305,838
Borrowings	353,244	388,194
Total interest expense	<u>4,253,318</u>	<u>5,694,032</u>
Net Interest Income	21,737,227	21,127,768
Provision for Loan Losses	<u>3,386,100</u>	<u>2,589,000</u>
Net Interest Income After Provision for Loan Losses	<u>18,351,127</u>	<u>18,538,768</u>
Noninterest Income		
Service charges	1,957,488	2,119,528
Net gains and commissions on loan sales	53,134	52,746
Net realized gains on available-for-sale securities	459,201	10,265
Net realized gains on sales of foreclosed assets	21,359	37,117
(Loss) gain on sale of premises and equipment	(5,568)	93,446
Benefit in excess of life insurance cash value	1,983,025	-
Other	909,471	713,915
Total noninterest income	<u>5,378,110</u>	<u>3,027,017</u>
Noninterest Expense		
Salaries and employee benefits	8,503,139	8,297,597
Net occupancy and equipment expense	1,784,499	1,612,632
Data processing fees	849,418	806,668
Professional fees	754,361	621,853
Marketing expense	395,228	394,054
Printing and office supplies	188,775	207,272
State franchise taxes	586,829	550,335
FDIC Insurance premiums	466,849	493,000
Other	1,976,430	1,666,890
Total noninterest expense	<u>15,505,528</u>	<u>14,650,301</u>
Income Before Income Tax	8,223,709	6,915,484
Provision for Income Taxes	1,524,985	1,846,799
Net Income	<u>\$ 6,698,724</u>	<u>\$ 5,068,685</u>
Basic Earnings Per Share	<u>\$ 4.35</u>	<u>\$ 3.30</u>
Diluted Earnings Per Share	<u>\$ 4.32</u>	<u>\$ 3.27</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
 44 West Locust Street
 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



Board of Directors

As of December 31, 2012

(Not pictured: I. Robert Amerine)

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 & 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

Tiney M. McComb, Founder (Deceased)
Former Chairman, President and CEO

Robert C. Overs
EVP & COO, Technical Rubber Company, Inc.

Gary D. Paine
Owner, Pilot Freight Services

Richard A. Vincent
President & CEO, Osteopathic Heritage Foundation and
Osteopathic Heritage Foundation of Nelsonville

Directors Emeritus

Jack J. Eggspuehler
President, Aerosafe, Inc.

Cheryl C. Poulton
Executive Chairman, Tech International

Heartland BancCorp Officers

G. Scott McComb
Chairman, President and CEO

Jay B. Eggspuehler, Esq.
Vice Chairman

I. Robert Amerine
Secretary

George R. Smith
Executive Vice President, Chief Financial Officer

Heartland Bank Senior Management

G. Scott McComb
Chairman, President and CEO

Steven C. Hines
Executive Vice President, Chief Operating Officer

George R. Smith
Executive Vice President, Chief Financial Officer

David P. Curby
Senior Vice President, Mortgage Lending

Stephanie W. Toalston
Senior Vice President, Director of Human Resources

Benjamin J. Babcanec
Vice President, Retail Sales Manager

William A. Daily, Jr.
Vice President, Commercial Lending Manager

Joseph A. Duffey
Vice President, Director of Credit Administration

Donna J. Holycross
Vice President, Director of Marketing

Linda E. Miller
Vice President, Corporate Secretary

Jennifer L. Eckert
Assistant Vice President, Compliance Officer

Ashley A. Trout
Assistant Vice President, Branch Operations Manager

Heartland Investment Services

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

Heartland Insurance Services, LLC.

Courtney L. Wagner
Insurance Services Consultant



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