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HEARTLAND BANCCORP

2011 FINANCIAL STATEMENTS

Heartland BancCorp

Accountants' Report and Consolidated Financial Statements

December 31, 2011 and 2010

Heartland BancCorp

December 31, 2011 and 2010

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Independent Accountants' Report

Board of Directors
Heartland BancCorp
Gahanna, Ohio

We have audited the accompanying consolidated balance sheets of Heartland BancCorp as of December 31, 2011 and 2010, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Heartland BancCorp as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

March 14, 2012

experience BKD

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GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Heartland BancCorp

Consolidated Balance Sheets

December 31, 2011 and 2010

Assets	2011	2010
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
Total assets	$ 571,038,684	$ 536,747,794

Liabilities and Shareholders' Equity

	2011	2010
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

	2011	2010
Interest Income		
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	26,821,800	28,010,116
Interest Expense		
Deposits	5,305,838	7,244,675
Borrowings	388,194	382,357
Total interest expense	5,694,032	7,627,032
Net Interest Income	21,127,768	20,383,084
Provision for Loan Losses	2,589,000	1,921,000
Net Interest Income After Provision for Loan Losses	18,538,768	18,462,084
Noninterest Income		
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 gains (losses) on sales of foreclosed assets	37,117	(373,261)
Gain on sale of premises and equipment	93,446	-
Other	713,915	445,295
Total noninterest income	3,027,017	2,732,655
Noninterest Expense		
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	14,650,301	14,871,841
Income Before Income Tax	6,915,484	6,322,898
Provision for Income Taxes	1,846,799	1,753,258
Net Income	$ 5,068,685	$ 4,569,640
Basic Earnings Per Share	$ 3.30	$ 2.98
Diluted Earnings Per Share	$ 3.27	$ 2.96

Heartland BancCorp

Consolidated Statements of Shareholders' Equity

Years Ended December 31, 2011 and 2010

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance, January 1, 2010	1,535,085	$ 23,038,474	$ 18,691,579	$ 2,532,118	$ (5,838)	$ 44,256,333
Comprehensive income						
Net income			4,569,640			4,569,640
Unrealized losses on securities, net of taxes				(1,618,676)		(1,618,676)
Total comprehensive income						2,950,964
Dividends on common stock, $1.28 per share			(1,975,937)			(1,975,937)
Stock option expense		6,000				6,000
Stock options exercised	2,000	33,000				33,000
Purchase and retirement of stock	(1,253)	(27,104)				(27,104)
Retirement of Treasury shares		(3,023)	(2,815)		5,838	-
Balance, December 31, 2010	1,535,832	23,047,347	21,282,467	913,442	-	45,243,256
Comprehensive income						
Net income			5,068,685			5,068,685
Unrealized gains on securities, net of taxes				2,400,257		2,400,257
Total comprehensive income						7,468,942
Dividends on common stock, $1.28 per share			(1,980,453)			(1,980,453)
Stock options exercised	3,000	49,500				49,500
Purchase and retirement of stock	(1,000)	(25,750)				(25,750)
Balance, December 31, 2011	1,537,832	$ 23,071,097	$ 24,370,699	$ 3,313,699	$ -	$ 50,755,495

Heartland BancCorp

Consolidated Statements of Cash Flows

Years Ended December 31, 2011 and 2010

	2011	2010
Operating Activities		
Net income	$ 5,068,685	$ 4,569,640
Items not requiring (providing) cash		
Depreciation and amortization	663,064	739,384
Provision for loan losses	2,589,000	1,921,000
Amortization of premiums and discounts on securities	241,275	(102,159)
Amortization of loan fees, net	(258,792)	(46,582)
Deferred income taxes	(145,523)	(287,167)
Net realized gains on sale of available-for-sale securities	(10,265)	(274,350)
Net (gains) losses on sales of foreclosed assets	(37,117)	373,261
Federal Home Loan Bank stock dividends	(200)	(150)
Stock option expense	-	6,000
Gain on sale of premises and equipment	(93,446)	-
Gain on sale of loans	(52,746)	(99,020)
Changes in		
Interest receivable	(62,194)	168,675
Other assets	108,276	1,052,302
Interest payable and other liabilities	(949)	121,601
Net cash provided by operating activities	8,009,068	8,142,435
Investing Activities		
Purchase of available-for-sale securities	(65,681,945)	(61,612,364)
Purchase of held-to-maturity securities	(2,920,009)	-
Proceeds from maturities of available-for-sale securities	53,090,041	34,937,101
Proceeds from sales of available-for-sale securities	485,895	4,789,545
Proceeds from maturities of held-to-maturity securities	148,643	143,410
Net change in loans	(2,081,599)	1,255,511
Purchase of premises and equipment	(1,070,144)	(547,867)
Proceeds from sale of premises and equipment	293,898	-
Proceeds from sale of foreclosed assets	556,277	551,077
Net cash used in investing activities	(17,178,943)	(20,483,587)

Heartland BancCorp

Consolidated Statements of Cash Flows (Continued)

Years Ended December 31, 2011 and 2010

	2011	2010
Financing Activities		
Net increase in demand deposits, money market, NOW and savings accounts	$ 26,222,666	$ 36,692,260
Net increase (decrease) in certificates of deposit	1,330,959	(28,887,239)
Net increase in short-term borrowings	1,224,728	3,898,836
Proceeds from stock options exercised	49,500	33,000
Purchase of common stock	(25,750)	(27,104)
Dividends paid	(1,979,206)	(1,975,697)
Net cash provided by financing activities	26,822,897	9,734,056
Increase (Decrease) in Cash and Cash Equivalents	17,653,022	(2,607,096)
Cash and Cash Equivalents, Beginning of Year	7,825,727	10,432,823
Cash and Cash Equivalents, End of Year	$ 25,478,749	$ 7,825,727
Supplemental Cash Flows Information		
Interest paid	$ 5,743,276	$ 7,660,389
Income taxes paid (net of refunds)	$ 1,932,921	$ 1,771,612
Supplemental disclosure of noncash investing and financing activities		
Transfers from loans to foreclosed assets held for sale	$ 797,057	$ 2,976,934
Loans to faciliate the sale of foreclosed assets	$ 516,515	$ 905,001
Unrealized gains (losses) on available-for-sale securities	$ 3,634,753	$ (2,452,541)
Dividends payable	$ 495,324	$ 494,077

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Heartland BancCorp ("Company") is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, Heartland Bank (the "Bank") and the Bank's wholly-owned subsidiaries, Heartland Mortgage Corporation (inactive), Heartland Investments, Inc. (inactive) and Heartland Insurance, LLC. The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in Franklin and Licking counties of central Ohio. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of certain federal and state agencies and undergoes annual examinations by those regulatory authorities.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change include the determination of the allowance for loan losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, valuation of deferred tax assets, and other-than-temporary impairments (OTTI) and fair values of financial instruments.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents.

Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

From time to time, the Company's interest-bearing cash accounts may exceed the FDIC's insured limit of $250,000. The Company believes the risk of loss to be very low.

Securities

Available-for-sale securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are carried at fair value. Unrealized gains and losses are recorded, net of related income tax effects, in other comprehensive income.

Held-to-maturity securities, which include any security for which the Company has the positive intent and ability to hold until maturity, are carried at historical cost adjusted for amortization of premiums and accretion of discounts.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

For debt securities with fair value below carrying value when the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

For available-for-sale and held-to-maturity debt securities that management has no intent to sell and believes that it more likely than not will not be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the noncredit loss is recognized in accumulated other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections. The Company recognized no other-than temporary impairment in 2011 and 2010.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for any charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off are reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Discounts and premiums on purchased commercial real estate loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established if the discounted cash flows, underlying collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default rates derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment

delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets.

Federal Reserve and Federal Home Loan Bank Stock

Federal Reserve and Federal Home Loan Bank stock are required investments for institutions that are members of the Federal Reserve and Federal Home Loan Bank systems. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net income or expense from foreclosed assets.

Goodwill

Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements. There were no changes in the carrying amount of goodwill.

Treasury Stock

During 2010, all outstanding Treasury shares were cancelled.

Stock Options

At December 31, 2011, the Company has a share-based employee compensation plan, which is described more fully in Note 14.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company—put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

If necessary, the Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Company files consolidated income tax returns with its subsidiaries in the U.S. federal jurisdiction. With a few exceptions, the Company is no longer subject to tax authorities for years before 2008. As of December 31, 2011, the Company had no uncertain income tax positions.

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during each period. Diluted earnings per share reflects additional potential common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized appreciation (depreciation) on available-for-sale securities, unrealized appreciation (depreciation) on available-for-sale securities for which a portion of an other-than-temporary impairment has been recognized in income, unrealized appreciation (depreciation) on held-to-maturity securities for which a portion of an other-than-temporary impairment has been recognized in income.

Marketing Costs

Marketing costs are expensed as incurred.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation. These reclassifications had no effect on net income.

Note 2: Restriction on Cash and Due From Banks

The Bank is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2011 was $5,564,000.

Note 3: Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available-for-sale Securities:				
December 31, 2011:				
U.S. government agencies	$ 32,807	$ 120	$ (1)	$ 32,926
Mortgage-backed securities of U.S. Government sponsored enterprises	51,010	1,746	(43)	52,713
State and political subdivisions	41,903	3,218	(20)	45,101
	$ 125,720	$ 5,084	$ (64)	$ 130,740
December 31, 2010:				
U.S. government agencies	$ 37,772	$ 199	$ (243)	$ 37,728
Mortgage-backed securities of U.S. Government sponsored enterprises	39,021	1,602	(185)	40,438
State and political subdivisions	37,046	665	(654)	37,057
	$ 113,839	$ 2,466	$ (1,082)	$ 115,223

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Held-to-maturity Securities:				
December 31, 2011:				
State and political subdivisions	$ 8,523	$ 642	$ (3)	$ 9,162
December 31, 2010:				
State and political subdivisions	$ 5,757	$ 123	$ (38)	$ 5,842

The amortized cost and fair value of available-for-sale securities and held-to-maturity securities at December 31, 2011, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	$ 2,015	$ 2,043	$ 1,385	$ 1,385
One to five years	32,593	32,820	438	437
Five to ten years	13,995	14,749	3,640	3,873
After ten years	26,107	28,415	3,060	3,467
	74,710	78,027	8,523	9,162
Mortgage-backed securities of U.S. Government sponsored entities	51,010	52,713	-	-
Totals	$ 125,720	$ 130,740	$ 8,523	$ 9,162

The carrying value, which equals fair value, of securities pledged as collateral, to secure public deposits and for other purposes, was $48,560,000 at December 31, 2011 and $45,598,000 at December 31, 2010.

Gross gains of $10,000 and $274,000 resulting from sales of available-for-sale securities were realized for 2011 and 2010, respectively. There were no gross losses resulting from the sale of available-for-sale securities for 2011 and 2010.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2011 and 2010 was $13,245,000 and $39,572,000, which is approximately 9% and 33%, respectively, of the Company's available-for-sale and held-to-maturity investment portfolio. These declines primarily resulted from changes in market interest rates. Management believes the declines in fair value for these securities are temporary.

The following tables show the Company's investments' gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2011 and 2010:

December 31, 2011

	Less than 12 Months		12 Months or More		Total	
Description of Securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Government agencies	$ 1,999	$ (1)	$ -	$ -	$ 1,999	$ (1)
Mortgage-backed securities of U.S. Government sponsored enterprises	8,547	(43)	-	-	8,547	(43)
State and political subdivisions	1,766	(5)	933	(18)	2,699	(23)
Total temporarily impaired securities	$ 12,312	$ (49)	$ 933	$ (18)	$ 13,245	$ (67)

December 31, 2010

	Less than 12 Months		12 Months or More		Total	
Description of Securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Government agencies	$ 15,780	$ (243)	$ -	$ -	$ 15,780	$ (243)
Mortgage-backed securities of U.S. Government sponsored enterprises	7,001	(185)	-	-	7,001	(185)
State and political subdivisions	15,531	(648)	1,260	(44)	16,791	(692)
Total temporarily impaired securities	$ 38,312	$ (1,076)	$ 1,260	$ (44)	$ 39,572	$ (1,120)

The unrealized losses on the Company's investments in U.S. Government agencies, Mortgage-backed securities of U.S. Government sponsored enterprises and securities of state and political subdivisions were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2011.

Note 4: Loans and Allowance for Loan Losses

Categories of loans at December 31, include:

	2011	2010
Commercial	$ 30,640	$ 31,474
Commercial real estate	259,357	258,772
Residential real estate	86,937	86,055
Consumer	14,644	15,791
Total loans	391,578	392,092
Less		
Net deferred loan fees, premiums and discounts	(171)	(353)
Allowance for loan losses	(4,016)	(3,872)
Net loans	$ 387,391	$ 387,867

Activity in the allowance for loan losses was as follows:

	2011	2010
Balance, beginning of year	$ 3,872	$ 3,244
Provision charged to expense	2,589	1,921
Losses charged off, net of recoveries of $60 for 2011 and $122 for 2010	(2,445)	(1,293)
Balance, end of year	$ 4,016	$ 3,872

The risk characteristics of each loan portfolio segment are as follows:

Commercial (Non-Real Estate)

Commercial loans are based on the identified cash flows of the borrower and on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Commercial Real Estate

These loans are viewed as cash flow loans with a significant emphasis on the value of real estate securing the loan. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type within the Company's market area. Management monitors and evaluates commercial real estate loans based on collateral, market area, and risk grade criteria. As a general rule, the Company avoids financing single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans.

Residential Real Estate and Consumer

With respect to residential loans that are secured by one- to four-family residences and are generally owner occupied, the Company generally establishes a maximum loan-to-value ratio of 80% and requires private mortgage insurance of 35% coverage if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in one- to four-family residences, and consumer loans are secured by consumer assets such as automobiles or recreational vehicles. Some consumer loans are unsecured such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. The security value can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2011.

	2011					
	Commercial	Commercial Real Estate	Residential 1-4 family	Residential Home Equity	Consumer	Total
December 31, 2011:						
Allowance for loan losses:						
Balance, beginning of year	$ 450	$ 2,800	$ 111	$ 229	$ 282	$ 3,872
Provision charged to expense	191	2,137	46	54	161	2,589
Losses charged off	(219)	(1,922)	(11)	(98)	(255)	(2,505)
Recoveries	11	13	-	2	34	60
Balance, end of year	$ 433	$ 3,028	$ 146	$ 187	$ 222	$ 4,016
Ending balance: individually evaluated for impairment	$ 225	$ 826	$ -	$ -	$ -	$ 1,051
Ending balance: collectively evaluated for impairment	$ 208	$ 2,202	$ 146	$ 187	$ 222	$ 2,965
Loans:						
Ending balance	$ 30,640	$ 259,357	$ 66,325	$ 20,612	$ 14,644	$ 391,578
Ending balance: individually evaluated for impairment	$ 1,835	$ 10,446	$ -	$ -	$ -	$ 12,281
Ending balance: collectively evaluated for impairment	$ 28,805	$ 248,911	$ 66,325	$ 20,612	$ 14,644	$ 379,297

The following table presents the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2010.

	2010					
	Commercial	Commercial Real Estate	Residential 1-4 Family	Residential Home Equity	Consumer	Total
December 31, 2010:						
Allowance for loan losses:						
Ending balance, individually evaluated for impairment	$ 100	$ 850	$ -	$ -	$ -	$ 950
Ending balance, collectively evaluated for impairment	$ 350	$ 1,950	$ 111	$ 229	$ 282	$ 2,922
Loans:						
Ending balance	$ 31,474	$ 258,772	$ 64,433	$ 21,622	$ 15,791	$ 392,092
Ending balance; individually evaluated for impairment	$ 201	$ 10,411	$ -	$ 27	$ 104	$ 10,743
Ending balance; collectively evaluated for impairment	$ 31,273	$ 248,361	$ 64,433	$ 21,595	$ 15,687	$ 381,349

The following tables present the credit risk profile of the Company's loan portfolio based on the Company's internal rating categories as of December 31, 2011 and 2010:

2011	Commercial	Commercial Real Estate	Residential 1-4 Family	Residential Home Equity	Consumer	Total
Pass	$ 25,063	$ 238,681	$ 64,018	$ 20,432	$ 14,453	$ 362,647
Special mention	1,544	7,440	784	103	18	9,889
Substandard	4,033	13,236	1,523	77	173	19,042
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 30,640	$ 259,357	$ 66,325	$ 20,612	$ 14,644	$ 391,578

2010	Commercial	Commercial Real Estate	Residential 1-4 Family	Residential Home Equity	Consumer	Total
Pass	$ 29,889	$ 242,564	$ 63,096	$ 21,377	$ 15,561	$ 372,487
Special mention	328	8,665	1,061	30	50	10,134
Substandard	1,257	7,543	276	215	180	9,471
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 31,474	$ 258,772	$ 64,433	$ 21,622	$ 15,791	$ 392,092

Approximately $148,533,000 in 2011 and $144,258,000 in 2010 of commercial real estate is owner occupied.

Internal Risk Categories

Loan grades are numbered 1 through 8. Grades 1 through 4 are considered satisfactory grades. The grade of 5, or Special Mention, represents loans of lower quality and is considered criticized. The grades of 6, or Substandard, and 7, or Doubtful, refer to assets that are classified. The use and application of these grades by the Company will be uniform and shall conform to the Company's policy.

Excellent (1) loans are of superior quality with excellent credit strength and repayment ability proving a nominal credit risk.

Good (2) loans are of above average credit strength and repayment ability proving only a minimal credit risk.

Satisfactory (3) loans of reasonable credit strength and repayment ability proving an average credit risk due to one or more underlying weaknesses.

Watch (4) loans of the lowest acceptable credit strength and weakened repayment ability providing a cautionary credit risk due to one or more underlying weaknesses. New borrowers are typically not underwritten within this classification.

Special Mention (5) assets have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Ordinarily, special mention credits have characteristics which corrective management action would remedy.

Substandard (6) loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful (7) loans classified as doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current known facts, conditions and values, highly questionable and improbable.

Loss (8) loans classified as loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off even though partial recovery may be affected in the future.

The following tables present the Company's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2011 and 2010:

	2011						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
Commercial	$ 104	$ 25	$ 2,003	$ 2,132	$ 28,508	$ 30,640	$ 1,733
Commercial real estate	3,187	3,691	7,857	14,735	244,622	259,357	2,153
Residential 1-4 family	2,404	45	1,058	3,507	62,818	66,325	482
Residential home equity	118	74	62	254	20,358	20,612	-
Consumer	144	77	97	318	14,326	14,644	12
Total	$ 5,957	$ 3,912	$ 11,077	$ 20,946	$ 370,632	$ 391,578	$ 4,380

	2010						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
Commercial	$ 1,041	$ 58	$ 267	$ 1,366	$ 30,108	$ 31,474	$ 96
Commercial real estate	4,373	813	5,023	10,209	248,563	258,772	365
Residential 1-4 family	1,652	291	105	2,048	62,385	64,433	105
Residential home equity	63	-	215	278	21,344	21,622	-
Consumer	123	65	73	261	15,530	15,791	-
Total	$ 7,252	$ 1,227	$ 5,683	$ 14,162	$ 377,930	$ 392,092	$ 566

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings.

The following tables present impaired loans for the years ended December 31, 2011 and 2010:

	2011				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Balance of Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial	$ 1,168	$ 1,240	$ -	$ 1,287	$ 80
Commercial real estate	7,605	8,162	-	8,584	327
Residential 1-4 family	-	-	-	-	-
Residential home equity	-	-	-	-	-
Consumer	-	-	-	-	-
Loans with a specific valuation allowance:					
Commercial	667	671	225	699	40
Commercial real estate	2,841	3,950	826	3,403	21
Residential 1-4 family	-	-	-	-	-
Residential home equity	-	-	-	-	-
Consumer	-	-	-	-	-
Total:					
Commercial	1,835	1,911	225	1,986	120
Commercial real estate	10,446	12,112	826	11,987	348
Residential 1-4 family	-	-	-	-	-
Residential home equity	-	-	-	-	-
Consumer	-	-	-	-	-
Totals	$ 12,281	$ 14,023	$ 1,051	$ 13,973	$ 468

	2010				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Balance of Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial	$ -	$ -	$ -	$ -	$ -
Commercial real estate	7,501	7,501	-	7,432	325
Residential 1-4 family	-	-	-	-	-
Residential home equity	27	27	-	27	-
Consumer	104	104	-	104	-
Loans with a specific valuation allowance:					
Commercial	201	201	100	201	-
Commercial real estate	2,910	2,910	850	3,336	37
Residential 1-4 family	-	-	-	-	-
Residential home equity	-	-	-	-	-
Consumer	-	-	-	-	-
Total:					
Commercial	201	201	100	201	-
Commercial real estate	10,411	10,411	850	10,768	362
Residential	27	27	-	27	-
Consumer	104	104	-	104	-
Totals	$ 10,743	$ 10,743	$ 950	$ 11,100	$ 362

Interest income recognized is not materially different than interest income that would have been recognized on a cash basis.

The following table presents the Company's nonaccrual loans at December 31, 2011 and 2010. This table excludes performing troubled debt restructurings.

	2011	2010
Commercial	$ 270	$ 171
Commercial real estate	5,747	4,658
Residential 1-4 family	576	-
Residential home equity	62	215
Consumer	85	73
Total nonaccrual	$ 6,740	$ 5,117

As a result of adopting the amendments in Accounting Standards Update No. 2011-02 (the ASU), the Company reassessed all restructurings that occurred on or after the beginning of its current fiscal year for identification as troubled debt restructurings. Loans that were modified in troubled debt restructurings and deemed impaired during the year ending December 31, 2011 were immaterial to the financial statements. Also, there were no troubled debt restructurings modified in the past 12 months that subsequently defaulted.

Note 5: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

	2011	2010
Land and improvements	$ 3,871	$ 3,256
Building and improvements	7,523	7,274
Equipment	6,475	6,308
	17,869	16,838
Less accumulated depreciation	(7,836)	(7,359)
Net premises and equipment	$ 10,033	$ 9,479

Note 6: Interest-bearing Time Deposits

Interest-bearing time deposits in denominations of $100,000 or more were $106,196,000 on December 31, 2011 and $94,798,000 on December 31, 2010.

At December 31, 2011, the scheduled maturities of time deposits are as follows:

2012	$ 147,265
2013	51,105
2014	15,041
2015	14,032
2016	25,373
Total time deposits	$ 252,816

Note 7: Short-term Borrowings

Short-term borrowings consisted of the following at December 31:

	2011	2010
Securities sold under repurchase agreements	$ 19,725	$ 19,853
Federal Home Loan Bank advances - variable	-	3,647
Federal Home Loan Bank advances - fixed at 0.40% and maturing in 2012	5,000	-
	$ 24,725	$ 23,500

Securities sold under agreements to repurchase consist of obligations of the Bank to other parties. The obligations are secured by U. S. Government Agency, FHLB, FHLMC, FNMA and municipal securities and such collateral is held in safekeeping with a third party. The maximum amount of outstanding agreements at any month end during 2011 and 2010 totaled $26,815,888 and $23,697,000, respectively, and the daily average of such agreements totaled $22,786,000 and $20,874,000 for 2011 and 2010, respectively. These agreements mature daily.

The Company has a Federal Funds Borrowing Line Agreement with PNC Bank that allows the Company to purchase up to $5,000,000 in Federal Funds.

The Company has a cash management advance (CMA) line of credit with the Federal Home Loan Bank (FHLB). FHLB borrowings are collateralized by all shares of FHLB stock owned by the Bank and by the Bank’s qualified residential mortgage loans.

At December 31, 2011 and 2010, the Company has $40,000,000 and $41,363,000, respectively, available on its CMA line of credit. The CMA application expires on February 22, 2012. The Company has the option of selecting a variable interest rate set daily for 90 days or a fixed interest rate for a maximum of thirty days. Variable interest rates are set daily based upon the FHLB’s published interest rates. Variable interest rate advances are prepayable with no fee. The fixed rate is not prepayable prior to maturity.

Note 8: Long-term Debt

The Company issued $3,000,000 of 10.60% capital securities through a special purpose entity as part of a pooled offering. The Company’s obligated mandatory redeemable capital securities may be redeemed by the Company prior to their mandatory September 7, 2030 redemption date commencing September 7, 2010 at a redemption price of 105.30% of the face value of the capital securities and thereafter at a premium that declines annually. On or after September 7, 2020, the capital securities may be redeemed at face value. The Company’s mandatory redeemable capital securities are considered to be Tier I capital for regulatory reporting purposes. Debt issuance costs have been capitalized and are being amortized over the term of the securities.

Note 9: Income Taxes

The provision for income taxes includes these components:

	2011	2010
Taxes currently payable	$ 1,992	$ 2,040
Deferred income taxes	(145)	(287)
Income tax expense	$ 1,847	$ 1,753

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	2011	2010
Computed at the statutory rate (34%)	$ 2,351	$ 2,150
Increase (decrease) resulting from		
Tax exempt interest	(549)	(442)
Nondeductible expenses	15	21
Cash surrender value, net of premiums	(7)	14
Other	37	10
Actual tax expense	$ 1,847	$ 1,753

The tax effects of temporary differences related to deferred taxes shown on the balance sheets were:

	2011	2010
Deferred tax assets		
Allowance for loan losses	$ 1,305	$ 1,211
Deferred compensation	592	572
Nonaccrual of loan interest	34	9
Stock option expense	-	21
Foreclosed assets held for sale	63	23
Other	30	7
	2,024	1,843
Deferred tax liabilities		
Depreciation	(203)	(186)
Purchase accounting adjustments	(42)	(48)
FHLB stock dividends	(152)	(152)
Prepaid expenses	(72)	(47)
Unrealized gains on available-for-sale securities	(1,707)	(471)
	(2,176)	(904)
Net deferred tax (liability) asset	$ (152)	$ 939

Note 10: Other Comprehensive Income (Loss)

Other comprehensive income (loss) components and related taxes were as follows:

	2011	2010
Unrealized gains (loss) on available-for-sale securities	$ 3,647	$ (2,178)
Reclassification adjustment for realized gains on available-for-sale securities included in income	(10)	(274)
Other comprehensive income (loss), before tax effect	3,637	(2,452)
Tax expense (benefit)	1,237	(833)
Other comprehensive income (loss)	$ 2,400	$ (1,619)

Note 11: Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting guidelines. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Company's regulators could require adjustments to regulatory capital not reflected in these financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2011, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2011, the most recent notification from the Federal Reserve categorized the Company and Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Company and Bank must maintain capital ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Company or Bank's category.

The Company's and Bank's actual capital amounts and ratios are also presented in the following table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2011						
Total Capital						
(to Risk-Weighted Assets)						
Consolidated	$ 54,134	14.4%	$ 30,111	8.0%	$ 37,639	10.0%
Bank	50,763	13.5%	30,083	8.0%	37,604	10.0%
Tier I Capital						
(to Risk-Weighted Assets)						
Consolidated	50,118	13.3%	15,055	4.0%	22,583	6.0%
Bank	46,747	12.4%	15,042	4.0%	22,562	6.0%
Tier I Capital						
(to Average Assets)						
Consolidated	50,118	8.9%	22,599	4.0%	28,248	5.0%
Bank	46,747	8.2%	22,582	4.0%	28,228	5.0%
As of December 31, 2010						
Total Capital						
(to Risk-Weighted Assets)						
Consolidated	$ 50,877	13.4%	$ 30,724	8.0%	$ 37,842	10.0%
Bank	48,755	12.9%	30,246	8.0%	37,807	10.0%
Tier I Capital						
(to Risk-Weighted Assets)						
Consolidated	47,005	12.4%	15,137	4.0%	22,705	6.0%
Bank	44,833	11.9%	15,123	4.0%	22,684	6.0%
Tier I Capital						
(to Average Assets)						
Consolidated	47,005	8.6%	21,954	4.0%	27,443	5.0%
Bank	44,833	8.2%	21,938	4.0%	27,422	5.0%

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. Generally, the Bank's payment of dividends is limited to net income for the current year plus the two preceding calendar years, less capital distributions paid over the comparable time period.

Note 12: Related Party Transactions

At December 31, 2011 and 2010, the Bank had loans outstanding and lines of credit available to executive officers, directors, significant shareholders and their affiliates (related parties), in the amount of $19,479,000 and $12,941,000, respectively.

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons.

Further, in management's opinion, these loans did not involve more than normal risk of collectibility or present other unfavorable features.

Deposits from related parties held by the Bank at December 31, 2011 and 2010 totaled $6,818,000 and $5,838,000, respectively.

Note 13: Employee Benefits

The Company has a retirement savings 401(k) plan covering substantially all employees. Employees may contribute up to the maximum amount allowable by the Internal Revenue Service with the Company matching 50% of the employee's contribution not to exceed 3% of the employee's compensation. In addition, the Company may make additional discretionary contributions allocated to all eligible participants based on compensation. Employee contributions are always 100% vested. Employer contributions vest 20% annually until the employee becomes fully vested after five years of participation in the plan. Employer contributions charged to expense for 2011 and 2010 were $120,000 and $110,000, respectively.

The Company has supplemental retirement plans for certain senior officers. Officers in the plans, upon retirement, will receive annually for fifteen years 50% of their final annual payroll amount exclusive of incentive and bonus amounts and reduced by 401(k) or 401(k) and social security retirement benefits. The plans are uniquely designed for each participant. The charge to expense for 2011 and 2010 were $192,000 and $216,000, respectively. Such charges reflect the straight-line accrual over the period until full eligibility of the present value of benefits due each participant on the full eligibility date, using a 6% discount factor. The resulting liability at December 31, 2011 and 2010 was $1,740,000 and $1,682,000, respectively. The Company purchased life insurance on the participants. The cash surrender value of such insurance was $1,537,000 and $1,346,000 at December 31, 2011 and 2010, respectively and is included in other assets.

The Bank has employment agreements with three officers of the Bank. Under these agreements, the officers are employed for rolling two or three-year periods. Unless the Bank serves a termination notice to the officers before December 31 of each year, the agreements are automatically extended for one additional year. The Bank's Board of Directors approve the officers' base salaries annually. The agreements prohibit the officers from soliciting banking business from customers of the Bank for a period of two years following the termination of the employment agreements.

Note 14: Stock Option Plan

The Company has a fixed option plan under which the Company may grant options to selected directors, Advisory Board Members and employees for up to 249,738 shares of common stock that vest over two years or immediately if the recipient is 65 years old or older. The Company believes that such awards better align the interests of its employees with those of its shareholders. The exercise price of each option is intended to equal the fair value of the Company's stock on the date of grant. An option's maximum term is ten years. The compensation cost for the stock option expense recognized in 2010 totaled $6,000 with a related tax benefit in 2010 of $2,000. The Company deemed the compensation cost and related tax benefit for stock options granted in 2011 to be immaterial to the financial statements. As of December 31, 2011, there was $46,000 of total unrecognized compensation cost related to non-vested share based compensation arrangements granted under the Plan.

A summary of the status of the plan at December 31, 2011 and changes during the year then ended is presented below:

	2011			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Instrinsic Value
Outstanding, beginning of year	115,870	$ 27.44		
Granted	37,800	27.75		
Exercised	(3,000)	16.50		
Forfeited or expired	(2,021)	27.75		
Outstanding, end of year	148,649	$ 27.74	5.77	$ 302,000
Exercisable, end of year	111,349	$ 27.73	4.50	$ 302,000

The weighted-average grant-date fair value of options granted during year 2011 was $1.22. There no options granted in 2010. The total intrinsic value of options exercised during the year ended December 31, 2011 and 2010 was $34,000 and $11,000, respectively.

The fair value of each option award granted is estimated on the date of the grant using a Black-Scholes valuation model that uses the assumptions noted in the following table. Expected volatility is based on historical volatility of the Company's stock and other factors. The Company uses the simplified method to estimate option exercise and employee termination within the valuation model due to lack of historical data. The expected term of options granted represents the period of time that options are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	2011	2010
Dividend yields	4.80%	N/A
Volatility factors of expected market price of common stock	12.90%	N/A
Risk-free interest rate	2.17%	N/A
Expected life of options	7.00	N/A
Weighted-average fair value of options granted during the year	$ 1.22	N/A

Note 15: Earnings Per Share

Earnings per share (EPS) were computed as follows:

	Year Ended December 31, 2011		
	Income	Weighted-Average Shares	Per Share Amount
Basic earnings per share			
Income available to common stockholders	$ 5,069	1,537,231	$ 3.30
Effect of dilutive securities			
Stock options		14,736	
Diluted earnings per share			
assumed conversions			
stockholders and assumed conversions	$ 5,069	1,551,967	$ 3.27

Options to purchase 93,591 shares of common stock at a weighted-average exercise price of $32.67 per share were outstanding at December 31, 2011, but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares.

	Year Ended December 31, 2010		
	Income	Weighted-Average Shares	Per Share Amount
Basic earnings per share			
Income available to common stockholders	$ 4,570	1,535,430	$ 2.98
Effect of dilutive securities			
Stock options		9,999	
Diluted earnings per share			
assumed conversions			
stockholders and assumed conversions	$ 4,570	$ 1,545,429	$ 2.96

Options to purchase 80,370 shares of common stock at a weighted-average exercise price of $32.32 per share were outstanding at December 31, 2010, but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares.

Note 16: Disclosures about Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which 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 in active markets for identical assets or liabilities

Level 2 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 for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies and inputs used for assets and measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. government agencies, Mortgage-backed securities of U.S. government sponsored enterprises, and State and political subdivisions. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2011 and 2010:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2011:				
U.S. government agencies	$ 32,926	$ -	$ 32,926	$ -
Mortgage-backed securities of U.S. government sponsored enterprises	52,713	-	52,713	-
State and political subdivisions	45,101	-	45,101	-
December 31, 2010:				
U.S. government agencies	$ 37,728	$ -	$ 37,728	$ -
Mortgage-backed securities of U.S. Government sponsored enterprises	40,438	-	40,438	-
State and political subdivisions	37,057	-	37,057	-

Following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Impaired Loans (Collateral Dependent)

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. The Company measures the impairment based on the value of the underlying collateral. This method utilizes a recent appraisal of the collateral and applies a discount factor to the value based on the Company's estimate of holding cost and other economic factors, such as estimated cash flow generated from the property.

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2011 and 2010:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2011:				
Impaired Loans	$ 3,430	$ -	$ -	$ 3,430
December 31, 2010:				
Impaired Loans	$ 2,432	$ -	$ -	$ 2,432

The following table presents estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

	December 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 25,479	$ 25,479	$ 7,826	$ 7,826
Available-for-sale securities	130,740	130,740	115,223	115,223
Held-to-maturity securities	8,523	9,162	5,757	5,842
Loans, net of allowance for loan losses	387,391	408,502	387,867	404,384
Federal Reserve and Federal Home Loan Bank stock	1,231	1,231	1,230	1,230
Interest receivable	1,867	1,867	1,805	1,805
Financial liabilities				
Deposits	489,279	493,313	461,725	459,959
Short-term borrowings	24,725	24,725	23,500	23,500
Long-term debt	3,093	3,765	3,093	3,656
Interest payable	305	305	354	354

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

Cash and Cash Equivalents and Federal Reserve and Federal Home Loan Bank Stock

The carrying amount approximates fair value.

Held-to-maturity Securities

Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of accrued interest approximates its fair value.

Deposits

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Short-term Borrowings and Interest Receivable/Payable

The carrying amount approximates fair value.

FHLB Advances

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.

Long-term Debt

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.

Commitments to Originate Loans, Forward Sale Commitments, Letters of Credit and Lines of Credit

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

The fair value of forward sale commitments is estimated based on current market prices for loans of similar terms and credit quality. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. The fair values of commitments were not material at December 31, 2011 and 2010.

Note 17: Commitments and Credit Risk

As of December 31, 2011, the Bank had $58,855,000 in outstanding loan balances to churches within the Bank's lending area with an additional $2,577,000 available to be drawn.

Letters of Credit

Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions.

The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

The Bank had total outstanding letters of credit amounting to $961,000 and $916,000 at December 31, 2011 and 2010, respectively, with maturities within the next 12 months.

Lines of Credit

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At December 31, 2011, the Bank had granted unused lines of credit to borrowers aggregating approximately $12,700,000 and $24,728,000 for commercial lines and open-end consumer lines, respectively. At December 31, 2010, unused lines of credit to borrowers aggregated approximately $14,736,000 for commercial lines and $20,944,000 for open-end consumer lines.

Commitments to Originate Loans

Commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

At December 31, 2011, and 2010, the Bank had outstanding commitments to originate loans aggregating approximately $12,409,000 and $14,066,000, respectively. The commitments extended over varying periods of time with the majority being disbursed within a one-year period.

Note 18: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company:

Condensed Balance Sheets

	December 31,	
	2011	2010
Assets		
Cash and cash equivalents	$ 3,714	$ 2,441
Investment in common stock of subsidiaries	50,061	45,802
Other assets	729	750
Total assets	$ 54,504	$ 48,993
Liabilities		
Long-term debt	$ 3,093	$ 3,093
Other liabilities	656	657
Total liabilities	3,749	3,750
Shareholders' Equity	50,755	45,243
Total liabilities and shareholders' equity	$ 54,504	$ 48,993

Heartland BancCorp

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(Table Dollar Amounts in Thousands, Except Per Share Data)

Condensed Statements of Income

	Year Ending December 31, 2011	Year Ending December 31, 2010
Income		
Interest income	$ 7	$ 2
Dividends from subsidiaries	3,480	3,476
Total income	3,487	3,478
Expenses		
Interest expense	323	323
Other expenses	92	120
Total expenses	415	443
Income Before Income Tax and Equity in Undistributed Income of Subsidiaries	3,072	3,035
Income Tax Benefit	(139)	(150)
Income Before Equity in Undistributed Income of Subsidiaries	3,211	3,185
Equity in Undistributed Income of Subsidiaries	1,858	1,385
Net Income	$ 5,069	$ 4,570

Condensed Statements of Cash Flows

	Year Ending December 31, 2011	2010
Operating Activities		
Net income	$ 5,069	$ 4,570
Items not providing cash	(1,841)	(890)
Net cash provided by operating activities	3,228	3,680
Financing Activities		
Cash dividends paid	(1,979)	(1,976)
Proceeds from stock options exercised	50	33
Purchase of common stock	(26)	(27)
Net cash used in financing activities	(1,955)	(1,970)
Net Change in Cash and Cash Equivalents	1,273	1,710
Cash and Cash Equivalents at Beginning of Year	2,441	731
Cash and Cash Equivalents at End of Year	$ 3,714	$ 2,441

Note 19: Subsequent Events

Subsequent events have been evaluated through March 14, 2012, which is the date the financial statements were available to be issued.

Heartland BancCorp and Bank Directors

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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
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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

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G. Scott McComb
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Donna J. Holycross
Vice President, Director of Marketing

Cheryl L. Krouse
Vice President, Retail Administration Manager

Mark A. Matthews
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Linda E. Miller
Vice President, Corporate Secretary

Edmund W. Smallwood, Jr.
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Stephanie W. Toalston
Vice President, Director of Human Resources

Jennifer L. Eckert
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Heartland Investment Services

Mark Posey
Investment Representative

Jason Ellinger
Investment Representative

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