Western Asset Mortgage Defined Opportunity Fund Inc.
Form 3
May 17, 2017

FORM 3

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

OMB Number: 3235-0104
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

INITIAL STATEMENT OF BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Â Kuehl Todd F

(Last) (First) (Middle)

100 INTERNATIONAL DRIVE,Â 9TH FLOOR

(Street)

BALTIMORE,Â MDÂ 21202

(City) (State) (Zip)

2. Date of Event Requiring Statement (Month/Day/Year)
05/11/2017

3. Issuer Name **and** Ticker or Trading Symbol
Western Asset Mortgage Defined Opportunity Fund Inc. [DMO]

4. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chief Compliance Officer

5. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Beneficially Owned

1.Title of Security (Instr. 4)	2. Amount of Securities Beneficially Owned (Instr. 4)	3. Ownership Form: Direct (D) or Indirect (I) (Instr. 5)	4. Nature of Indirect Beneficial Ownership (Instr. 5)
Common Stock	0 (1)	D (1)	Â

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

SEC 1473 (7-02)

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

Table II - Derivative Securities Beneficially Owned (*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 4)	2. Date Exercisable and Expiration Date (Month/Day/Year)	3. Title and Amount of Securities Underlying Derivative Security (Instr. 4) Title	4. Conversion or Exercise Price of Derivative	5. Ownership Form of Derivative Security:	6. Nature of Indirect Beneficial Ownership (Instr. 5)

Date Exercisable	Expiration Date		Amount or Number of Shares	Security	Direct (D) or Indirect (I) (Instr. 5)

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Kuehl Todd F 100 INTERNATIONAL DRIVE 9TH FLOOR BALTIMORE,Â MDÂ 21202	Â	Â	Â Chief Compliance Officer	Â

Signatures

/s/ George P. Hoyt by Power of Attorney for Todd F. Kuehl	05/16/2017
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 5(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The Reporting Person does not beneficially own any securities of the issuer, directly or indirectly.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *See* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. op:2px;padding-bottom:2px;">
3,566

9.92

Unallocated
—

—

—

1,000

137

Total allowance for loan and lease losses
$
41,685

$
38,715

$
36,808

$
42,693

$
41,848

(1) For 2013, the amount allocated to commercial was $13,099 and the amount allocated to commercial real estate was $14,152. For 2012, the amount allocated to commercial was $11,388 and the amount allocated to commercial real estate was $14,473.

Management allocates the allowance for loan and lease losses by pools of risk within each loan portfolio. The allocation of the allowance for loan and lease losses by loan portfolio is made for analytical purposes and is not necessarily indicative of the trend of future loan and lease losses in any particular category. The total allowance for loan and lease losses is available to absorb losses from any segment of the loan portfolio.

Securities

The composition of Heartland's securities portfolio is managed to maximize the return on the portfolio while considering the impact it has on Heartland's asset/liability position and liquidity needs. Securities represented 32% of Heartland's total assets at December 31, 2013, compared to 31% at year-end 2012. Total available for sale securities as of December 31, 2013, were $1.63 billion, an increase of $143.6 million or 10% since December 31, 2012. The 2013 acquisitions included $355.7 million of available for sale securities. Total available for sale securities as of December 31, 2012, were $1.49 billion, an increase of $240.3 million or 19% since December 31, 2011. The 2012 acquisitions included available for sale securities of $24.5 million.

The table below presents the composition of the securities portfolio, including trading, available for sale and held to maturity, by major category, in thousands:

SECURITIES PORTFOLIO COMPOSITION

	As of December 31,								
	2013			2012			2011		
	Amount	% of Portfolio		Amount	% of Portfolio		Amount	% of Portfolio	
U.S. government corporations and agencies	$218,303	11.52	%	$21,444	1.37	%	$107,147	8.08	%
Mortgage-backed securities	1,149,920	60.68		1,043,241	66.79		834,185	62.88	
Obligation of states and political subdivisions	498,149	26.29		474,907	30.41		335,799	25.31	
Other securities	28,672	1.51		22,365	1.43		49,461	3.73	
Total securities	$1,895,044	100.00	%	$1,561,957	100.00	%	$1,326,592	100.00	%

The percentage of Heartland's securities portfolio comprised of U.S. government corporation and agencies was 12% at December 31, 2013, compared to 1% at December 31, 2012. Mortgage-backed securities comprised 61% of Heartland's securities portfolio at December 31, 2013, compared to 67% at December 31, 2012, and 63% at December 31, 2011. The change in the composition of the securities portfolio during 2013 was partially a result of the Morrill & Janes merger, as approximately 46% of its securities were held in U.S. government corporations and agency securities, 49% in mortgage-backed securities and the remainder in municipal securities. Additionally, a portion of the proceeds from maturities, paydowns and sales were used to fund loan growth during 2013. During 2012, the composition of the securities portfolio was shifted from

lower-yielding U.S. government corporate and agency securities into mortgage-backed securities and obligations of states and political subdivisions.

Approximately 87% of Heartland's mortgage-backed securities were issuances of government-sponsored enterprises at December 31, 2013, compared to 80% at December 31, 2012. Heartland's securities portfolio had an expected duration of 4.50 years as of December 31, 2013, compared to 4.30 years at year-end 2012.
The Volcker Rule prohibits insured depository institutions and their holding companies from engaging in proprietary trading except in limited circumstances, and prohibits them from owning equity interests in excess of 3% of Tier 1 Capital in private equity and hedge funds. The Volcker Rule will not have a material impact on Heartland’s investment securities portfolio. For additional information on the Volcker Rule, see the discussion under the “Business - F. Supervision and Regulation - The Bank Subsidiaries - The Volcker Rule and Proprietary Trading” heading of Part I, Item 1 of this report.

At December 31, 2013, we had $21.8 million of other securities, including capital stock in the various Federal Home Loan Banks of which the Bank Subsidiaries are members and all of which were classified as other securities held at cost.

The tables below present the contractual maturities for the debt securities in the securities portfolio at December 31, 2013, by major category and classification as available for sale or held to maturity, in thousands. Expected maturities will differ from contractual maturities, as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.
SECURITIES AVAILABLE FOR SALE PORTFOLIO MATURITIES

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		Mortgage-backed and equity securities		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yiel
U.S. government corporations and agencies	$7,995	0.92%	$134,672	0.96%	$75,636	3.73%	$—	— %	$—	— %	$218,303	1.35
Obligations of states and political subdivisions[1]	4,905	4.17	16,773	3.50	24,192	0.02	220,754	3.37	—	—	266,624	3.51
Mortgage backed securities	—	—	—	—	—	—	—	—	1,143,947	2.66	1,143,947	1.88
Equity securities	—	—	—	—	—	—	—	—	5,028	—	5,028	—
Total	$12,900	2.16%	$151,445	1.25%	$99,828	2.54%	$220,754	337.40%	$1,148,975	2.66%	$1,633,902	2.31

(1) Rates on obligations of states and political subdivisions have been adjusted to tax equivalent yields using a 34% tax rate.
SECURITIES HELD TO MATURITY PORTFOLIO MATURITIES

Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		Mortgage-backed and equity securities		Total	
Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield

Obligations of states and political subdivisions[1]	$—	—%	$—	—%	$53,121	4.27%	$178,404	4.04 %	$—	— %	$231,525	5.84%
Mortgage backed and equity securities	—	—	—	—	—	—		—	5,973	9.95	5,973	9.95
Total	$—	—%	$—	—%	$53,121	5.87%	$178,404	4.04 %	$5,973	9.95%	$237,498	6.36%

(1) Rates on obligations of states and political subdivisions have been adjusted to tax equivalent yields using a 34% tax rate.

Some of the debt securities held in our available for sale portfolio had market values below their amortized cost basis at December 31, 2013. Because the majority of the decline in market value is attributable to changes in interest rates and not credit quality, and because we have the ability and intent to hold those investments until a recovery of fair value, which may be maturity, we did not consider those investments to be other-than-temporarily impaired at December 31, 2013. See Note 4 to our consolidated financial statements for further discussion regarding unrealized losses on our securities portfolio.

Deposits

The table below sets forth the distribution of our average deposit account balances and the average interest rates paid on each category of deposits for the years indicated, in thousands:

AVERAGE DEPOSITS

	For the Years Ended December 31,								
	2013			2012			2011		
	Average Deposits	Percent of Deposits	Average Interest Rate	Average Deposits	Percent of Deposits	Average Interest Rate	Average Deposits	Percent of Deposits	Average Interest Rate
Demand deposits	$1,064,177	26.52 %	— %	$829,566	24.43 %	— %	$667,952	21.45 %	— %
Savings	2,101,295	52.36	0.32	1,763,233	51.91	0.38	1,589,697	51.05	0.57
Time deposits less than $100,000	532,157	13.26	1.67	531,351	15.64	2.02	590,767	18.97	2.40
Time deposits of $100,000 or more	315,623	7.86	1.40	272,338	8.02	1.75	265,664	8.53	2.23
Total deposits	$4,013,252	100.00 %		$3,396,488	100.00 %		$3,114,080	100.00 %	

Total average deposits increased $616.8 million or 18% during 2013. Exclusive of $145.6 million attributable to the acquisitions completed in the fourth quarter of 2013, total average deposits increased $471.2 million or 14%. During 2012, total average deposits increased $282.4 million or 9%. Exclusive of $45.9 million attributable to acquisitions, this growth was $236.5 million or 8%. During both years, this growth was weighted more heavily in our Midwestern markets, which were responsible for 62% of the growth during 2013 and 71% of the growth during 2012. The percentage of our total average deposit balances attributable to branch banking offices in our Western markets was 38% during 2013, 39% during 2012 and 41% during 2011.

The composition of Heartland's deposits continued to shift from higher cost certificates of deposit to no cost demand deposits during 2013, as average demand deposits increased $234.6 million or 28%. Exclusive of acquisitions, average demand deposits increased $216.5 million or 26% during 2013. For 2012, average demand deposits increased $161.6 million or 24%. Exclusive of acquisitions, average demand deposits increased $153.7 million or 23% during 2012. The result is an improving mix of total deposits, with demand deposits representing 27%, savings representing 54% and time deposits representing 19% at December 31, 2013. At year-end 2012, demand deposits represented 25% of total deposits, savings represented 52% and time deposits represented 23%. At year-end 2011, demand deposits represented 22% of total deposits, savings represented 52% and time deposits represented 26%. The percentage of our total average demand deposit balances attributable to branch banking offices in our Western markets was 44% during 2013, 55% during 2012 and 47% during 2011.

Average savings deposit balances increased by $338.1 million or 19% during 2013. Exclusive of acquisitions, average savings deposit balances increased $226.2 million or 13% during 2013. For 2012, average savings deposit balances increased $173.5 million or 11%. Exclusive of acquisitions, average savings deposit balances increased $159.2 million or 10% during 2012. The percentage of our total average savings deposit balances attributable to branch banking offices in our Western markets was 35% in 2013, 37% in 2012 and 38% in 2011.

Average time deposits increased $44.1 million or 5% during 2013 and, exclusive of those balances acquired through acquisitions, $28.4 million or 4%. For 2012, average time deposits decreased $52.7 million or 6% and, without acquisitions, $76.3 million or 9%. The decrease in time deposits during 2012 was attributable to an increased emphasis on growing our customer base in non-maturity deposit products instead of higher-cost certificates of deposit. The Bank Subsidiaries priced time deposit products competitively to retain existing relationship-based deposit

customers, but not to retain certificate of deposit only customers or to attract new customers. Additionally, due to the low interest rates, many certificate of deposit customers elected to place their maturing balances in checking or savings accounts while waiting for interest rates to improve. The percentage of our total average time deposit balances attributable to branch banking offices in our Western markets was 39% during 2013, 40% during 2012 and 41% during 2011.

Average brokered time deposits as a percentage of total average deposits were 1% during both 2013 and 2012. The reliance on brokered time deposits has decreased during more recent years as the Bank Subsidiaries were able to grow deposits in their own markets at comparable or lower interest rates.

The following table sets forth the amount and maturities of time deposits of $100,000 or more at December 31, 2013, in thousands:

TIME DEPOSITS $100,000 AND OVER

	December 31, 2013
3 months or less	$56,420
Over 3 months through 6 months	79,114
Over 6 months through 12 months	75,073
Over 12 months	143,577
	$354,184

Borrowings

Short-term borrowings generally include federal funds purchased, securities sold under agreements to repurchase, short-term FHLB advances and discount window borrowings from the Federal Reserve Bank. These funding alternatives are utilized in varying degrees depending on their pricing and availability. All of Heartland's bank subsidiaries own FHLB stock in either the Chicago, Dallas, Des Moines, Seattle, San Francisco or Topeka FHLB, enabling them to borrow funds from their respective FHLB for short- or long-term purposes under a variety of programs. As of December 31, 2013, the amount of short-term borrowings was $408.8 million compared to $224.6 million at year-end 2012, an increase of $184.2 million or 82%, primarily due to increases in short-term FHLB advances and federal funds purchased. Short-term FHLB advances totaled $105.0 million at December 31, 2013, in comparison with $10.0 million at December 31, 2012.

All of the bank subsidiaries provide retail repurchase agreements to their customers as a cash management tool, sweeping excess funds from demand deposit accounts into these agreements. This source of funding does not increase the bank's reserve requirements. Although the aggregate balance of these retail repurchase agreements is subject to variation, the account relationships represented by these balances are principally local. The balances of retail repurchase agreements were $234.7 million at December 31, 2013, compared to $203.4 million at December 31, 2012, an increase of $31.3 million or 15%.

Also included in short-term borrowings are the revolving credit lines Heartland has with unaffiliated banks, primarily to provide liquidity to Heartland. On June 14, 2013, Heartland replaced its $5.0 million unsecured revolving credit line with a $20.0 million unsecured revolving credit line with the same unaffiliated bank. On November 12, 2013, Heartland chose not to renew one of its two revolving credit lines in the amount of $5.0 million with an unaffiliated bank. There was no balance outstanding on Heartland's revolving credit lines on either December 31, 2013, or December 31, 2012.

The following table reflects information regarding our short-term borrowings as of December 31, 2013, 2012, and 2011, in thousands:

SHORT-TERM BORROWINGS	As of and For the Years Ended December 31,		
	2013	2012	2011
Balance at end of period	$408,756	$224,626	$270,081
Maximum month-end amount outstanding	408,756	298,662	270,081
Average month-end amount outstanding	274,352	248,048	197,527
Weighted average interest rate at year-end	0.19 %	0.31 %	0.35 %
Weighted average interest rate for the year	0.31 %	0.32 %	0.44 %

Other borrowings include all debt arrangements Heartland and its subsidiaries have entered into with original maturities that extend beyond one year. As of December 31, 2013, the amount of other borrowings was $350.1

million, a decrease of $38.9 million or 10% since year-end 2012.

At December 31, 2013, long-term FHLB borrowings totaled $113.5 million compared to $143.2 million at December 31, 2012, a decrease of $29.7 million or 21%. Total FHLB borrowings at December 31, 2013, had an average interest rate of 3.06% and an average maturity of 1.50 years. The interest rate on $74.5 million of these advances changes quarterly at a spread over 3-month LIBOR. When considering the earliest possible call date on these advances, the average maturity is shortened to 10 months.

Structured wholesale repurchase agreements totaled $60.0 million at December 31, 2013 and $85.0 million at December 31, 2012, a decrease of $25.0 million or 29% due to the maturity of one contract.

The outstanding balance on Heartland's amortizing term loan with an unaffiliated bank was $11.7 million at December 31, 2013, compared to $13.0 million at December 31, 2012.

Heartland also had senior notes totaling $37.5 million outstanding at both December 31, 2013, and December 31, 2012. These senior notes mature with respect to $17.5 million on December 1, 2015, $7.0 million on each of February 1, 2017, and February 1, 2018, and $6.0 million on February 1, 2019. The senior notes are unsecured and bear interest at 5.00% per annum payable quarterly.

The balances outstanding on trust preferred capital securities issued by Heartland are also included in other borrowings. On March 7, 2012, Heartland exercised its call option on $5.0 million of its trust preferred capital securities that were at a fixed rate of 10.60%. The prepayment fee of $238,000 and the remaining unamortized issuance costs of $64,000 were expensed upon redemption. A schedule of Heartland's trust preferred offerings outstanding as of December 31, 2013, is as follows, in thousands:

TRUST PREFERRED OFFERINGS

	Amount Issued	Issuance Date	Interest Rate	Interest Rate as of 12/31/13(1)		Maturity Date	Callable Date
Heartland Financial Statutory Trust III	$20,619	10/10/2003	8.25%	8.25	%	10/10/2033	03/31/2014
Heartland Financial Statutory Trust IV	25,774	03/17/2004	2.75% over LIBOR	2.99	%(2)	03/17/2034	03/17/2014
Heartland Financial Statutory Trust V	20,619	01/31/2006	1.33% over LIBOR	1.57	%(3)	04/07/2036	04/07/2014
Heartland Financial Statutory Trust VI	20,619	06/21/2007	6.75%	6.75	%(4)	09/15/2037	03/15/2014
Heartland Financial Statutory Trust VII	20,619	06/26/2007	1.48% over LIBOR	1.72	%(5)	09/01/2037	06/01/2014
Morrill Statutory Trust I	8,524	12/26/2002	3.25% over LIBOR	3.50	%	12/26/2032	03/26/2014
Morrill Statutory Trust II	8,086	12/17/2003	2.85% over LIBOR	3.09	%	12/17/2033	12/17/2014
	$124,860						

(1) Effective weighted average interest rate as of December 31, 2013, was 5.85% due to interest rate swap transactions on the variable rate securities as discussed in Note 12 to Heartland's consolidated financial statements.
(2) Effective interest rate as of December 31, 2013, was 5.33% due to an interest rate swap transaction as discussed in Note 12 to Heartland's consolidated financial statements.
(3) Effective interest rate as of December 31, 2013, was 4.69% due to an interest rate swap transaction as discussed in Note 12 to Heartland's consolidated financial statements.
(4) Interest rate is fixed at 6.75% through June 15, 2017 then resets to 1.48% over LIBOR for the remainder of the term.
(5) Effective interest rate as of December 31, 2013, was 4.70% due to an interest rate swap transaction as discussed in Note 12 to Heartland's consolidated financial statements.

Subsequent to year end, Heartland entered into two interest rate swap transactions to fix the interest rates on the trust preferred debt assumed by Heartland with the Morrill & Janes Bank and Trust Company transaction. The swaps fix the effective interest rate on Morrill Statutory Trust I debt to 4.92% and the effective interest rate on Morrill Statutory Trust II to 4.51% for five years. In addition, subsequent to year end, Heartland entered into a forward starting interest rate swap transaction to replace the interest rate swap on Heartland's Statutory Trust IV debt, which expires on March

17, 2014. The new effective interest rate is 5.00% compared to 5.33% and is fixed for seven years.

CAPITAL RESOURCES

Heartland's risk-based capital ratios, which take into account the different credit risks among banks' assets, met all capital adequacy requirements over the past three years. Tier 1 and total risk-based capital ratios were 13.19% and 14.69%, respectively on December 31, 2013 compared to 13.36% and 15.35%, respectively, on December 31, 2012, and compared to 14.08% and 15.87%, respectively, on December 31, 2011. At December 31, 2013, our leverage ratio, the ratio of Tier 1 capital to total average assets, was 9.67% compared to 9.84% at December 31, 2012, and 10.24% at December 31, 2011. Heartland and our Bank Subsidiaries have been, and will continue to be, managed to meet the well-capitalized requirements under the regulatory framework for prompt corrective action. To be categorized as well capitalized under the regulatory framework, bank holding companies and banks must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios of 10%, 6% and 5%, respectively. The most recent notification from the FDIC categorized Heartland and each of the Bank Subsidiaries as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed each institution's category.

Heartland's capital ratios are detailed in the tables below, in thousands:

RISK-BASED CAPITAL RATIOS[1]

	As of and For the Years Ended December 31,								
	2013			2012			2011		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Capital Ratios:									
Tier 1 capital	$537,964	13.19	%	$463,371	13.36	%	$427,145	14.08	%
Tier 1 capital minimum requirement	163,126	4.00	%	138,743	4.00	%	121,357	4.00	%
Excess	$374,838	9.19	%	$324,628	9.36	%	$305,788	10.08	%
Total capital	$599,038	14.69	%	$532,502	15.35	%	$481,513	15.87	%
Total capital minimum requirement	326,252	8.00	%	277,485	8.00	%	242,715	8.00	%
Excess	$272,786	6.69	%	$255,017	7.35	%	$238,798	7.87	%
Total risk-adjusted assets	$4,078,154			$3,468,565			$3,033,935		

(1) Based on the risk-based capital guidelines of the Federal Reserve, a bank holding company is required to maintain a Tier 1 capital to risk-adjusted assets ratio of 4.00% and total capital to risk-adjusted assets ratio of 8.00%.

LEVERAGE RATIOS[1]

	As of and For the Years Ended December 31,								
	2013			2012			2011		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Capital Ratios:									
Tier 1 capital	$537,964	9.67	%	$463,371	9.84	%	$427,145	10.24	%
Tier 1 capital minimum requirement[2]	222,432	4.00	%	188,284	4.00	%	166,865	4.00	%
Excess	$315,532	5.67	%	$275,087	5.84	%	$260,280	6.24	%
Average adjusted assets	$5,560,796			$4,707,110			$4,171,625		

(1) The leverage ratio is defined as the ratio of Tier 1 capital to average total assets.
(2) We have established a minimum target leverage ratio of 4.00%. Based on Federal Reserve guidelines, a bank holding company generally is required to maintain a leverage ratio of 3.00% plus an additional cushion of at least 100 basis points.

Under the Basel III Rules, which are effective for Heartland on January 1, 2015, the minimum capital ratios will be increased and a new Common Tier 1 Capital Ratio will be added. For more information about these new requirements,

see the discussion under the "Business - F. Supervision and Regulation - The Bank Subsidiaries - Capital Requirements" headings under Part I, Item 1 of this report. Management believes that as of December 31, 2013, Heartland would meet all of the capital adequacy requirements under the Basel III Rules on a fully phased-in basis if such requirements were currently effective.

Heartland filed a universal shelf registration statement with the SEC on August 28, 2013, which became effective on September 9, 2013, to register up to $75.0 million in securities. The shelf registration statement provides Heartland with the ability to raise capital, subject to SEC rules and limitations, if Heartland’s board of directors decides to do so.

Minnesota Bank & Trust, Heartland's tenth bank, began operations on April 15, 2008, in Edina, Minnesota. Heartland's initial investment in this de novo bank was $13.2 million, or 80%, of the $16.5 million initial capital. All minority stockholders entered into a stock transfer agreement that imposed certain restrictions on the sale, transfer or other disposition of their shares in Minnesota Bank & Trust and allowed, but did not require, Heartland to repurchase the shares from investors after five years of operations. On April 15, 2013, Heartland completed the repurchase of all minority shares of Minnesota Bank & Trust. The shareholders were offered the option to receive Heartland common stock for the portion of the repurchase price that represented their original investment and to also receive the appreciation in their original investment in the form of Heartland common stock. Six shareholders elected to receive 51,015 shares of Heartland common stock for all or a portion of their investment and the remaining shareholders elected to receive cash totaling $3.2 million.

Common stockholders' equity was $357.8 million at December 31, 2013, compared to $320.1 million at year-end 2012. Book value per common share was $19.44 at December 31, 2013, compared to $19.02 at year-end 2012. Changes in common stockholders' equity and book value per common share are the result of earnings, dividends paid, stock transactions and mark-to-market adjustment for unrealized gains and losses on securities available for sale. As a result of increases in market interest rates on many debt securities during the last three quarters of 2013, Heartland's unrealized gains and losses on securities available for sale, net of applicable taxes, were at an unrealized loss of $15.1 million at December 31, 2013, compared to an unrealized gain of $20.5 million at December 31, 2012.

On December 19, 2008, Heartland received $81.7 million through participation in the TARP CPP. On September 15, 2011, Heartland sold to the U.S. Treasury $81.7 million of its Series C Preferred Stock under the SBLF. Simultaneous with receipt of the SBLF funds, Heartland redeemed the $81.7 million of preferred stock issued to the U.S. Treasury in December 2008 under the TARP CPP. On September 28, 2011, Heartland repurchased a warrant to purchase 609,687 shares of Heartland common stock from the U.S. Treasury that had been issued under the TARP CPP at a purchase price of $1.8 million. Note 18 to the financial statements contains a detailed discussion about of the capital issuance and redemptions.

We continue to explore opportunities to expand our footprint of independent community banks. Given the current issues in the banking industry, we have changed our strategic growth initiatives from de novo banks and branching to acquisitions. Attention will be focused on markets we currently serve, where there would be an opportunity to grow market share, achieve efficiencies and provide greater convenience for current customers. Future expenditures relating to expansion efforts, in addition to those identified above, are not estimable at this time.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

Commitments to extend credit 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 many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank Subsidiaries evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank Subsidiaries upon extension of credit, is based upon management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties. Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank Subsidiaries to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in

issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. At December 31, 2013, and December 31, 2012, commitments to extend credit aggregated $1.14 billion and $844.6 million, and standby letters of credit aggregated $39.7 million and $29.5 million, respectively.

The following table summarizes our significant contractual obligations and other commitments as of December 31, 2013, in thousands:

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

		Payments Due By Period			
	Total	Less than One Year	One to Three Years	Three to Five Years	More than Five Years
Contractual obligations:					
Time certificates of deposit	$892,676	$497,059	$259,602	$99,474	$36,541
Long-term debt obligations	350,109	140,838	51,439	22,387	135,445
Operating lease obligations	25,163	3,890	6,855	4,582	9,836
Purchase obligations	13,648	2,581	4,394	3,861	2,812
Other long-term liabilities	2,614	254	506	506	1,348
Total contractual obligations	$1,284,210	$644,622	$322,796	$130,810	$185,982
Other commitments:					
Lines of credit	$1,144,020	$870,283	$149,407	$48,450	$75,880
Standby letters of credit	39,702	27,839	11,426	253	184
Total other commitments	$1,183,722	$898,122	$160,833	$48,703	$76,064

On a consolidated basis, we maintain a large balance of short-term securities that, when combined with cash from operations, we believe are adequate to meet our funding obligations.

At the parent company level, routine funding requirements consist primarily of dividends paid to stockholders, including the U.S. Treasury under the SBLF, debt service on our revolving credit arrangements and our trust preferred securities issuances, and payments for acquisitions. The parent company obtains the funding to meet these obligations from dividends collected from the Bank Subsidiaries and the issuance of debt securities. At December 31, 2013, Heartland's revolving credit agreement with an unaffiliated bank provided a maximum borrowing capacity of $20.0 million, of which none was outstanding. This credit agreement contains specific financial covenants which are listed in Note 11 to the consolidated financial statements. At December 31, 2013, Heartland was in compliance with these covenants.

The ability of Heartland to pay dividends to its stockholders is dependent upon dividends paid by its subsidiaries. The Bank Subsidiaries are subject to statutory and regulatory restrictions on the amount they may pay in dividends. To maintain acceptable capital ratios in the Heartland banks, certain portions of their retained earnings are not available for the payment of dividends. Retained earnings that could be available for the payment of dividends to Heartland under the regulatory capital requirements to remain well-capitalized totaled approximately $137.0 million as of December 31, 2013.

LIQUIDITY

Liquidity refers to our ability to maintain a cash flow that is adequate to meet maturing obligations and existing commitments, to withstand fluctuations in deposit levels, to fund operations and to provide for customers' credit needs. The liquidity of Heartland principally depends on cash flows from operating activities, investment in and maturity of assets, changes in balances of deposits and borrowings and its ability to borrow funds in the money or capital markets.

Operating activities provided cash of $135.6 million during 2013 compared to $48.7 million during 2012 and $58.5 million during 2011. The biggest contributor to this change was activity in loans originated for sale which provided cash of $50.0 during 2013 compared to using cash of $42.6 million during 2012 and $29.6 million during 2011. Cash used for the payment of income taxes was $5.5 million during 2013 compared to $12.2 million in 2012 and $7.1

million during 2011.

Investing activities used cash of $324.0 million during 2013, $349.7 million during 2012 and $200.0 million during 2011. The proceeds from securities sales, paydowns and maturities were $777.4 million during 2013 as compared to $871.1 million during 2012 and $789.8 million during 2011. Purchases of securities used cash of $869.3 million during 2013 as compared to $1.08 billion during 2012 and $788.5 million during 2011. The net increase in loans and leases used cash of $284.8 million in 2013, $211.6 million in 2012 and $207.0 million in 2011. Net cash received in acquisitions was $50.0 million in 2013 and $61.8 million in 2012. No acquisitions were completed in 2011.

Financing activities provided cash of $145.6 million during 2013, $339.2 million during 2012 and $208.8 million during 2011. A net increase in deposit accounts provided cash of $101.4 million during 2013 compared to $384.6 million during 2012 and $176.1 million during 2011. Activity in short-term borrowings provided cash of $114.5 million during 2013 compared to using cash of $45.5 million during 2012 and providing cash of $34.2 million during 2011. Cash proceeds from other borrowings were $5.2 million during 2013 compared to $11.7 million during 2012 and $18.6 million during 2011. Repayment of other borrowings used cash of $66.9 million during 2013 compared to $6.8 million during 2012 and $8.3 million during 2011.

Management of investing and financing activities, and market conditions, determine the level and the stability of net interest cash flows. Management attempts to mitigate the impact of changes in market interest rates to the extent possible, so that balance sheet growth is the principal determinant of growth in net interest cash flows.

Our short-term borrowing balances are dependent on commercial cash management and smaller correspondent bank relationships and, as such, will normally fluctuate. We believe these balances, on average, to be stable sources of funds; however, we intend to rely on deposit growth and additional FHLB borrowings in the future.

In the event of short-term liquidity needs, the Bank Subsidiaries may purchase federal funds from each other or from correspondent banks and may also borrow from the Federal Reserve Bank. Additionally, the Bank Subsidiaries' FHLB memberships give them the ability to borrow funds for short- and long-term purposes under a variety of programs.

Heartland's revolving credit agreement with an unaffiliated bank provides a maximum borrowing capacity of $20.0 million, of which no amount was borrowed at December 31, 2013. This credit agreement contains specific covenants, with which Heartland was in compliance on December 31, 2013.

EFFECTS OF INFLATION

Consolidated financial data included in this report has been prepared in accordance with U.S. generally accepted accounting principles. Presently, these principles require reporting of financial position and operating results in terms of historical dollars, except for available for sale securities, trading securities, derivative instruments, certain impaired loans and other real estate which require reporting at fair value. Changes in the relative value of money due to inflation or recession are generally not considered.

In management's opinion, changes in interest rates affect the financial condition of a financial institution to a far greater degree than changes in the inflation rate. While interest rates are greatly influenced by changes in the inflation rate, they do not change at the same rate or in the same magnitude as the inflation rate. Rather, interest rate volatility is based on changes in the expected rate of inflation, as well as on changes in monetary and fiscal policies. A financial institution's ability to be relatively unaffected by changes in interest rates is a good indicator of its capability to perform in today's volatile economic environment. Heartland seeks to insulate itself from interest rate volatility by ensuring that rate-sensitive assets and rate-sensitive liabilities respond to changes in interest rates in a similar time frame and to a similar degree. See Item 7A of this Form 10-K for a discussion on the process Heartland utilizes to mitigate market risk.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in market prices and rates. Heartland's market risk is comprised primarily of interest rate risk resulting from its core banking activities of lending and deposit gathering. Interest rate risk measures the impact on earnings from changes in interest rates and the effect on current fair market values of Heartland's assets, liabilities and off-balance sheet contracts. The objective is to measure this risk and

manage the balance sheet to avoid unacceptable potential for economic loss.

Management continually develops and applies strategies to mitigate market risk. Exposure to market risk is reviewed on a regular basis by the asset/liability committees of the banks and, on a consolidated basis, by Heartland's executive management and board of directors. Darling Consulting Group, Inc. has been engaged to provide asset/liability management position assessment and strategy formulation services to Heartland and its bank subsidiaries. At least quarterly, a detailed review of the balance sheet risk profile is performed for Heartland and each of its bank subsidiaries. Included in these reviews are interest rate sensitivity analyses, which simulate changes in net interest income in response to various interest rate scenarios. These analyses consider current portfolio rates, existing maturities, repricing opportunities and market interest rates, in addition to prepayments and growth under different interest rate assumptions. Selected strategies are modeled prior to implementation to determine their effect on Heartland's interest rate risk profile and net interest income. Management does not believe that Heartland's primary market risk exposures have changed significantly in 2013 when compared to 2012.

The core interest rate risk analysis utilized by Heartland examines the balance sheet under increasing and decreasing interest scenarios that are neither too modest nor too extreme. All rate changes are ramped over a 12-month horizon based upon a parallel shift in the yield curve and then maintained at those levels over the remainder of the simulation horizon. Using this approach, management is able to see the effect that both a gradual change of rates (year 1) and a rate shock (year 2 and beyond) could have on Heartland's net interest income. Starting balances in the model reflect actual balances on the “as of” date, adjusted for material and significant transactions. Pro-forma balances remain static. This enables interest rate risk embedded within the existing balance sheet structure to be isolated from the interest rate risk often caused by growth in assets and liabilities. Due to the low interest rate environment, the simulations under a decreasing interest rate scenario were prepared using a 100 basis point shift in rates. The most recent reviews at December 31, 2013, and 2012, provided the following results, in thousands:

	2013		2012	
	Net Interest Margin	% Change From Base	Net Interest Margin	% Change From Base
Year 1				
Down 100 Basis Points	$172,488	(0.61)%	$145,370	(0.57)%
Base	$173,551		$146,203	
Up 200 Basis Points	$173,688	0.08%	$148,611	1.65%
Year 2				
Down 100 Basis Points	$165,098	(4.87)%	$142,521	(2.52)%
Base	$173,297	(0.15)%	$146,591	0.27%
Up 200 Basis Points	$181,179	4.40%	$156,944	7.35%

We use derivative financial instruments to manage the impact of changes in interest rates on our future interest income or interest expense. We are exposed to credit-related losses in the event of nonperformance by the counterparties to these derivative instruments, but believe we have minimized the risk of these losses by entering into the contracts with large, stable financial institutions. The estimated fair market values of these derivative instruments are presented in Note 12 to the consolidated financial statements.

We enter into financial instruments with off balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. Commitments to extend credit 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 and may require collateral from the borrower. Standby letters of credit are conditional commitments issued by Heartland to guarantee the performance of a customer to a third party up to a stated amount and with specified terms and conditions. These commitments to extend credit and standby letters of credit are not recorded on the balance sheet until the instrument is exercised.

Heartland holds a securities trading portfolio that would also be subject to elements of market risk. These securities are carried on the balance sheet at fair value. These securities had a carrying value of $1.8 million at December 31, 2013, and $380,000 at December 31, 2012, and in both cases were less than 1% of total assets.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
HEARTLAND FINANCIAL USA, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

	Notes	As of December 31, 2013	2012
ASSETS			
Cash and due from banks	3	$118,441	$160,223
Federal funds sold and other short-term investments		6,829	7,831
Cash and cash equivalents		125,270	168,054
Time deposits in other financial institutions		3,355	—
Securities:			
Trading, at fair value		1,801	380
Available for sale, at fair value (cost of $1,659,456 at December 31, 2013, and $1,456,821 at December 31, 2012)	4	1,633,902	1,490,331
Held to maturity, at cost (fair value of $237,437 at December 31, 2013, and $55,982 at December 31, 2012)	4	237,498	55,502
Other investments, at cost	4	21,843	15,744
Loans held for sale		46,665	96,165
Loans and leases receivable:	5		
Held to maturity		3,496,952	2,821,549
Loans covered by loss share agreements		5,749	7,253
Allowance for loan and lease losses	6	(41,685)	(38,715)
Loans and leases receivable, net		3,461,016	2,790,087
Premises, furniture and equipment, net	7	135,714	128,294
Other real estate, net		29,852	35,822
Goodwill	8	35,583	30,627
Other intangible assets, net	8	32,959	18,486
Cash surrender value on life insurance		81,110	75,480
FDIC indemnification asset		249	749
Other assets		76,899	84,832
TOTAL ASSETS		$5,923,716	$4,990,553
LIABILITIES AND EQUITY			
LIABILITIES:			
Deposits:	9		
Demand		$1,238,581	$974,232
Savings		2,535,242	2,004,438
Time		892,676	866,990
Total deposits		4,666,499	3,845,660
Short-term borrowings	10	408,756	224,626
Other borrowings	11	350,109	389,025
Accrued expenses and other liabilities		58,892	126,703
TOTAL LIABILITIES		5,484,256	4,586,014
STOCKHOLDERS' EQUITY:	16, 17, 18		
Preferred stock (par value $1 per share; authorized 20,604 shares; none issued or outstanding)		—	—
Series A Junior Participating preferred stock (par value $1 per share; authorized 16,000 shares; none issued or outstanding)		—	—

Series C Fixed Rate Non-Cumulative Perpetual preferred stock (par value $1 per share; liquidation value $81.7 million; authorized, issued and outstanding 81,698 shares)	81,698	81,698
Common stock (par value $1 per share; authorized 25,000,000 shares; issued 18,399,156 shares at December 31, 2013 and 16,827,835 shares at December 31, 2012)	18,399	16,828
Capital surplus	91,632	50,359
Retained earnings	265,067	236,279
Accumulated other comprehensive income (loss)	(17,336)	16,641
Treasury stock at cost (0 shares at both December 31, 2013 and December 31, 2012)	—	—
TOTAL STOCKHOLDERS' EQUITY	439,460	401,805
Noncontrolling interest	—	2,734
TOTAL EQUITY	439,460	404,539
TOTAL LIABILITIES AND EQUITY	$5,923,716	$4,990,553

See accompanying notes to consolidated financial statements.

HEARTLAND FINANCIAL USA, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)

	Notes	For the Years Ended December 31, 2013	2012	2011
INTEREST INCOME:				
Interest and fees on loans and leases	5	$164,702	$156,499	$149,603
Interest on securities:				
Taxable		21,501	22,129	28,195
Nontaxable		13,295	10,698	13,935
Interest on federal funds sold		1	4	3
Interest on interest bearing deposits in other financial institutions		12	8	1
TOTAL INTEREST INCOME		199,511	189,338	191,737
INTEREST EXPENSE:				
Interest on deposits	9	19,968	22,230	29,224
Interest on short-term borrowings		808	818	893
Interest on other borrowings (includes $2,069 of interest expense related to derivatives reclassified from accumulated other comprehensive income for the year ended December 31, 2013)		14,907	16,134	16,226
TOTAL INTEREST EXPENSE		35,683	39,182	46,343
NET INTEREST INCOME		163,828	150,156	145,394
Provision for loan and lease losses	6	9,697	8,202	29,365
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES		154,131	141,954	116,029
NONINTEREST INCOME:				
Service charges and fees		17,660	15,242	14,303
Loan servicing income		14,413	11,300	5,932
Trust fees		11,708	10,478	9,856
Brokerage and insurance commissions		4,561	3,702	3,511
Securities gains, net (includes $7,121 of net security gains reclassified from accumulated other comprehensive income for the year ended December 31, 2013)		7,121	13,998	13,104
Gain on trading account securities		1,421	47	89
Impairment loss on securities		—	(981)	—
Gains on sale of loans held for sale		27,430	49,198	11,366
Valuation adjustment on mortgage servicing rights		496	(477)	(19)
Income on bank owned life insurance		1,555	1,442	1,349
Other noninterest income		3,253	4,713	86
TOTAL NONINTEREST INCOME		89,618	108,662	59,577
NONINTEREST EXPENSES:				
Salaries and employee benefits	14, 16	118,224	105,727	75,537
Occupancy	15	13,459	10,629	9,363
Furniture and equipment	7	8,040	6,326	5,636
Professional fees		17,532	15,338	12,567
FDIC insurance assessments		3,544	3,292	3,777
Advertising		5,294	5,294	4,292
Intangible assets amortization	8	1,063	562	572
Net loss on repossessed assets		7,244	9,969	9,807
Other noninterest expenses		22,161	26,244	15,745

TOTAL NONINTEREST EXPENSES		196,561	183,381	137,296
INCOME BEFORE INCOME TAXES		47,188	67,235	38,310
Income taxes (includes $1,884 of income tax expense reclassified from accumulated other comprehensive income for the year ended December 31, 2013)	13	10,335	17,384	10,302
NET INCOME		36,853	49,851	28,008
Net (income) loss available to noncontrolling interest, net of tax		(64)	(59)	36
NET INCOME ATTRIBUTABLE TO HEARTLAND		36,789	49,792	28,044
Preferred dividends and discount		(1,093)	(3,400)	(7,640)
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS		$35,696	$46,392	$20,404
EARNINGS PER COMMON SHARE - BASIC		$2.08	$2.81	$1.24
EARNINGS PER COMMON SHARE - DILUTED		$2.04	$2.77	$1.23
CASH DIVIDENDS DECLARED PER COMMON SHARE		$0.40	$0.50	$0.40

See accompanying notes to consolidated financial statements.

HEARTLAND FINANCIAL USA, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	For the Years Ended December 31,		
	2013	2012	2011
NET INCOME	$36,853	$49,851	$28,008
OTHER COMPREHENSIVE INCOME			
Securities:			
Net change in unrealized gain (loss) on securities	(50,883)	20,988	22,751
Reclassification adjustment for net gains realized in net income	(7,121)	(12,981)	(13,104)
Net change in non-credit related other than temporary impairment	95	(612)	—
Income taxes	22,119	(2,750)	(3,374)
Other comprehensive income (loss) on securities	(35,790)	4,645	6,273
Derivatives used in cash flow hedging relationships:			
Unrealized gain (loss) on derivatives	754	(2,204)	(6,053)
Reclassification adjustment for net losses on derivatives realized in net income	2,069	1,984	1,996
Income taxes	(1,010)	69	1,414
Other comprehensive income (loss) on cash flow hedges	1,813	(151)	(2,643)
Other comprehensive income (loss)	(33,977)	4,494	3,630
Comprehensive income	2,876	54,345	31,638
Less: comprehensive (income) loss attributable to noncontrolling interest	(64)	(59)	36
COMPREHENSIVE INCOME ATTRIBUTABLE TO HEARTLAND	$2,812	$54,286	$31,674

See accompanying notes to consolidated financial statements.

HEARTLAND FINANCIAL USA, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Dollars in thousands, except per share data)

	Heartland Financial USA, Inc. Stockholders' Equity							
	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-controlling Interest	Total Equity
Balance at January 1, 2011	$78,483	$16,612	$44,628	$184,525	$ 8,517	$(3,674)	$ 2,693	$331,784
Comprehensive income				28,044	3,630		(36)	31,638
Sale of noncontrolling interest							18	18
Cumulative preferred dividends accrued and discount accretion	3,215			(3,215)				—
Repurchase of Series B preferred stock and warrants	(81,698)		(1,800)					(83,498)
Issuance of Series C preferred stock	81,698							81,698
Cash dividends declared:								
Preferred, $50.00 per share				(4,606)				(4,606)
Common, $0.40 per share				(6,566)				(6,566)
Purchase of 54,723 shares of common stock						(389)		(389)
Issuance of 114,458 shares of common stock			(773)			2,309		1,536
Commitments to issue common stock			1,278					1,278
Balance at December 31, 2011	$81,698	$16,612	$43,333	$198,182	$ 12,147	$(1,754)	$ 2,675	$352,893
Balance at January 1, 2012	$81,698	$16,612	$43,333	$198,182	$ 12,147	$(1,754)	$ 2,675	$352,893
Comprehensive income				49,792	4,494		59	54,345

Cash dividends declared:								
Preferred, $36.60 per share				(3,400)				(3,400)
Common, $0.50 per share				(8,295)				(8,295)
Purchase of 131,326 shares of common stock						(2,937)		(2,937)
Issuance of 474,371 shares of common stock		216	4,872			4,691		9,779
Commitments to issue common stock			2,154					2,154
Balance at December 31, 2012	$81,698	$16,828	$50,359	$236,279	$ 16,641	$—	$ 2,734	$404,539
Balance at January 1, 2013	$81,698	$16,828	$50,359	$236,279	$ 16,641	$—	$ 2,734	$404,539
Comprehensive income				36,789	(33,977)		64	2,876
Cash dividends declared:								
Preferred, $13.39 per share				(1,093)				(1,093)
Common, $0.40 per share				(6,908)				(6,908)
Purchase of noncontrolling interest							(2,798)	(2,798)
Purchase of 76,755 shares of common stock						(2,102)		(2,102)
Issuance of 1,648,076 shares of common stock		1,571	39,445			2,102		43,118
Commitments to issue common stock			1,828					1,828
Balance at December 31, 2013	$81,698	$18,399	$91,632	$265,067	$ (17,336)	$—	$ —	$439,460

See accompanying notes to consolidated financial statements.

HEARTLAND FINANCIAL USA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	For the Years Ended		
	December 31, 2013	December 31, 2012	December 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$36,853	$49,851	$28,008
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	17,240	14,141	11,184
Provision for loan and lease losses	9,697	8,202	29,365
Net amortization of premium on securities	29,355	22,858	14,939
Provision for deferred taxes	2,761	505	4,363
Securities gains, net	(7,121)	(13,998)	(13,104)
Increase in trading account securities	(1,421)	(47)	(89)
Impairment loss on securities	—	981	—
Stock based compensation	1,828	2,154	1,278
Write downs and losses on repossessed assets	2,799	6,953	7,079
Loans originated for sale	(1,381,319)	(1,572,117)	(479,221)
Proceeds on sales of loans held for sale	1,458,704	1,578,678	460,963
Net gains on sales of loans held for sale	(27,430)	(49,198)	(11,366)
(Increase) decrease in accrued interest receivable	243	(1,323)	1,397
Decrease in prepaid expenses	8,279	2,916	2,969
Decrease in accrued interest payable	(949)	(1,001)	(701)
Capitalization of mortgage servicing rights	(12,769)	(11,451)	(3,723)
Valuation adjustment on mortgage servicing rights	(496)	477	19
Other, net	(666)	10,117	5,124
NET CASH PROVIDED BY OPERATING ACTIVITIES	135,588	48,698	58,484
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of time deposits in other financial institutions	(3,605)	—	—
Proceeds from the sale of securities available for sale	546,532	576,083	493,167
Proceeds from the sale of other securities	5,588	4,694	—
Proceeds from the maturity of and principal paydowns on securities available for sale	222,881	288,736	295,137
Proceeds from the maturity of and principal paydowns on securities held to maturity	2,170	1,576	1,461
Proceeds from the maturity of time deposits and other investments	250	36	—
Purchase of securities available for sale	(861,967)	(1,076,962)	(788,543)
Purchase of other investments	(7,288)	(851)	—
Net increase in loans and leases	(284,843)	(211,565)	(207,027)
Purchase of bank owned life insurance policies	(2,835)	(4,571)	(3,140)
Capital expenditures	(10,481)	(19,787)	(6,719)
Net cash acquired	49,665	61,778	—
Proceeds from sale of equipment	137	460	—
Proceeds on sale of OREO and other repossessed assets	19,839	30,660	15,692
NET CASH USED BY INVESTING ACTIVITIES	(323,957)	(349,713)	(199,972)

Explanation of Responses:

HEARTLAND FINANCIAL USA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED
(Dollars in thousands)

	For the Years Ended		
	December 31, 2013	December 31, 2012	December 31, 2011
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in demand deposits and savings accounts	159,946	417,988	275,890
Net decrease in time deposit accounts	(58,548)	(33,339)	(99,825)
Net increase (decrease) in short-term borrowings	114,450	(45,455)	34,217
Proceeds from other borrowings	5,160	11,700	18,565
Repayments of other borrowings	(66,885)	(6,806)	(8,272)
Purchase of noncontrolling interest	(2,798)	—	—
Proceeds from issuance of preferred stock	—	—	81,698
Redemption of preferred stock	—	—	(81,698)
Redemption of warrants	—	—	(1,800)
Purchase of treasury stock	(2,102)	(2,937)	(389)
Proceeds from issuance of common stock	4,265	9,557	1,428
Excess tax benefits on exercised stock options	98	222	108
Dividends paid	(8,001)	(11,695)	(11,172)
NET CASH PROVIDED BY FINANCING ACTIVITIES	145,585	339,235	208,750
Net increase (decrease) in cash and cash equivalents	(42,784)	38,220	67,262
Cash and cash equivalents at beginning of year	168,054	129,834	62,572
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$125,270	$168,054	$129,834
Supplemental disclosures:			
Cash paid for income/franchise taxes	$5,459	$12,197	$7,133
Cash paid for interest	$36,632	$40,183	$47,044
Loans transferred to OREO	$14,531	$28,751	$41,933
Purchases of securities available for sale, accrued, not paid	$18,306	$61,923	$55,349
Securities transferred from available for sale to held to maturity	$179,528	$—	$—
Stock consideration granted for acquisition	$38,755	$—	$—

See accompanying notes to consolidated financial statements.

Explanation of Responses:

HEARTLAND FINANCIAL USA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ONE
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - Heartland Financial USA, Inc. ("Heartland") is a multi-bank holding company primarily operating full-service banking offices serving communities in and around Dubuque and Lee Counties in Iowa; Jo Daviess, Hancock, Winnebago, Whiteside and Mercer Counties in Illinois; Dane, Green, Sheboygan, Brown and Grant Counties in Wisconsin; Bernalillo, Curry and Santa Fe Counties in New Mexico; Maricopa County in Arizona; Flathead, Gallatin, Jefferson, Ravalli, Sanders, Sheridan and Yellowstone Counties in Montana; Broomfield, Adams and Boulder Counties in Colorado; Hennepin County in Minnesota; Johnson, Doniphan, Brown, Pottawatomie, and Atchison Counties in Kansas; and Jackson County in Missouri. The principal services of Heartland, through its subsidiaries, are FDIC-insured deposit accounts and related services, and loans to businesses and individuals. The loans consist primarily of commercial and commercial real estate, agricultural and agricultural real estate and residential real estate. In addition to the full-service banking offices, Heartland provides residential real estate loans, under the brand National Residential Mortgage, through loan production offices in San Diego, California; Reno, Nevada; Buffalo, Wyoming; Meridian, Idaho; Minot, North Dakota; Portland, Oregon; Seattle, Washington; and Omaha, Nebraska.

Principles of Presentation - The consolidated financial statements include the accounts of Heartland and its subsidiaries: Dubuque Bank and Trust Company; Galena State Bank & Trust Co.; Riverside Community Bank; Wisconsin Bank & Trust; New Mexico Bank & Trust; Arizona Bank & Trust; Rocky Mountain Bank; Summit Bank & Trust; Minnesota Bank & Trust; Morrill & Janes Bank and Trust Company; Citizens Finance Parent Co.; DB&T Insurance, Inc.; DB&T Community Development Corp.; Heartland Community Development, Inc.; Citizens Finance Co.; Citizens Finance of Illinois Co.; Heartland Financial Statutory Trust III; Heartland Financial Statutory Trust IV; Heartland Financial Statutory Trust V; Heartland Financial Statutory Trust VI; Heartland Financial Statutory Trust VII; Morrill Statutory Trust I; and Morrill Statutory Trust II. All of Heartland’s subsidiaries are wholly-owned as of December 31, 2013; prior to April 2013, Heartland had been an 80% owner of Minnesota Bank & Trust. All significant intercompany balances and transactions have been eliminated in consolidation. The noncontrolling interest in the majority-owned subsidiaries is noted on the consolidated balance sheets and on the consolidated statements of income.

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and prevailing practices within the banking industry. In preparing such financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. A material estimate that is particularly susceptible to significant change relates to the determination of the allowance for loan and lease losses.

Cash and Cash Equivalents - For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold and other short-term investments. Generally, federal funds are purchased and sold for one-day periods.

Trading Securities - Trading securities represent those securities Heartland intends to actively trade and are stated at fair value with changes in fair value reflected in noninterest income.

Securities Available for Sale - Available for sale securities consist of those securities not classified as held to maturity or trading, which management intends to hold for indefinite periods of time or that may be sold in response to changes in interest rates, prepayments or other similar factors. Available for sale securities are stated at fair value with any unrealized gain or loss, net of applicable income tax, reported as a separate component of stockholders' equity. Security premiums and discounts are amortized/accreted using the interest method over the period from the purchase date to the expected maturity or call date of the related security. Declines in the fair value of investment securities available for sale (with certain exceptions for debt securities noted below) that are deemed to be other-than-temporary are charged to earnings as a realized loss, and a new cost basis for the securities is established. In evaluating whether impairment is other-than-temporary, Heartland considers the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of Heartland to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value

---

in the near term. Declines in the fair value of debt securities below amortized cost are deemed to be other-than-temporary in circumstances where: (1) Heartland has the intent to sell a security; (2) it is more likely than not that Heartland will be required to sell the security before recovery of its amortized cost basis; or (3) Heartland does not expect to recover the entire amortized cost basis of the security. If Heartland intends to sell a security or if it is more likely than not that Heartland will be required to sell the security before recovery, an other-than-temporary impairment write-down is recognized in earnings equal to the difference between the security's amortized cost basis and its fair value. If Heartland does not intend to sell the security and it is not more likely than not that it will be required to sell the security before recovery, the other-than-temporary impairment write-down is separated into an amount representing credit loss, which is recognized in noninterest income, and an amount related to all other factors, which is recognized in other comprehensive income. Realized securities gains or losses on securities sales (using specific identification method) and declines in value judged to be other-than-temporary are included in investment securities gains, net, in the consolidated statements of income.

Securities Held to Maturity - Securities which Heartland has the ability and positive intent to hold to maturity are classified as held to maturity. Such securities are stated at amortized cost, adjusted for premiums and discounts that are amortized/accreted using the interest method over the period from the purchase date to the expected maturity or call date of the related security. Unrealized losses determined to be other-than-temporary are charged to noninterest income.

Loans and Leases - Interest on loans is accrued and credited to income based primarily on the principal balance outstanding. Income from leases is recorded in decreasing amounts over the term of the contract resulting in a level rate of return on the lease investment. Heartland's policy is to discontinue the accrual of interest income on any loan or lease when, in the opinion of management, there is a reasonable doubt as to the timely collection of the interest and principal, normally when a loan or lease is 90 days past due. When interest accruals are deemed uncollectible, interest credited to income in the current year is reversed and interest accrued in prior years is charged to the allowance for loan and lease losses. Nonaccrual loans and leases are returned to an accrual status when, in the opinion of management, the financial position of the borrower indicates that there is no longer any reasonable doubt as to the timely payment of interest and principal.

Under Heartland's credit policies, a loan is impaired when, based on current information and events, it is probable that Heartland will be unable to collect all amounts due according to the contractual terms of the agreement. Loan impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, except where more practical, at the observable market price of the loan or the fair value of the collateral if the loan is collateral dependent.

Net nonrefundable loan and lease origination fees and certain direct costs associated with the lending process are deferred and recognized as a yield adjustment over the life of the related loan or lease.

Troubled Debt Restructured Loans - Loans are considered trouble debt restructured loans ("TDR") if concessions have been granted to borrowers that are experiencing financial difficulty. The concessions granted generally involve the modification of terms of the loan, such as changes in payment schedule or interest rate, which generally would not otherwise be considered. TDRs can involve loans remaining on nonaccrual, moving to nonaccrual, or continuing on accrual status, depending on the individual facts and circumstances of the borrower. Nonaccrual TDRs are included and treated consistently with all other nonaccrual loans. In addition, all accruing TDRs are reported and accounted for as impaired loans. Generally, TDRs remain on nonaccrual until the customer has attained a sustained period of repayment performance under the modified loan terms (generally a minimum of six months). However, performance prior to the restructuring, or significant events that coincide with the restructuring, are considered in assessing whether the borrower can meet the new terms and whether the loan should be returned to or maintained on accrual status. If the borrower's ability to meet the revised payment schedule is not reasonably assured, the loan remains on nonaccrual

status.
A loan that is a TDR that has an interest rate consistent with market rates at the time of restructuring and is in compliance with its modified terms in the calendar year after the year in which the restructuring took place is no longer considered a TDR. To be considered in compliance with its modified terms, a loan that is a TDR must be in accrual status and must be current or less than 30 days past due under the modified repayment terms; however, the loan will continue to be considered impaired. A loan that has been modified at a below market rate will remain classified as a TDR and an impaired loan. If the borrower’s financial conditions improve to the extent that the borrower qualifies for a new loan with market terms, the new loan will not be considered a TDR or impaired if Heartland's credit analysis shows the borrower's ability to perform under the new market terms.

Loans Held for Sale - Loans held for sale are stated at the lower of cost or fair value on an aggregate basis. Gains or losses on sales are recorded in noninterest income. Direct loan origination costs and fees are deferred at origination of the loan. These deferred costs and fees are recognized in noninterest income as part of the gain or loss on sales of loans upon sale of the loan.

Mortgage Servicing and Transfers of Financial Assets - Heartland regularly sells residential mortgage loans to others on a non-recourse basis. Sold loans are not included in the accompanying consolidated balance sheets. Heartland generally retains the right to service the sold loans for a fee. At December 31, 2013 and 2012, Heartland was servicing loans for others with aggregate unpaid principal balances of $3.05 billion and $2.20 billion, respectively.

Allowance for Loan and Lease Losses - The allowance for loan and lease losses is maintained at a level estimated by management to provide for known and inherent risks in the loan and lease portfolios. The allowance is based upon a continuing review of past loan and lease loss experience, current economic conditions, volume growth, the underlying collateral value of the loans and leases and other relevant factors. Loans and leases which are deemed uncollectible are charged off and deducted from the allowance. Provisions for loan and lease losses and recoveries on previously charged-off loans and leases are added to the allowance.

Reserve for Unfunded Commitments - This reserve is maintained at a level that, in the opinion of management, is adequate to absorb probable losses associated with Heartland’s commitment to lend funds under existing agreements such as letters or lines of credit. Management determines the adequacy of the reserve for unfunded commitments based upon reviews of delinquencies, current economic conditions, the risk characteristics of the various categories of commitments and other relevant factors. The reserve is based on estimates, and ultimate losses may vary from the current estimates. These estimates are evaluated on a regular basis and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. Draws on unfunded commitments that are considered uncollectible at the time funds are advanced are charged to the allowance. Provisions for unfunded commitment losses are added to the reserve for unfunded commitments, which is included in the Accrued Expenses and Other Liabilities section of the consolidated balance sheets.

Premises, Furniture and Equipment - Premises, furniture and equipment are stated at cost less accumulated depreciation. The provision for depreciation of premises, furniture and equipment is determined by straight-line and accelerated methods over the estimated useful lives of 18 to 39 years for buildings, 15 years for land improvements and 3 to 7 years for furniture and equipment.

Other Real Estate - Other real estate represents property acquired through foreclosures and settlements of loans. Property acquired is recorded at the estimated fair value of the property less disposal costs. The excess of carrying value over fair value less disposal costs is charged against the allowance for loan and lease losses. Subsequent write downs estimated on the basis of later valuations, gains or losses on sales and net expenses incurred in maintaining such properties are charged to other noninterest expense.

Goodwill and Intangible Assets - Intangible assets consist of goodwill, core deposit intangibles, customer relationship intangibles and mortgage servicing rights. Goodwill represents the excess of the purchase price of acquired subsidiaries’ net assets over their fair value. Heartland assesses goodwill for impairment annually, and more frequently if events occur which may indicate possible impairment, and assesses goodwill at the reporting unit level, also giving consideration to overall enterprise value as part of that assessment. In evaluating goodwill for impairment, Heartland first assesses qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount. If Heartland concludes that it is more likely than not that the fair value of a reporting unit is more than its carrying value, then no further testing of goodwill assigned to the reporting unit is required. However, if Heartland concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying value, then Heartland performs a two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment to recognize, if any. In the first step, the fair value of a reporting unit is compared to its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is not considered impaired and it is not necessary to continue to step two of the impairment process. If the fair value of the reporting unit is less than the carrying amount, step two is performed. In step two, the implied fair value of goodwill is compared to the carrying value of the reporting unit's

goodwill. The implied fair value of goodwill is computed as a residual value after allocating the fair value of the reporting unit to its assets and liabilities. Heartland estimates the fair value of its reporting units using market multiples of comparable entities, including recent transactions, or a combination of market multiples and discounted cash flow methodology. These methods incorporate assumptions specific to the entity, such as the use of financial forecasts.

Core deposit intangibles are amortized over eight to eighteen years on an accelerated basis. Customer relationship intangibles are amortized over 22 years on an accelerated basis. Periodically, Heartland reviews the intangible assets for events or circumstances that may indicate a change in the recoverability of the underlying basis, except mortgage servicing rights which are reviewed quarterly.

Mortgage servicing rights associated with loans originated and sold, where servicing is retained, are initially capitalized at fair value and recorded on the consolidated statements of income as a component of loan servicing income. The values of these capitalized servicing rights are amortized as an offset to the servicing revenue earned in relation to the servicing revenue expected to be earned. The carrying values of these rights are reviewed quarterly for impairment based on the calculation of their fair value as performed by an outside third party. For purposes of measuring impairment, the rights are stratified into certain risk characteristics including loan type, note rate, prepayment trends and external market factors. Valuation allowances of $0 and $496,000 were required as of December 31, 2013 and December 31, 2012, respectively.

Bank-Owned Life Insurance - Heartland and its subsidiaries have purchased life insurance policies on the lives of certain officers. The one-time premiums paid for the policies, which coincide with the initial cash surrender value, are recorded as an asset. Increases or decreases in the cash surrender value, other than proceeds from death benefits, are recorded as noninterest income (loss). Proceeds from death benefits first reduce the cash surrender value attributable to the individual policy and then any additional proceeds are recorded as noninterest income.

Income Taxes - Heartland and its subsidiaries file a consolidated federal income tax return and separate or combined income or franchise tax returns as required by the various states. Heartland recognizes certain income and expenses in different time periods for financial reporting and income tax purposes. The provision for deferred income taxes is based on an asset and liability approach and represents the change in deferred income tax accounts during the year, including the effect of enacted tax rate changes. A valuation allowance is provided to reduce deferred tax assets if their expected realization is deemed not to be more likely than not.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. Heartland recognizes interest and penalties related to income tax matters in income tax expense.

Derivative Financial Instruments - Heartland uses derivative financial instruments as part of its interest rate risk management, including interest rate swaps, caps, floors, collars and certain interest rate lock commitments and forward sales of securities related to mortgage banking activities. FASB Accounting Standards Codification (ASC) Topic 815 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by ASC 815, Heartland records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. To qualify for hedge accounting, Heartland must comply with the detailed rules and documentation requirements at the inception of the hedge, and hedge effectiveness is assessed at inception and periodically throughout the life of each hedging relationship. Hedge ineffectiveness, if any, is measured periodically throughout the life of the hedging relationship.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income and subsequently reclassified to interest income or expense when the hedged transaction affects earnings, while the ineffective portion of changes in the fair value of the derivative, if any, is recognized immediately in other noninterest income. Heartland assesses the effectiveness of each hedging relationship by comparing the cumulative changes in cash flows of the derivative hedging instrument with the cumulative changes in cash flows of the designated hedged item or transaction. No component of the change in the fair value of the hedging instrument is excluded from the assessment of hedge effectiveness.

Heartland had no fair value hedging relationships at December 31, 2013 or 2012. Derivatives not qualifying for hedge accounting, classified as free-standing derivatives, have all changes in the fair value recorded on the consolidated

statements of income through noninterest income.

Heartland does not use derivatives for trading or speculative purposes. Derivatives not designated as hedges are not speculative and are used to manage Heartland’s exposure to interest rate movements and other identified risks, but do not meet the strict hedge accounting requirements of ASC 815.

Segment Reporting - Public business enterprises are required to report information about operating segments in financial statements and selected information about operating segments in financial reports issued to shareholders. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by management in determining how to allocate resources and to assess effectiveness of the segments' performance. Generally, financial information is required to be reported on the basis that is used internally for evaluating segment performance and

---

deciding how to allocate resources to segments. Heartland has two reporting segments, one for community banking and one for mortgage banking operations.

Rate Lock Commitments - Through its mortgage banking activities, Heartland commits to originate mortgage loans whereby the interest rate on the loan is determined prior to funding (i.e. rate lock commitments). These commitments that relate to loans that will be sold to third parties when funded are accounted for as derivative instruments. The period of time between the issuance of a loan commitment and closing and sale of the loan generally ranges between 15 to 90 days. Heartland protects itself from changes in interest rates by entering into loan purchase agreements with third party investors that provide for the investor to purchase loans at the same terms, including interest rate, as committed to the borrower. Under the contractual relationship with these third party investors, Heartland is obligated to sell the loan to the investor, and the investor is obligated to buy the loan, only if the loan closes. No other obligation exists. Heartland is not exposed to losses nor will it realize gains related to its rate lock commitments due to changes in interest rates as a result of these contractual relationships with third party investors.

Fair Value Measurements - Fair value represents the estimated price at which an orderly transaction to sell an asset or transfer a liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price concept). Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using discounted cash flow or other valuation techniques. Inputs into the valuation methods are subjective in nature, involve uncertainties, and require significant judgment and therefore cannot be determined with precision. Accordingly, the derived fair value estimates presented herein are not necessarily indicative of the amounts Heartland could realize in a current market exchange. Assets and liabilities are categorized into three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine the fair value. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy in which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Heartland's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. Below is a brief description of each fair value level:
Level 1 — Valuation is based upon quoted prices for identical instruments in active markets.

Level 2 — Valuation is based upon quoted prices for similar instruments in active markets, or similar instruments in markets that are not active, and model-based valuation techniques for all significant assumptions are observable in the market.

Level 3 — Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Treasury Stock - Treasury stock is accounted for by the cost method, whereby shares of common stock reacquired are recorded at their purchase price. When treasury stock is reissued, any difference between the sales proceeds, or fair value when issued for business combinations, and the cost is recognized as a charge or credit to capital surplus.

Trust Department Assets - Property held for customers in fiduciary or agency capacities is not included in the accompanying consolidated balance sheets, as such items are not assets of the Heartland banks.

Earnings Per Share - Basic earnings per share is determined using net income available to common stockholders and weighted average common shares outstanding. Diluted earnings per share is computed by dividing net income available to common stockholders by the weighted average common shares and assumed incremental common shares issued. Amounts used in the determination of basic and diluted earnings per share for the years ended December 31, 2013, 2012 and 2011, are shown in the table below:

(Dollars and number of shares in thousands, except per share data)	2013	2012	2011
Net income attributable to Heartland	$36,789	$49,792	$28,044
Preferred dividends and discount	(1,093)	(3,400)	(7,640)
Net income available to common stockholders	$35,696	$46,392	$20,404
Weighted average common shares outstanding for basic earnings per share	17,199	16,518	16,437
Assumed incremental common shares issued upon exercise of stock options	261	251	139
Weighted average common shares for diluted earnings per share	17,460	16,769	16,576
Earnings per common share — basic	$2.08	$2.81	$1.24
Earnings per common share — diluted	$2.04	$2.77	$1.23
Number of antidilutive stock options excluded from diluted earnings per share computation	99	106	514

Effect of New Financial Accounting Standards - In July 2012, the FASB issued ASU No. 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment," which permits an entity to make a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset, other than goodwill, is impaired. Currently, entities are required to quantitatively test indefinite-lived intangible assets for impairment at least annually and more frequently if indicators of impairment exist. Under the new standard, if an entity concludes, based on an evaluation of all relevant qualitative factors, that it is not more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, it will not be required to perform the quantitative impairment test for that asset. Heartland adopted this standard on January 1, 2013, and the adoption did not have an impact on the results of operations, financial position and liquidity.

In September 2012, the FASB issued ASU No. 2012-06, "Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution," to address diversity in practice about how to subsequently measure an indemnification asset for a government-assisted acquisition that includes a loss-sharing agreement. This accounting standards update requires a reporting entity to account for a change in the subsequent measurement of the indemnification asset on the same basis as the changes in the asset subject to indemnification. Heartland adopted this standard on January 1, 2013, and the adoption did not have a material impact on the accounting for its loss share receivable from the FDIC under its various loss share agreements.

In February 2013, the FASB issued ASU No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," to address further disclosure of reclassification amounts out of other comprehensive income. The guidance requires that a reporting entity present, either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and income statement line items affected by the reclassification. Heartland adopted this standard on January 1, 2013, and the adoption did not have an impact on the results of operations, financial position and liquidity.

In July 2013, the FASB issued ASU No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists," to eliminate the diversity in practice and to increase the comparability of financial statements among companies. The guidance requires that a

reporting entity generally must show an unrecognized tax benefit, or a portion of an unrecognized tax benefit, for a net operating loss, or NOL, carryforward, similar tax loss or tax credit carryforward as a reduction of a deferred tax asset. However, the entity should present the unrecognized tax benefit as a liability and not as a reduction of a deferred tax asset if the carryforward or tax loss is not available on the financial statement date to settle any additional income tax liability that would result from the disallowance of the tax position under the applicable tax law, or the applicable tax law does not require the company to use, and the company does not intend to use, the carryforward or tax loss to settle additional income taxes resulting from the disallowance of the tax position. The guidance does not require any new recurring disclosures because it does not affect the recognition or measurement of uncertain tax positions. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, and should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Early adoption

---

and retrospective application are both permitted. Heartland does not expect the adoption of this standard to have a material impact on the results of operations, financial position, and liquidity.

In January 2014, the FASB issued ASU 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects." The amendments in ASU 2014-01 to Topic 323, "Equity Investments and Joint Ventures," provide guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The amendments permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments are effective for fiscal years, and interim periods within those years, beginning after December 31, 2014 and should be applied retrospectively to all periods presented. Early adoption is permitted. Heartland is in the process of evaluating the impact that adoption of this guidance will have on the results of operations, financial position, and liquidity.

In January 2014, the FASB issued ASU 2014-04, "Receivables-Troubled Debt Restructurings by Creditors: Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure." The amendments in ASU 2014-04 clarify that an in-substance foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (i) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (ii) the borrower conveying all interest in the residential real estate property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or similar legal agreement. ASU 2014-04 also requires disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in loans collateralized by residential real estate property that are in the process of foreclosure. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014, with early adoption permitted. Once adopted, an entity can elect either (i) a modified retrospective transition method or (ii) a prospective transition method. The modified retrospective transition method is applied by means of a cumulative-effect adjustment to residential mortgage loans and foreclosed residential real estate properties existing as of the beginning of the period for which the amendments of ASU 2014-04 are effective, with real estate reclassified to loans measured at the carrying value of the real estate at the date of adoption and loans reclassified to real estate measured at the lower of net carrying value of the loan or the fair value of the real estate less costs to sell at the date of adoption. The prospective transition method is applied by means of applying the amendments of ASU 2014-04 to all instances of receiving physical possession of residential real estate properties that occur after the date of adoption. Heartland does not expect the adoption of this standard to have a material impact on the results of operations, financial position, and liquidity.

TWO
ACQUISITIONS

On October 18, 2013, Heartland completed the purchase of Morrill Bancshares, Inc., the holding company of Morrill & Janes Bank and Trust Company. ("Morrill")., based in Merriam, Kansas. Under the terms of the purchase agreement, the aggregate purchase price, which was based upon the September 30, 2013 tangible book value of Morrill Bancshares, Inc., was approximately $55.4 million, $16.6 million or 30% of which was paid in cash, and $38.8 million or 70% of which was paid by delivery of 1,402,431 shares of Heartland common stock. The transaction included, at fair value, total assets of $810.8 million, loans of $377.7 million, and deposits of $665.3 million. Morrill operates as Heartland's tenth independent, state-chartered, bank subsidiary under its current name and management team.

The assets and liabilities of Morrill were recorded on the consolidated balance sheet at estimated fair value on the acquisition date. The following table represents, in thousands, the amounts recorded on the consolidated balance sheet as of October 18, 2013:

	As of October 18, 2013
Fair value of consideration paid	
Common Stock (1,402,431 shares)	$38,755
Cash	16,619
Total consideration paid	55,374
Fair value of assets acquired	
Cash and due from banks	61,316
Securities:	
Securities available for sale	339,362
Securities held to maturity	3,086
Other securities	4,139
Loans held for sale	97
Loans held to maturity	377,565
Premises, furniture and equipment, net	4,867
Other real estate, net	1,296
Other intangible assets, net	8,694
Other assets	5,389
Total assets	805,811
Fair value of liabilities assumed	
Deposits	665,297
Short term borrowings	62,450
Other borrowings	22,809
Other liabilities	4,837
Total liabilities assumed	755,393
Fair value of net assets acquired	50,418
Goodwill resulting from acquisition	$4,956

Heartland recognized goodwill of $5.0 million which is calculated as the excess of both the consideration exchanged and the liabilities assumed as compared to the fair value of identifiable assets acquired. Goodwill resulted from expected operational synergies, an enhanced market area, cross-selling opportunities, and expanded product lines. See Note 8 for further information on goodwill.

Explanation of Responses:

Pro Forma Information: The following pro forma information presents the results of operations for the year ended December 31, 2013 as if the Morrill acquisition occurred on January 1, 2012. The Freedom acquisition and acquisitions in 2012 are not deemed to be significant and are therefore excluded from the pro forma information in the table below:

(Dollars in thousands, except per share data)

	December 31, 2013	December 31, 2012
Net interest income	$181,310	$168,475
Net income	$39,043	$52,052
Basic earnings per share	$2.27	$3.15
Diluted earnings per share	$2.24	$3.10

The above pro forma results are presented for illustrative purposes and are not intended to represent or be indicative of the actual results of operations of the merged companies that would have been achieved had the acquisition occurred at January 1, 2012, nor are they intended to represent or be indicative of future results of operations. The pro forma results do not include expected operating cost savings as a result of the acquisition. These pro forma results require significant estimates and judgments particularly as it relates to valuation and accretion of income associated with the acquired loans.

Heartland incurred $466,000 of pre-tax merger related expenses in 2013. The merger expenses are reflected on the consolidated income statement for the applicable period and are reported primarily in the categories of salaries and benefits and professional fees.

Acquired loans were preliminarily recorded at fair value based on a discounted cash flow valuation methodology that considers, among other things, projected default rates, loss given defaults, and recovery rates. No allowance for credit losses was carried over from the acquisition. The balance of nonaccrual loans at acquisition date was $688,000.

On November 22, 2013, Heartland acquired Freedom Bank ("Freedom") in Sterling, Illinois, from its parent company, River Valley Bancorp, Inc., a Davenport, Iowa-based bank holding company. The acquisition was arranged through a negotiated transfer of ownership with Dubuque Bank and Trust Company. The transaction included, at fair value, total assets of $67.1 million, loans of $39.3 million, and deposits of $54.1 million at acquisition date. On March 7, 2014, Dubuque Bank and Trust Company transferred the shares of Freedom, with no stock or cash consideration paid, to Heartland, and Freedom was simultaneously merged with Riverside Community Bank subsidiary by dividend.

On July 13, 2012, Heartland completed the purchase of three retail banking offices from Liberty Bank, FSB ("Liberty Bank") in its Dubuque, Iowa market. The purchase was completed through Heartland's Dubuque Bank and Trust Company subsidiary. It included deposits of $53.8 million and loans of $9.4 million.

On November 16, 2012, Heartland completed the purchase of First Shares, Inc. ("FSI"), the bank holding company for the First National Bank of Platteville in Platteville, Wisconsin. Simultaneous with the closing of the transaction, First National Bank of Platteville merged into Heartland's Wisconsin Bank & Trust subsidiary. Under the terms of the agreement, the outstanding shares of FSI were converted into a combination of cash and shares of Heartland common stock, with stock consideration totaling 60% of the $10.5 million purchase price. The transaction included, at fair value, total assets of $128.0 million, loans of $84.9 million and deposits of $114.2 million.

On December 7, 2012, Heartland completed the purchase of Heritage Bank, N.A. ("Heritage") located in Phoenix, Arizona. Heartland acquired Heritage in an all-cash transaction valued at approximately $15.6 million. The transaction included, at fair value, assets of $109.1 million, loans of $63.4 million and deposits of $83.3 million. Heritage Bank merged with Heartland's Arizona Bank & Trust subsidiary on March 15, 2013.

THREE
CASH AND DUE FROM BANKS

The Heartland banks are required to maintain certain average cash reserve balances as a non-member bank of the Federal Reserve System. The reserve balance requirements at December 31, 2013 and 2012, were $28.7 million and $12.1 million, respectively.

FOUR
SECURITIES

The amortized cost, gross unrealized gains and losses and estimated fair values of securities available for sale as of December 31, 2013, and December 31, 2012, are summarized in the table below, in thousands:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value
December 31, 2013					
Securities available for sale:					
U.S. government corporations and agencies	$220,157	$147	$(2,001	)	$218,303
Mortgage-backed securities	1,156,983	9,538	(22,574	)	1,143,947
Obligations of states and political subdivisions	277,320	1,706	(12,402	)	266,624
Total debt securities	1,654,460	11,391	(36,977	)	1,628,874
Equity securities	4,996	32	—		5,028
Total	$1,659,456	$11,423	$(36,977	)	$1,633,902
December 31, 2012					
Securities available for sale:					
U.S. government corporations and agencies	$21,002	$443	$(1	)	$21,444
Mortgage-backed securities	1,027,234	19,002	(10,035	)	1,036,201
Obligations of states and political subdivisions	403,077	23,560	(192	)	426,445
Total debt securities	1,451,313	43,005	(10,228	)	1,484,090
Equity securities	5,508	733	—		6,241
Total	$1,456,821	$43,738	$(10,228	)	$1,490,331

At both December 31, 2013, and December 31, 2012, the amortized cost of the available for sale securities is net of $184,000 of credit related other-than-temporary impairment ("OTTI").

The amortized cost, gross unrealized gains and losses and estimated fair values of held to maturity securities as of December 31, 2013, and December 31, 2012, are summarized in the table below, in thousands:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value
December 31, 2013					
Securities held to maturity:					
Mortgage-backed securities	$5,973	$199	$(321	)	$5,851
Obligations of states and political subdivisions	231,525	5,801	(5,740	)	231,586
Total	$237,498	$6,000	$(6,061	)	$237,437
December 31, 2012					
Securities held to maturity:					
Mortgage-backed securities	$7,040	$492	$(12	)	$7,520
Obligations of states and political subdivisions	48,462	—	—		48,462
Total	$55,502	$492	$(12	)	$55,982

During the fourth quarter of 2013, Heartland transferred $180.9 million of bank qualified municipal bonds from available for sale to held to maturity. The bonds were transferred at fair value at the date of transfer.

At December 31, 2013, the amortized cost of the held to maturity securities is net of $797,000 of credit related OTTI and $517,000 of non-credit related OTTI. At December 31, 2012, the amortized cost of the held to maturity securities

is net of $797,000 of credit related OTTI and $612,000 of non credit related OTTI.

Approximately 87% of Heartland's mortgage-backed securities are issuances of government-sponsored enterprises.

The amortized cost and estimated fair value of debt securities available for sale at December 31, 2013, and December 31, 2012, by contractual maturity are as follows, in thousands. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without penalties.

	December 31, 2013	
	Amortized Cost	Estimated Fair Value
Due in 1 year or less	$12,780	$12,900
Due in 1 to 5 years	151,326	151,445
Due in 5 to 10 years	102,100	99,828
Due after 10 years	231,271	220,754
Total debt securities	497,477	484,927
Mortgage-backed securities	1,156,983	1,143,947
Equity securities	4,996	5,028
Total investment securities	$1,659,456	$1,633,902

	December 31, 2012	
	Amortized Cost	Estimated Fair Value
Due in 1 year or less	$4,266	$4,320
Due in 1 to 5 years	44,947	46,912
Due in 5 to 10 years	55,943	59,506
Due after 10 years	318,923	337,151
Total debt securities	424,079	447,889
Mortgage-backed securities	1,027,234	1,036,201
Equity securities	5,508	6,241
Total investment securities	$1,456,821	$1,490,331

The amortized cost and estimated fair value of debt securities held to maturity at December 31, 2013, and December 31, 2012, by contractual maturity are as follows, in thousands. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without penalties.

	December 31, 2013	
	Amortized Cost	Estimated Fair Value
Due in 1 year or less	$—	$—
Due in 1 to 5 years	—	—
Due in 5 to 10 years	53,121	55,019
Due after 10 years	178,404	176,567
Total debt securities	231,525	231,586
Mortgage-backed securities	5,973	5,851
Total investment securities	$237,498	$237,437

	December 31, 2012	
	Amortized Cost	Estimated Fair Value
Due in 1 year or less	$—	$—
Due in 1 to 5 years	510	510
Due in 5 to 10 years	11,638	11,638
Due after 10 years	36,314	36,314
Total debt securities	48,462	48,462
Mortgage-backed securities	7,040	7,520
Total investment securities	$55,502	$55,982

As of December 31, 2013, securities with a fair value of $779.0 million were pledged to secure public and trust deposits, short-term borrowings and for other purposes as required by law.

Gross gains and losses realized related to sales of securities available for sale for the years ended December 31, 2013, 2012, and 2011 are summarized as follows, in thousands:

	2013	2012	2011
Available for Sale Securities sold:			
Proceeds from sales	$546,532	$576,083	$493,167
Gross security gains	8,895	15,387	15,302
Gross security losses	1,774	1,389	2,198

The following tables summarize, in thousands, the amount of unrealized losses, defined as the amount by which cost or amortized cost exceeds fair value, and the related fair value of investments with unrealized losses in Heartland's securities portfolio as of December 31, 2013, and December 31, 2012. The investments were segregated into two categories: those that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months. The reference point for determining how long an investment was in an unrealized loss position was December 31, 2013, and December 31, 2012, respectively. Securities for which Heartland has taken credit-related OTTI write-downs are categorized as being "less than 12 months" or "12 months or longer" in a continuous loss position based on the point in time that the fair value declined to below the cost basis and not the period of time since the credit-related OTTI write-down.

Securities available for sale	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2013						
U.S. government corporations and agencies	$196,345	$(2,001)	$—	$—	$196,345	$(2,001)
Mortgage-backed securities	640,684	(17,064)	118,229	(5,510)	758,913	(22,574)
Obligations of states and political subdivisions	196,987	(11,452)	10,714	(950)	207,701	(12,402)
Total temporarily impaired securities	$1,034,016	$(30,517)	$128,943	$(6,460)	$1,162,959	$(36,977)
December 31, 2012						
U.S. government corporations and agencies	$1,517	$(1)	$—	$—	$1,517	$(1)
Mortgage-backed securities	332,842	(9,121)	24,489	(914)	357,331	(10,035)
Obligations of states and political subdivisions	22,503	(192)	—	—	22,503	(192)
	$356,862	$(9,314)	$24,489	$(914)	$381,351	$(10,228)

Total temporarily impaired securities

Securities held to maturity	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2013						
Mortgage-backed securities	$2,170	$(319)	$834	$(2)	$3,004	$(321)
Obligations of states and political subdivisions	47,175	(3,508)	21,505	(2,232)	68,680	(5,740)
Total temporarily impaired securities	$49,345	$(3,827)	$22,339	$(2,234)	$71,684	$(6,061)
December 31, 2012						
Mortgage-backed securities	$—	$—	$3,296	$(12)	$3,296	$(12)
Obligations of states and political subdivisions	—	—	—	—	—	—
Total temporarily impaired securities	$—	$—	$3,296	$(12)	$3,296	$(12)

Heartland reviews the investment securities portfolio on a quarterly basis to monitor its exposure to OTTI. A determination as to whether a security's decline in fair value is other-than-temporary takes into consideration numerous factors and the relative significance of any single factor can vary by security. Some factors Heartland may consider in the OTTI analysis include the length of time the security has been in an unrealized loss position, changes in security ratings, financial condition of the issuer, as well as security and industry specific economic conditions. In addition, with regard to debt securities, Heartland may also evaluate payment structure, whether there are defaulted payments or expected defaults, prepayment speeds, and the value of any underlying collateral. For certain debt securities in unrealized loss positions, Heartland prepares cash flow analyses to compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. During the first quarter of 2012, Heartland experienced deterioration in the credit support on three private label mortgage-backed securities which resulted in a credit-related OTTI loss. The underlying collateral on these securities experienced an increased level of defaults and a slowing of voluntary prepayments causing the present value of the forward expected cash flows, using prepayment and default vectors, to be below the amortized cost basis of the securities. Based on Heartland's evaluation, a $981,000 OTTI on three private label mortgage-backed securities attributable to credit-related losses was recorded in March 2012. The other-than-temporary credit-related losses were $797,000 in the held to maturity category and $184,000 in the available for sale category. Heartland had not previously recorded an OTTI loss on debt securities.

The remaining unrealized losses on Heartland's mortgage-backed securities are the result of changes in market interest rates or widening of market spreads subsequent to the initial purchase of the securities and not related to concerns regarding the underlying credit of the issuers or the underlying collateral. It is expected that the securities will not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because Heartland has the intent and ability to hold these investments until a market price recovery or to maturity and does not believe it will be required to sell the securities before maturity, these investments are not considered other-than-temporarily impaired.

Unrealized losses on Heartland's obligations of states and political subdivisions are the result of changes in market interest rates or widening of market spreads subsequent to the initial purchase of the securities. Management monitors the published credit ratings of these securities and the stability of the underlying municipalities. Because the decline in fair value is attributable to changes in interest rates or widening market spreads due to insurance company downgrades and not underlying credit quality, and because Heartland has the intent and ability to hold these investments until a market price recovery or to maturity and does not believe it will be required to sell the securities before maturity, these investments are not considered other-than-temporarily impaired.

There were no gross realized gains or losses on the sale of available for sale securities with OTTI write-downs for the periods ended December 31, 2013 or December 31, 2012.

The following table shows the detail of total OTTI write-downs included in earnings, in thousands:

	For the Years Ended December 31,		
	2013	2012	2011
OTTI write-downs included in earnings:			
Available for sale debt securities:			
Mortgage-backed securities	$—	$184	$—
Held to maturity debt securities:			
Mortgage-backed securities	—	797	—
Total debt security OTTI write-downs included in earnings	$—	$981	$—

The following table shows the detail of OTTI write-downs on debt securities included in earnings and the related changes in other accumulated comprehensive income (AOCI) for the same securities, in thousands:

	For the Years Ended December 31,		
	2013	2012	2011
OTTI on debt securities			
Recorded as part of gross realized losses:			
Credit related OTTI	$—	$981	$—
Intent to sell OTTI	—	—	—
Total recorded as part of gross realized losses	—	981	—
Recorded directly to AOCI for non-credit related impairment:			
Mortgage-backed securities	—	683	—
Accretion of non-credit related impairment	(95)	(71)	—
Total changes to AOCI for non-credit related impairment	(95)	612	—
Total OTTI losses (accretion) recorded on debt securities	$(95)	$1,593	$—

Heartland has not experienced any OTTI writedowns since the initial impairment charge in the first quarter of 2012.

Included in other securities at December 31, 2013 and 2012, were shares of stock in each Federal Home Loan Bank (the "FHLB") of Des Moines, Chicago, Dallas, San Francisco, Seattle and Topeka at an amortized cost of $15.6 million and $11.6 million, respectively. At December 31, 2013 and 2012, the Heartland's banks had $0 and $380,000, respectively, in shares of stock in the Federal Reserve Bank (the "FRB").

The Heartland banks are required to maintain FHLB stock as members of the various FHLBs as required by these institutions. As a member of the Federal Reserve System, Heartland's Heritage subsidiary had shares of stock in the FRB. These equity securities are "restricted" in that they can only be sold back to the respective institutions or another member institution at par. Therefore, they are less liquid than other marketable equity securities and their fair value approximates amortized cost. Heartland considers its FHLB and FRB stock as a long-term investment that provides access to competitive products and liquidity. Heartland evaluates impairment in these investments based on the ultimate recoverability of the par value and at December 31, 2013, did not consider the investments to be other than temporarily impaired.

FIVE
LOANS AND LEASES

Loans and leases as of December 31, 2013, and December 31, 2012, were as follows, in thousands:

	December 31, 2013	December 31, 2012
Loans and leases receivable held to maturity:		
Commercial	$950,197	$712,308
Commercial real estate	1,529,683	1,289,184
Agricultural and agricultural real estate	376,735	328,311
Residential real estate	349,349	249,689
Consumer	294,145	245,678
Gross loans and leases receivable held to maturity	3,500,109	2,825,170
Unearned discount	(168)	(676)
Deferred loan fees	(2,989)	(2,945)
Total net loans and leases receivable held to maturity	3,496,952	2,821,549
Loans covered under loss share agreements:		
Commercial and commercial real estate	2,314	3,074
Agricultural and agricultural real estate	543	748
Residential real estate	2,280	2,645
Consumer	612	786
Total loans covered under loss share agreements	5,749	7,253
Allowance for loan and lease losses	(41,685)	(38,715)
Loans and leases receivable, net	$3,461,016	$2,790,087

Heartland has certain lending policies and procedures in place that are designed to provide for an acceptable level of credit risk. The board of directors reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management and the board with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and nonperforming loans and potential problem loans. Diversification in the loan portfolio is also a means of managing risk associated with fluctuations in economic conditions.

The commercial and commercial real estate loan portfolio includes a wide range of business loans, including lines of credit for working capital and operational purposes and term loans for the acquisition of equipment and real estate. Although most loans are made on a secured basis, loans may be made on an unsecured basis where warranted by the overall financial condition of the borrower. Terms of commercial business loans generally range from one to five years. Commercial loans and leases are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The collateral for most of these loans and leases is based upon a discount from its market value. The primary repayment risks of commercial loans and leases are that the cash flow of the borrowers may be unpredictable, and the collateral securing these loans may fluctuate in value. Heartland seeks to minimize these risks in a variety of ways. The underwriting analysis includes credit verification, analysis of global cash flows, appraisals and a review of the financial condition of the borrower. Personal guarantees are frequently required as a tertiary form of repayment. In addition, when underwriting loans for commercial real estate, careful consideration is given to the property's operating history, future operating projections, current and projected occupancy, location and physical condition. Heartland also utilizes government guaranteed lending through the U.S. Small Business Administration and the USDA Rural Development Business and Industry Program to assist customers with longer-term funding and to reduce risk.

Agricultural loans, many of which are secured by crops, machinery and real estate, are provided to finance capital improvements and farm operations as well as acquisitions of livestock and machinery. Agricultural loans present

unique credit risks relating to adverse weather conditions, loss of livestock due to disease or other factors, declines in market prices for agricultural products and the impact of government regulations. The ultimate repayment of agricultural loans is dependent upon the profitable operation or management of the agricultural entity. In underwriting agricultural loans, lending personnel work closely with their customers to review budgets and cash flow projections for the ensuing crop year. These budgets and cash flow projections are monitored closely during the year and reviewed with the customers at least annually. Lending personnel also work closely with governmental agencies, including the Farm Service Agency, to help agricultural customers obtain credit enhancement products such as loan guarantees or interest assistance.

Heartland originates first-lien, adjustable-rate and fixed-rate, one-to-four-family residential real estate loans for the construction, purchase or refinancing of a single family residential property. These loans are principally collateralized by owner-occupied properties and are amortized over 10 to 30 years. Heartland typically sells longer-term, low-rate, residential mortgage loans in the secondary market with servicing rights retained. This practice allows Heartland to better manage interest rate risk and liquidity risk. The Heartland bank subsidiaries participate in lending programs sponsored by U.S. government agencies such as Veterans Administration and Federal Home Administration when justified by market conditions.

Consumer lending includes motor vehicle, home improvement, home equity and small personal credit lines. Consumer loans typically have shorter terms, lower balances, higher yields and higher risks of default than one- to four-family residential mortgage loans. Consumer loan collections are dependent on the borrower's continuing financial stability, and are therefore more likely to be affected by adverse personal circumstances. Risk is reduced through underwriting criteria, which include credit verification, appraisals, a review of the borrower's financial condition, and personal cash flows. A security interest, with title insurance when necessary, is taken in the underlying real estate. Heartland's consumer finance subsidiary, Citizens Finance Parent Co., typically lends to borrowers with past credit problems or limited credit histories, which comprises approximately 23% of Heartland's total consumer loan portfolio.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Heartland’s policy is to discontinue the accrual of interest income on any loan or lease when, in the opinion of management, there is a reasonable doubt as to the timely collection of the interest and principal, normally when a loan or lease is 90 days past due. When interest accruals are deemed uncollectible, interest credited to income in the current year is reversed and interest accrued in prior years is charged to the allowance for loan and lease losses. Nonaccrual loans and leases are returned to an accrual status when, in the opinion of management, the financial position of the borrower indicates that there is no longer any reasonable doubt as to the timely payment of interest and principal.

Under Heartland’s credit practices, a loan is impaired when, based on current information and events, it is probable that Heartland will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loan impairment is measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate, except where more practical, at the observable market price of the loan or the fair value of the collateral if the loan is collateral dependent.

The following table shows the balance in the allowance for loan and lease losses at December 31, 2013, and December 31, 2012, and the related loan balances, disaggregated on the basis of impairment methodology, in thousands. Loans evaluated under ASC 310-10-35 include loans on nonaccrual status and troubled debt restructurings, which are individually evaluated for impairment, and other impaired loans deemed to have similar risk characteristics. All other loans are collectively evaluated for impairment under ASC 450-20. Heartland has made no changes to the accounting for the allowance for loan and lease losses policy during 2013 or 2012.

	Allowance For Loan and Lease Losses			Gross Loans and Leases Receivable Held to Maturity		
	Ending Balance Under ASC 310-10-35	Ending Balance Under ASC 450-20	Total	Ending Balance Evaluated for Impairment Under ASC 310-10-35	Ending Balance Evaluated for Impairment Under ASC 450-20	Total
December 31, 2013						
Commercial	$2,817	$10,282	$13,099	$14,644	$935,553	$950,197
Commercial real estate	818	13,334	14,152	28,299	1,501,384	1,529,683
Agricultural and agricultural real estate	756	2,236	2,992	16,667	360,068	376,735
Residential real estate	605	3,115	3,720	7,214	342,135	349,349
Consumer	1,721	6,001	7,722	5,137	289,008	294,145
Total	$6,717	$34,968	$41,685	$71,961	$3,428,148	$3,500,109
December 31, 2012						
Commercial	$1,350	$10,038	$11,388	$9,031	$703,277	$712,308
Commercial real estate	1,112	13,361	14,473	45,583	1,243,601	1,289,184
Agricultural and agricultural real estate	109	2,029	2,138	16,128	312,183	328,311
Residential real estate	783	2,760	3,543	7,443	242,246	249,689
Consumer	1,270	5,903	7,173	5,391	240,287	245,678
Total	$4,624	$34,091	$38,715	$83,576	$2,741,594	$2,825,170

The following table presents nonaccrual loans, accruing loans past due 90 days or more and troubled debt restructured loans not covered under loss share agreements at December 31, 2013, and December 31, 2012, in thousands. There were no nonaccrual leases, accruing leases past due 90 days or more or restructured leases at December 31, 2013, and December 31, 2012.

	December 31, 2013	December 31, 2012
Nonaccrual loans	$29,313	$38,675
Nonaccrual troubled debt restructured loans	13,081	4,481
Total nonaccrual loans	$42,394	$43,156
Accruing loans past due 90 days or more	24	—
Performing troubled debt restructured loans	$19,353	$21,121

Heartland had $32.5 million of troubled debt restructured loans at December 31, 2013, of which $13.1 million were classified as nonaccrual and $19.4 million were accruing according to the restructured terms. Heartland had $25.6 million of troubled debt restructured loans at December 31, 2012, of which $4.5 million were classified as nonaccrual and $21.1 million were accruing according to the restructured terms.

Explanation of Responses:

The following table provides information on troubled debt restructured loans that were modified during the years ended December 31, 2013, and December 31, 2012, in thousands:

	For the Years Ended					
	December 31, 2013			December 31, 2012		
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial	4	$ 17,934	$ 17,934	—	$ —	$ —
Commercial real estate	5	1,797	1,797	1	13	13
Total commercial and commercial real estate	9	19,731	19,731	1	13	13
Agricultural and agricultural real estate	8	4,349	4,349	2	256	256
Residential real estate	4	762	762	2	1,239	1,239
Consumer	1	166	166	—	—	—
Total	22	$ 25,008	$ 25,008	5	$ 1,508	$ 1,508

The pre-modification and post-modification recorded investment represents amounts as of the date of loan modification. Since the modifications on these loans have been only interest rate concessions and term extensions, not principal reductions, the pre-modification and post-modification recorded investment amounts are the same. Included in the troubled debt restructured loans for the year ended December 31, 2013 are four commercial real estate loans totaling $1.6 million which were acquired with the acquisitions in the fourth quarter of 2013. At December 31, 2013, there were no commitments to extend credit to any of the borrowers with an existing TDR.

The following table provides information on troubled debt restructured loans for which there was a payment default during the years ended December 31, 2013, and December 31, 2012, in thousands, that had been modified during the 12-month period prior to the default:

	With Payment Defaults During the Following Periods			
	For the Years Ended			
	December 31, 2013		December 31, 2012	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Commercial	3	$11,598	—	$—
Commercial real estate	1	480	—	—
Total commercial and commercial real estate	4	12,078	—	—
Agricultural and agricultural real estate	—	—	—	—
Residential real estate	2	165	2	59
Consumer	—	—	—	—
Total	6	$12,243	2	$59

For the year ended December 31, 2013, acquired commercial loans totaling $61,000 and acquired commercial real estate loans totaling $480,000 are included in the table above. These loans were acquired in the fourth quarter of 2013.

Heartland's internal rating system is a series of grades reflecting management's risk assessment, based on its analysis of the borrower's financial condition. The "pass" category consists of all loans that are not in the "nonpass" category, categorized into a range of loan grades that reflect increasing, though still acceptable, risk. Movement of risk through the various grade levels in the pass category is monitored for early identification of credit deterioration. The "nonpass" category consists of special mention, substandard, doubtful and loss loans. The "special mention" rating is attached to loans where the borrower exhibits negative financial trends due to borrower specific or systemic conditions that, if left

uncorrected, threaten its capacity to meet its debt obligations. The borrower is believed to have sufficient financial flexibility to react to and resolve its negative financial situation. These credits are closely monitored for improvement or deterioration. The "substandard" rating is assigned to loans that are inadequately protected by the current sound net worth and paying capacity of the borrower and may be further at risk due to deterioration in the value of collateral pledged. Well-defined weaknesses jeopardize liquidation of the debt. These loans are still considered collectible, however, a distinct possibility exists that Heartland will sustain some loss if deficiencies are not corrected. Substandard loans may exhibit some or all of the following weaknesses: deteriorating trends, lack of earnings,

---

inadequate debt service capacity, excessive debt and/or lack of liquidity. The "doubtful" rating is assigned to loans where identified weaknesses make collection or liquidation in full, on the basis of existing facts, conditions and values, highly questionable and improbable. These borrowers are usually in default, lack liquidity and capital, as well as resources necessary to remain an operating entity. Specific pending events, such as capital injections, liquidations or perfection of liens on additional collateral, may strengthen the credit, thus deferring classification of the loan as loss until exact status can be determined. The "loss" rating is assigned to loans considered uncollectible. As of December 31, 2013, Heartland had one loan classified as doubtful and no loans classified as loss. Loans are placed on "nonaccrual" when management does not expect to collect payments of principal and interest in full or when principal or interest has been in default for a period of 90 days or more, unless the loan is both well secured and in the process of collection.

The following table presents loans and leases not covered by loss share agreements by credit quality indicator at December 31, 2013, and December 31, 2012, in thousands:

	Pass	Nonpass	Total
December 31, 2013			
Commercial	$871,825	$78,372	$950,197
Commercial real estate	1,390,820	138,863	1,529,683
Total commercial and commercial real estate	2,262,645	217,235	2,479,880
Agricultural and agricultural real estate	335,821	40,914	376,735
Residential real estate	333,161	16,188	349,349
Consumer	284,148	9,997	294,145
Total gross loans and leases receivable held to maturity	$3,215,775	$284,334	$3,500,109
December 31, 2012			
Commercial	$661,118	$51,190	$712,308
Commercial real estate	1,134,784	154,400	1,289,184
Total commercial and commercial real estate	1,795,902	205,590	2,001,492
Agricultural and agricultural real estate	286,264	42,047	328,311
Residential real estate	227,925	21,764	249,689
Consumer	235,232	10,446	245,678
Total gross loans and leases receivable held to maturity	$2,545,323	$279,847	$2,825,170

The nonpass category in the table above is comprised of approximately 59% special mention, 38% substandard, and 3% doubtful as of December 31, 2013. The percent of nonpass loans on nonaccrual status as of December 31, 2013, was 15%. As of December 31, 2012, the nonpass category in the table above was comprised of approximately 50% special mention and 50% substandard. The percent of nonpass loans on nonaccrual status as of December 31, 2012, was 15%. The doubtful loan category at December 31, 2013 consists of one loan, which is on nonaccrual, and has a specific reserve of $2.2 million. Loans delinquent 30-89 days as a percentage of total loans were .30% at December 31, 2013. Changes in credit risk are monitored on a continuous basis and changes in risk ratings are made when identified. All impaired loans are reviewed at least annually.

The following table sets forth information regarding Heartland's accruing and nonaccrual loans and leases not covered by loss share agreements at December 31, 2013, and December 31, 2012, in thousands:

	Accruing Loans and Leases						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Nonaccrual	Total Loans and Leases
December 31, 2013							
Commercial	$697	$741	$—	$1,438	$935,508	$13,251	$950,197
Commercial real estate	3,042	199	24	3,265	1,511,618	14,800	1,529,683
Total commercial and commercial real estate	3,739	940	24	4,703	2,447,126	28,051	2,479,880
Agricultural and agricultural real estate	818	—	—	818	369,907	6,010	376,735
Residential real estate	1,199	56	—	1,255	342,735	5,359	349,349
Consumer	2,624	1,089	—	3,713	287,458	2,974	294,145
Total gross loans and leases receivable held to maturity	$8,380	$2,085	$24	$10,489	$3,447,226	$42,394	$3,500,109
December 31, 2012							
Commercial	$1,143	$525	$—	$1,668	$708,459	$2,181	$712,308
Commercial real estate	1,631	494	—	2,125	1,259,112	27,947	1,289,184
Total commercial and commercial real estate	2,774	1,019	—	3,793	1,967,571	30,128	2,001,492
Agricultural and agricultural real estate	687	—	—	687	324,545	3,079	328,311
Residential real estate	1,278	234	—	1,512	241,860	6,317	249,689
Consumer	2,434	803	—	3,237	238,809	3,632	245,678
Total gross loans and leases receivable held to maturity	$7,173	$2,056	$—	$9,229	$2,772,785	$43,156	$2,825,170

The majority of Heartland's impaired loans are those that are nonaccrual, are past due 90 days or more and still accruing or have had their terms restructured in a troubled debt restructuring. The following tables present, for impaired loans not covered by loss share agreements and by category of loan, the unpaid principal balance that was contractually due at December 31, 2013, and December 31, 2012, the outstanding loan balance recorded on the consolidated balance sheets at December 31, 2013, and December 31, 2012, any related allowance recorded for those loans as of December 31, 2013, and December 31, 2012, the average outstanding loan balance recorded on the consolidated balance sheets during the years ended December 31, 2013 and December 31, 2012, and the interest income recognized on the impaired loans during the year ended December 31, 2013, and year ended December 31, 2012, in thousands:

	Unpaid Principal Balance	Loan Balance	Related Allowance Recorded	Year-to-Date Avg. Loan Balance	Year-to-Date Interest Income Recognized
December 31, 2013					
Impaired loans with a related allowance:					
Commercial	$7,901	$7,901	$2,817	$5,343	$38
Commercial real estate	9,164	8,909	818	7,686	282
Total commercial and commercial real estate	17,065	16,810	3,635	13,029	320
Agricultural and agricultural real estate	13,818	13,818	756	7,537	354
Residential real estate	2,460	2,460	605	3,179	13
Consumer	3,485	3,485	1,721	3,490	100
Total loans held to maturity	$36,828	$36,573	$6,717	$27,235	$787
Impaired loans without a related allowance:					
Commercial	$7,724	$6,743	$—	$9,394	$89
Commercial real estate	24,830	19,390	—	25,676	538
Total commercial and commercial real estate	32,554	26,133	—	35,070	627
Agricultural and agricultural real estate	2,849	2,849	—	9,985	189
Residential real estate	5,345	4,754	—	4,198	80
Consumer	1,652	1,652	—	1,515	37
Total loans held to maturity	$42,400	$35,388	$—	$50,768	$933
Total impaired loans held to maturity:					
Commercial	$15,625	$14,644	$2,817	$14,737	$127
Commercial real estate	33,994	28,299	818	33,362	820
Total commercial and commercial real estate	49,619	42,943	3,635	48,099	947
Agricultural and agricultural real estate	16,667	16,667	756	17,522	543
Residential real estate	7,805	7,214	605	7,377	93
Consumer	5,137	5,137	1,721	5,005	137
Total impaired loans held to maturity	$79,228	$71,961	$6,717	$78,003	$1,720

	Unpaid Principal Balance	Loan Balance	Related Allowance Recorded	Year-to-Date Avg. Loan Balance	Year-to-Date Interest Income Recognized
December 31, 2012					
Impaired loans with a related allowance:					
Commercial	$2,904	$2,904	$1,350	$5,082	$88
Commercial real estate	6,403	6,384	1,112	12,671	813
Total commercial and commercial real estate	9,307	9,288	2,462	17,753	901
Agricultural and agricultural real estate	1,493	1,493	109	379	83
Residential real estate	3,197	3,170	783	2,737	89
Consumer	3,876	3,836	1,270	3,781	204
Total loans held to maturity	$17,873	$17,787	$4,624	$24,650	$1,277
Impaired loans without a related allowance:					
Commercial	$6,596	$6,127	$—	$3,813	$186
Commercial real estate	48,967	39,199	—	41,814	689
Total commercial and commercial real estate	55,563	45,326	—	45,627	875
Agricultural and agricultural real estate	14,654	14,635	—	13,728	539
Residential real estate	4,741	4,273	—	3,861	65
Consumer	1,708	1,555	—	1,630	18
Total loans held to maturity	$76,666	$65,789	$—	$64,846	$1,497
Total impaired loans held to maturity:					
Commercial	$9,500	$9,031	$1,350	$8,895	$274
Commercial real estate	55,370	45,583	1,112	54,485	1,502
Total commercial and commercial real estate	64,870	54,614	2,462	63,380	1,776
Agricultural and agricultural real estate	16,147	16,128	109	14,107	622
Residential real estate	7,938	7,443	783	6,598	154
Consumer	5,584	5,391	1,270	5,411	222
Total impaired loans held to maturity	$94,539	$83,576	$4,624	$89,496	$2,774

On July 2, 2009, Heartland acquired all deposits of The Elizabeth State Bank in Elizabeth, Illinois through its subsidiary Galena State Bank & Trust Co. based in Galena, Illinois, in a whole bank loss sharing transaction facilitated by the FDIC. As of July 2, 2009, The Elizabeth State Bank had loans of $42.7 million. The estimated fair value of the loans acquired was $37.8 million.

The acquired loans and other real estate owned are covered by two loss share agreements between the FDIC and Galena State Bank & Trust Co., which affords Galena State Bank & Trust Co. significant loss protection. Under the loss share agreements, the FDIC covers 80% of the covered loan and other real estate owned losses (referred to as covered assets) up to $10 million and 95% of losses in excess of that amount. The term for loss sharing on

non-residential real estate losses is five years with respect to losses and eight years with respect to recoveries, while the term for loss sharing on residential real estate loans is ten years with respect to losses and recoveries. The reimbursable losses from the FDIC are based on the book value of the relevant loan as determined by the FDIC at the date of the transaction. New loans made after the acquisition are not covered by the loss share agreements.

The Elizabeth State Bank acquisition was accounted for under the acquisition method of accounting in accordance with ASC 805, “Business Combinations.” Purchased loans acquired in a business combination, which include loans purchased in The Elizabeth State Bank acquisition, are recorded at estimated fair value on their purchase date, but the purchaser cannot carry over the related allowance for loan and lease losses. Purchased loans are accounted for under ASC 310-30, “Loans and Debt Securities with Deteriorated Credit Quality,” when the loans have evidence of credit deterioration since origination and it is probable at the date of the acquisition that Heartland will not collect all contractually required principal and interest payments. Evidence of credit quality deterioration at the purchase date included statistics such as past due and nonaccrual status.

Generally, acquired loans that meet Heartland's definition for nonaccrual status fall within the scope of ASC 310-30. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference which is included in the carrying value of the loans. Subsequent decreases to the expected cash flows will generally result in a provision for loan and lease losses. Subsequent increases in cash flows result in a reversal of the provision for loan and lease losses to the extent of prior charges, or a reclassification of the difference from nonaccretable to accretable with a positive impact on future interest income. Further, any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized into interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of such cash flows.

The carrying amount of the loans covered by these loss share agreements at December 31, 2013, and December 31, 2012, consisted of purchased impaired and nonimpaired loans as summarized in the following table, in thousands:

	December 31, 2013			December 31, 2012		
	Impaired Purchased Loans	Non Impaired Purchased Loans	Total Covered Loans	Impaired Purchased Loans	Non Impaired Purchased Loans	Total Covered Loans
Commercial and commercial real estate	$549	$1,765	$2,314	$598	$2,476	$3,074
Agricultural and agricultural real estate	—	543	543	—	748	748
Residential real estate	—	2,280	2,280	—	2,645	2,645
Consumer loans	538	74	612	89	697	786
Total Covered Loans	$1,087	$4,662	$5,749	$687	$6,566	$7,253

On the acquisition date, the preliminary estimate of the contractually required payments receivable for all loans with evidence of credit deterioration since origination acquired in the acquisition was $13.8 million and the estimated fair value of the loans was $9.0 million. At December 31, 2013, and December 31, 2012, a majority of these loans were valued based upon the liquidation value of the underlying collateral, because the expected cash flows are primarily based on the liquidation of underlying collateral and the timing and amount of the cash flows could not be reasonably estimated. There was no allowance for loan and lease losses related to these ASC 310-30 loans at December 31, 2013, and December 31, 2012.

On the acquisition date, the preliminary estimate of the contractually required payments receivable for all nonimpaired loans acquired in the acquisition was $28.9 million and the estimated fair value of the loans was $28.7 million.

Loans are made in the normal course of business to directors, officers and principal holders of equity securities of Heartland. The terms of these loans, including interest rates and collateral, are similar to those prevailing for comparable transactions and do not involve more than a normal risk of collectibility. Changes in such loans during the years ended December 31, 2013 and 2012, were as follows, in thousands:

	2013	2012
Balance at beginning of year	$97,611	$68,749
Advances	85,058	41,989
Repayments	(69,065)	(13,127)
Balance at end of year	$113,604	$97,611

SIX
ALLOWANCE FOR LOAN AND LEASE LOSSES

Changes in the allowance for loan and lease losses for the years ended December 31, 2013, 2012, and 2011 were as follows, in thousands:

	2013	2012	2011
Balance at beginning of year	$38,715	$36,808	$42,693
Provision for loan and lease losses	9,697	8,202	29,365
Recoveries on loans and leases previously charged-off	4,820	8,209	4,730
Loans and leases charged-off	(11,547)	(14,504)	(39,980)
Balance at end of year	$41,685	$38,715	$36,808

Changes in the allowance for loan and lease losses by loan category for the years ended December 31, 2013 and December 31, 2012, were as follows, in thousands:

	Commercial	Commercial Real Estate	Agricultural	Residential Real Estate	Consumer	Unallocated	Total
Balance at December 31, 2012	$11,388	$14,473	$2,138	$3,543	$7,173	$—	$38,715
Charge-offs	(2,460)	(3,251)	(23)	(1,036)	(4,777)	—	(11,547)
Recoveries	1,019	2,378	110	158	1,155	—	4,820
Provision	3,152	552	767	1,055	4,171	—	9,697
Balance at December 31, 2013	$13,099	$14,152	$2,992	$3,720	$7,722	$—	$41,685

	Commercial	Commercial Real Estate	Agricultural	Residential Real Estate	Consumer	Unallocated	Total
Balance at December 31, 2011	$10,549	$14,621	$1,763	$3,001	$6,874	$—	$36,808
Charge-offs	(1,799)	(6,898)	(1)	(988)	(4,818)	—	(14,504)
Recoveries	1,966	5,194	81	164	804	—	8,209
Provision	672	1,556	295	1,366	4,313	—	8,202
Balance at December 31, 2012	$11,388	$14,473	$2,138	$3,543	$7,173	$—	$38,715

SEVEN
PREMISES, FURNITURE AND EQUIPMENT

Premises, furniture and equipment as of December 31, 2013 and December 31, 2012, were as follows, in thousands:

	2013	2012
Land and land improvements	$36,679	$35,114
Buildings and building improvements	115,052	106,891
Furniture and equipment	54,393	50,672
Total	206,124	192,677
Less accumulated depreciation	(70,410)	(64,383)
Premises, furniture and equipment, net	$135,714	$128,294

Depreciation expense on premises, furniture and equipment was $7.7 million, $6.4 million and $6.3 million for 2013, 2012, and 2011, respectively.

EIGHT
GOODWILL, CORE DEPOSIT INTANGIBLES AND OTHER INTANGIBLE ASSETS

Heartland had goodwill of $35.6 million and $30.6 million at December 31, 2013, and December 31, 2012, respectively.

Heartland recorded $5.0 million of goodwill in connection with the acquisition of Morrill Bancshares, Inc., the holding company for Morrill & Janes Bank and Trust Company, based in Merriam, Kansas on October 18, 2013. The goodwill associated with this transaction is not deductible for tax purposes. As part of the Morrill & Janes Bank and Trust Company acquisition, Heartland recognized core deposit intangibles of $8.5 million that are expected to be amortized over a period of 8 years. The core deposit intangibles associated with this transaction are not deductible for

tax purposes.

Heartland recorded no goodwill in conjunction with the Freedom Bank acquisition. In conjunction with the Freedom Bank acquisition, Heartland recognized core deposit intangibles of $890,000 that are expected to be amortized over a period of 8 years. The core deposit intangibles associated with this transaction are not deductible for tax purposes.

Heartland recorded $681,000 of goodwill in connection with the acquisition of the three branches from Liberty Bank, FSB on July 13, 2012. Heartland recorded $645,000 in connection with the acquisition of FSI on November 16, 2012. Goodwill recorded related to the Heritage acquisition on December 7, 2012 was $3.4 million. The goodwill associated with the Liberty and Heritage acquisitions is deductible for tax purposes.

Other intangible assets consist of core deposit intangibles, mortgage servicing rights and customer relationship intangible. The gross carrying amount of other intangible assets and the associated accumulated amortization at December 31, 2013, and December 31, 2012, are presented in the table below, in thousands:

	December 31, 2013			December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizing intangible assets:						
Core deposit intangibles	$21,069	$10,345	$10,724	$11,668	$9,327	$2,341
Mortgage servicing rights	32,160	10,372	21,788	22,892	7,239	15,653
Customer relationship intangible	1,177	730	447	1,177	685	492
Total	$54,406	$21,447	$32,959	$35,737	$17,251	$18,486

The following table shows the estimated future amortization expense for amortizable intangible assets, in thousands:

	Core Deposit Intangibles	Mortgage Servicing Rights	Customer Relationship Intangible	Total
Year ending December 31,				
2014	$2,180	$7,263	$43	$9,486
2015	1,780	5,810	42	7,632
2016	1,575	4,358	41	5,974
2017	1,393	2,905	40	4,338
2018	1,232	1,452	39	2,723
Thereafter	2,564	—	242	2,806

Projections of amortization expense for mortgage servicing rights are based on existing asset balances and the existing interest rate environment as of December 31, 2013. Heartland's actual experience may be significantly different depending upon changes in mortgage interest rates and market conditions. Mortgage loans serviced for others were $3.05 billion and $2.20 billion as of December 31, 2013, and December 31, 2012, respectively. Custodial escrow balances maintained in connection with the mortgage loan servicing portfolio were approximately $12.8 million and $10.0 million as of December 31, 2013 and December 31, 2012, respectively. The fair value of Heartland's mortgage servicing rights was estimated at $32.0 million and $16.0 million at December 31, 2013, and December 31, 2012, respectively. Valuation allowances of $0 and $496,000, were required as of December 31, 2013, and December 31, 2012, respectively.

The majority of Heartland's mortgage servicing rights portfolio is compromised of loans serviced for the Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"), which are separated into 15- and 30-year tranches. At December 31, 2013, the 30-year tranche had a fair value of $23.7 million in comparison with the book value of $16.4 million. At December 31, 2012, the 30-year tranche had a fair value of $12.6 million in comparison with the book value of $12.6 million, which was net of the related valuation allowance of $496,000. At December 31, 2013, the 15-year tranche had a fair value of $4.7 million in comparison with the book value of $3.1 million. At December 31, 2012, the 15-year tranche had a fair value of $3.3 million in comparison with the book value of $3.0 million.

In addition to servicing FNMA and FHLMC loans, Heartland became an authorized servicer of Government National Mortgage Association ("GNMA") mortgages in late 2012. At December 31, 2013, the GNMA tranche had a fair value of $3.5 million and a book value of $2.3 million.

The fair value of mortgage servicing rights is calculated based upon a discounted cash flow analysis. Cash flow assumptions, including prepayment speeds, servicing costs and escrow earnings are considered in the calculation. The average constant prepayment rate was 9.65% and 17.99% for the valuations for December 31, 2013, and December 31, 2012, respectively. The discount rate was 10.15% and 10.06% for the valuations for December 31, 2013 and December 31, 2012, respectively. The

---

average capitalization rate for 2013 ranged from .79 to 1.39 and for 2012 from .79 to 1.07. Fees collected for the servicing of mortgage loans for others were $6.9 million, $4.4 million and $3.6 million for the years ended December 31, 2013, 2012, and 2011, respectively.

The following table summarizes, in thousands, the changes in capitalized mortgage servicing rights:

	2013	2012
Balance at January 1	$15,653	$11,276
Originations	12,769	11,451
Amortization	(7,314)	(6,597)
Purchased MSR	184	—
Valuation adjustment	496	(477)
Balance at December 31	$21,788	$15,653

NINE
DEPOSITS

At December 31, 2013, the scheduled maturities of time certificates of deposit were as follows, in thousands:

2014	$497,059
2015	158,788
2016	100,814
2017	59,251
2018	40,223
Thereafter	36,541
	$892,676

The aggregate amount of time certificates of deposit in denominations of $100,000 or more as of December 31, 2013 and December 31, 2012, were $354.2 million and $308.8 million, respectively.

Interest expense on deposits for the years ended December 31, 2013, 2012, and 2011, was as follows, in thousands:

	2013	2012	2011
Savings and money market accounts	$6,674	$6,736	$9,090
Time certificates of deposit in denominations of $100,000 or more	4,403	4,776	5,928
Other time deposits	8,891	10,718	14,206
Interest expense on deposits	$19,968	$22,230	$29,224

TEN
SHORT-TERM BORROWINGS

Short-term borrowings as of December 31, 2013 and 2012, were as follows, in thousands:

	2013	2012
Securities sold under agreement to repurchase	$234,659	$203,355
Federal funds purchased	69,097	5,525
Advances from the FHLB	105,000	10,000
Notes payable to unaffiliated banks	—	5,746
Total	$408,756	$224,626

At December 31, 2013, Heartland has one credit line with an unaffiliated bank with revolving borrowing capacity of $20.0 million. At December 31, 2012, Heartland had two credit lines with two unaffiliated banks, each with revolving borrowing capacity of $5.0 million. At December 31, 2013 and 2012, Heartland had no outstanding balance on any

lines of credit.

The agreement with the lender of the revolving credit line of $20.0 million and the term loan (as indicated in Note 11) contains specific financial covenants, all of which Heartland was in compliance with at December 31, 2013 and 2012:

- Heartland will maintain regulatory capital at well capitalized levels on a consolidated basis.
- Heartland will maintain on a consolidated basis a minimum return on average assets of at least .50% tested quarterly on a rolling four-quarter basis.
- On a consolidated basis, Heartland's nonperforming assets to Tier 1 capital and allowance for loan and lease losses will not exceed 30%, measured continuously.
- Heartland will maintain on a consolidated basis a minimum allowance for loan and lease losses to gross loans and leases ratio of 1.00%.
- Heartland will inform the lender of any material regulatory non-compliance or written agreement concerning Heartland or any of its subsidiaries.
- A senior officer of Heartland will submit a written quarterly statement of compliance with the financial covenants established under the credit agreement.

All retail repurchase agreements as of December 31, 2013 and 2012 were due within twelve months.

Average and maximum balances and rates on aggregate short-term borrowings outstanding during the years ended December 31, 2013, December 31, 2012, and December 31, 2011 were as follows, in thousands:

	2013		2012		2011	
Maximum month-end balance	$408,756		$298,662		$270,081	
Average month-end balance	274,352		248,048		197,527	
Weighted average interest rate for the year	0.31	%	0.32	%	0.44	%
Weighted average interest rate at year-end	0.19	%	0.31	%	0.35	%

Dubuque Bank and Trust Company is a participant in the Borrower-In-Custody of Collateral Program at the Federal Reserve Bank of Chicago, which provides the capability to borrow short-term funds under the Discount Window Program. Advances under this program were collateralized by a portion of the commercial loan portfolio of Dubuque Bank and Trust Company in the amount of $100.8 million at December 31, 2013, and $101.3 million at December 31, 2012. There were no borrowings under the Discount Window Program outstanding at year-end 2013 and 2012.

ELEVEN
OTHER BORROWINGS

Other borrowings outstanding at December 31, 2013 and 2012 were as follows, in thousands:

	2013	2012
Advances from the FHLB; weighted average call dates at December 31, 2013 and 2012 were October 2014 and December 2013, respectively; and weighted average interest rates were 3.06% and 3.11%, respectively	$113,453	$143,195
Wholesale repurchase agreements; weighted average call dates at December 31, 2013 and 2012 were April 2014 and May 2013, respectively; and weighted average interest rates were 3.38% and 3.12%, respectively	60,000	85,000
Trust preferred securities	124,860	108,250
Senior notes	37,500	37,500
Note payable to unaffiliated bank	11,719	13,002
Contracts payable for purchase of real estate and other assets	2,577	2,078
Total	$350,109	$389,025

The Heartland banks are members of the FHLB of Des Moines, Chicago, Dallas, San Francisco, Seattle and Topeka. The advances from the FHLB are collateralized by the Heartland banks' investments in FHLB stock of $14.2 million and $9.6 million at December 31, 2013 and 2012, respectively. In addition, the FHLB advances are collateralized with pledges of one- to four-family residential mortgages, commercial and agricultural mortgages and securities totaling $1.32 billion at December 31, 2013, and $1.12 billion at December 31, 2012. At December 31, 2013, Heartland had $310.6 million of FHLB borrowing capacity. As a national association, Heritage Bank, N.A. held stock in the Federal Reserve Bank of San Francisco totaling $380,000 at December 31, 2012.

Heartland has entered into various wholesale repurchase agreements which had balances totaling $60.0 million and $85.0 million at December 31, 2013 and 2012, respectively. A schedule of Heartland's wholesale repurchase agreements outstanding as of December 31, 2013, were as follows, in thousands:

	Amount	Interest Rate as of 12/31/13[1]		Issue Date	Maturity Date	Callable Date
Counterparty:						
Citigroup Global Markets	$15,000	3.32	%	04/17/2008	04/17/2015	04/17/2014
Citigroup Global Markets	20,000	3.61	%[2]	04/17/2008	04/17/2018	04/17/2014
Barclays Capital	10,000	4.07	%	07/01/2008	07/01/2018	07/01/2014
Citigroup Global Markets	15,000	2.69	%	01/23/2009	01/23/2014	—
	$60,000					

(1) Interest rates are fixed with the exception of the interest rate on the $20.0 million transaction with Citigroup Global Markets.
(2) Interest rate resets quarterly on the 17th of January, April, July and October of each year until maturity. Embedded within the contract is a cap interest rate of 3.61%.

Heartland has seven wholly-owned trust subsidiaries that were formed to issue trust preferred securities, which includes two wholly-owned trust subsidiaries acquired with the Morrill Bancshares, Inc. acquisition in 2013. The proceeds from the offerings were used to purchase junior subordinated debentures from Heartland. The proceeds are being used for general corporate purposes. Heartland has the option to shorten the maturity date to a date not earlier than the callable date. Heartland may not shorten the maturity date without prior approval of the Board of Governors of the Federal Reserve System, if required. Prior redemption is permitted under certain circumstances, such as changes in tax or regulatory capital rules. In connection with these offerings, the balance of deferred issuance costs included in other assets was $158,000 as of December 31, 2013. These deferred costs are amortized on a straight-line basis over the life of the debentures. The majority of the interest payments are due quarterly. A schedule of Heartland's trust preferred offerings outstanding as of December 31, 2013, were as follows, in thousands:

	Amount Issued	Interest Rate	Interest Rate as of 12/31/13 [1]		Maturity Date	Callable Date
Heartland Financial Statutory Trust III	$20,619	8.25%	8.25	%	10/10/2033	03/31/2014
Heartland Financial Statutory Trust IV	25,774	2.75% over LIBOR	2.99	%[2]	03/17/2034	03/17/2014
Heartland Financial Statutory Trust V	20,619	1.33% over LIBOR	1.57	%[3]	04/07/2036	04/07/2014
Heartland Financial Statutory Trust VI	20,619	6.75%	6.75	%[4]	09/15/2037	03/15/2014
Heartland Financial Statutory Trust VII	20,619	1.48% over LIBOR	1.72	%[5]	09/01/2037	06/01/2014
Morrill Statutory Trust I	8,524	3.25% over LIBOR	3.50	%	12/26/2032	03/26/2014
Morrill Statutory Trust II	8,086	2.85% over LIBOR	3.09	%	12/17/2033	12/17/2014
	$124,860					

(1) Effective weighted average interest rate as of December 31, 2013, was 5.85% due to interest rate swap transactions on the variable rate securities as discussed in Note 12 to Heartland's consolidated financial statements.
(2) Effective interest rate as of December 31, 2013, was 5.33% due to an interest rate swap transaction as discussed in Note 12 to Heartland's consolidated financial statements.

(3) Effective interest rate as of December 31, 2013, was 4.69% due to an interest rate swap transaction as discussed in Note 12 to Heartland's consolidated financial statements.
(4) Interest rate is fixed at 6.75% through June 15, 2017 then resets to 1.48% over LIBOR for the remainder of the term.
(5) Effective interest rate as of December 31, 2013, was 4.70% due to an interest rate swap transaction as discussed in Note 12 to Heartland's consolidated financial statements.

For regulatory purposes, $124.9 million and $108.3 million of the trust preferred securities qualified as Tier 1 capital as of December 31, 2013 and 2012, respectively.

On March 7, 2012, Heartland exercised its call option on $5.0 million of its trust preferred capital securities that were at a fixed rate of 10.60%. The prepayment fee of $238,000 and the remaining unamortized issuance costs of $64,000 were expensed upon redemption.

Between 2010 and 2012, Heartland completed private debt offerings of its senior notes. The notes were sold in a private placement to various accredited investors. The senior notes are unsecured and bear interest at 5% per annum payable quarterly.
The maturity schedule of the senior notes is such that $17.5 million mature on December 1, 2015; $7.0 million will mature on each of February 1, 2017, and February 1, 2018; and $6.0 million will mature on February 1, 2019. Total senior notes outstanding were $37.5 million as of both December 31, 2013, and December 31, 2012.

On April 20, 2011, Heartland entered into a $15.0 million amortizing term loan with an unaffiliated bank with a maturity date of April 20, 2016. At the time of origination, Heartland entered into an interest rate swap transaction designated as a cash flow hedge, with the bank to fix the term loan at 5.14% for the full five-year term.

Future payments at December 31, 2013, for other borrowings follow in the table below, in thousands. Callable FHLB advances and wholesale repurchase agreements are included in the table at their call date.

2014	$140,838
2015	36,892
2016	14,547
2017	12,197
2018	10,190
Thereafter	135,445
Total	$350,109

TWELVE
DERIVATIVE FINANCIAL INSTRUMENTS

Heartland uses derivative financial instruments as part of its interest rate risk management strategy. As part of the strategy, Heartland considers the use of interest rate swaps, caps, floors and collars and certain interest rate lock commitments and forward sales of securities related to mortgage banking activities. Heartland's current strategy includes the use of interest rate swaps, interest rate lock commitments, and forward sales of mortgage securities. Heartland's objectives are to add stability to its net interest margin and to manage its exposure to movement in interest rates. The contract or notional amount of a derivative is used to determine, along with the other terms of the derivative, the amounts to be exchanged between the counterparties. Heartland is exposed to credit risk in the event of nonperformance by counterparties to financial instruments. Heartland minimizes this risk by entering into derivative contracts with large, stable financial institutions. Heartland has not experienced any losses from nonperformance by these counterparties. Heartland monitors counterparty risk in accordance with the provisions of ASC 815. In addition, interest rate-related derivative instruments generally contain language outlining collateral pledging requirements for each counterparty. Collateral must be posted when the market value exceeds certain threshold limits which are determined by credit ratings of each counterparty. Heartland was required to pledge $5.4 million and $6.7 million of cash as collateral at December 31, 2013, and December 31, 2012, respectively. Heartland's counterparties were required to pledge $540,000 at December 31, 2013 and $0 at December 31, 2012, respectively.

Heartland's derivative and hedging instruments are recorded at fair value on the consolidated balance sheets. See Note 20, “Fair Value,” for additional fair value information and disclosures.

Cash Flow Hedges

Heartland has variable rate funding which creates exposure to variability in interest payments due to changes in interest rates. To manage the interest rate risk related to the variability of interest payments, Heartland has entered into various interest rate swap agreements. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are received or made on Heartland's variable-rate liabilities. For the twelve months ended December 31, 2013, the change in net unrealized losses on cash flow hedges reflects changes in the fair value of the swaps and reclassification from accumulated other comprehensive income to interest expense totaling $2.1 million. For the next twelve months, Heartland estimates that cash payments and reclassification from accumulated other comprehensive income to interest expense will total $2.1 million.

Heartland executed an interest rate swap transaction on April 5, 2011, with an effective date of April 20, 2011, and an expiration date of April 20, 2016, to effectively convert $15.0 million of its newly issued variable rate amortizing debt to fixed rate debt. For accounting purposes, this swap transaction is designated as a cash flow hedge of the changes in cash flows attributable to changes in one-month LIBOR, the benchmark interest rate being hedged, associated with the interest payments made on an amount of Heartland's debt principal equal to the then-outstanding swap notional amount. At inception, Heartland asserted that the underlying principal balance would remain outstanding throughout the hedge transaction making it probable that sufficient LIBOR-based interest payments would exist through the maturity date of the swap.

During the first quarter of 2009, Heartland entered into three forward-starting interest rate swap transactions to effectively convert $65.0 million of its variable interest rate subordinated debentures (issued in connection with the trust preferred securities of Heartland Financial Statutory Trust IV, V and VII) to fixed interest rate debt. For accounting purposes, these three swap transactions are designated as cash flow hedges of the changes in cash flows attributable to changes in LIBOR, the benchmark interest rate being hedged, associated with the interest payments made on $65.0 million of Heartland's subordinated debentures (issued in connection with the trust preferred securities of Heartland Financial Statutory Trust IV, V and VII) that reset quarterly on a specified reset date. At inception, Heartland asserted that the underlying principal balance would remain outstanding throughout the hedge transaction making it probable that sufficient LIBOR-based interest payments would exist through the maturity date of the swaps.

The table below identifies the balance sheet category and fair values of Heartland's derivative instruments designated as cash flow hedges at December 31, 2013, and December 31, 2012, in thousands:

	Notional Amount	Fair Value	Balance Sheet Category	Receive Rate	Weighted Average Pay Rate	Maturity
December 31, 2013						
Interest rate swap	$11,719	$(457)	Other Liabilities	2.917%	5.140%	04/20/2016
Interest rate swap	25,000	(146)	Other Liabilities	0.244%	2.580%	03/17/2014
Interest rate swap	20,000	(1,507)	Other Liabilities	0.239%	3.220%	03/01/2017
Interest rate swap	20,000	(1,587)	Other Liabilities	0.243%	3.355%	01/07/2020
December 31, 2012						
Interest rate swap	$13,002	$(711)	Other Liabilities	2.961%	5.140%	04/20/2016
Interest rate swap	25,000	(708)	Other Liabilities	0.308%	2.580%	03/17/2014
Interest rate swap	20,000	(2,186)	Other Liabilities	0.311%	3.220%	03/01/2017
Interest rate swap	20,000	(3,020)	Other Liabilities	0.351%	3.355%	01/07/2020

The table below identifies the gains and losses recognized on Heartland's derivative instruments designated as cash flow hedges for the year ended December 31, 2013, and December 31, 2012, in thousands:

	Effective Portion Recognized in OCI	Reclassified from AOCI into Income		Ineffective Portion Recognized in Income on Derivatives	
	Amount of Gain(Loss)	Category	Amount of Gain(Loss)	Category	Amount of Gain(Loss)
December 31, 2013					
Interest rate swap	$254	Interest Expense	$(276)	Other Income	$—
Interest rate swap	562	Interest Expense	(583)	Other Income	—
Interest rate swap	679	Interest Expense	(594)	Other Income	—
Interest rate swap	1,433	Interest Expense	(616)	Other Income	—
December 31, 2012					
Interest rate swap	$14	Interest Expense	$(298)	Other Income	$—

Interest rate swap	324	Interest Expense	(536)	Other Income	—
Interest rate swap	(122)	Interest Expense	(561)	Other Income	—
Interest rate swap	(436)	Interest Expense	(589)	Other Income	—

Mortgage Derivatives

Heartland also has entered into interest rate lock commitments to originate residential mortgage loans held for sale and forward commitments to sell residential mortgage loans and mortgage backed securities that are considered derivative instruments. The fair value of these commitments is recorded on the consolidated balance sheets with the changes in fair value recorded in the consolidated statements of income as a component of gains on sale of loans held for sale. These derivative contracts are designated as free standing derivative contracts and are not designated against specific assets and liabilities on the consolidated balance sheets or forecasted transactions and therefore do not qualify for hedge accounting treatment.

The table below identifies the balance sheet category and fair values of Heartland's derivative instruments not designated as hedging instruments at December 31, 2013, and December 31, 2012, in thousands:

	Notional Amount	Fair Value	Balance Sheet Category
December 31, 2013			
Interest rate lock commitments (mortgage)	$63,370	$1,809	Other Assets
Forward commitments	117,637	1,206	Other Assets
Forward commitments	53,277	(133)	Other Liabilities
December 31, 2012			
Interest rate lock commitments (mortgage)	$267,397	$9,353	Other Assets
Forward commitments	168,910	462	Other Assets
Forward commitments	351,996	(1,221)	Other Liabilities

The table below identifies the income statement category of the gains and losses recognized in income on Heartland's derivative instruments not designated as hedging instruments for the year ended December 31, 2013, and December 31, 2012, in thousands:

	Income Statement Category	Year-to-Date Gain(Loss) Recognized
December 31, 2013		
Interest rate lock commitments (mortgage)	Gains on Sale of Loans Held for Sale	$(10,518)
Forward commitments	Gains on Sale of Loans Held for Sale	1,832
December 31, 2012		
Interest rate lock commitments (mortgage)	Gains on Sale of Loans Held for Sale	$8,235
Forward commitments	Gains on Sale of Loans Held for Sale	110

THIRTEEN
INCOME TAXES

Income taxes for the years ended December 31, 2013, 2012, and 2011 were as follows, in thousands:

	2013	2012	2011
Current:			
Federal	$5,025	$11,513	$4,639
State	2,549	5,366	1,300
Total current	$7,574	$16,879	$5,939
Deferred:			
Federal	$2,447	$404	$2,905
State	314	101	1,458
Total deferred	$2,761	$505	$4,363

Total income tax expense	$10,335	$17,384	$10,302

The income tax provisions above do not include the effects of income tax deductions resulting from exercises of stock options and the vesting of stock awards in the amounts of $98,000, $222,000, and $108,000 in 2013, 2012, and 2011 respectively, which were recorded as increases to stockholders' equity.

Temporary differences between the amounts reported in the financial statements and the tax basis of assets and liabilities result in deferred taxes. Deferred tax assets and liabilities at December 31, 2013 and 2012, were as follows, in thousands:

	2013	2012
Deferred tax assets:		
Tax effect of net unrealized loss on securities available for sale reflected in stockholders' equity	$9,766	$—
Tax effect of net unrealized loss on derivatives reflected in stockholders' equity	$1,270	$2,280
Securities	1,257	1,865
Allowance for loan and lease losses	15,766	14,908
Deferred compensation	4,674	3,547
Organization and acquisitions costs	393	289
Net operating loss carryforwards	4,463	3,691
Non-accrual loan interest	830	939
OREO writedowns	1,781	3,340
Rehab tax credit projects	2,438	2,162
Mortgage repurchase obligation	882	998
Other	778	246
Gross deferred tax assets	44,298	34,265
Valuation allowance	(4,615)	(4,167)
Total deferred tax assets	$39,683	$30,098
Deferred tax liabilities:		
Tax effect of net unrealized gain on securities available for sale reflected in stockholders' equity	$—	$(12,353)
Premises, furniture and equipment	(8,660)	(7,877)
Tax bad debt reserves	(523)	(600)
Purchase accounting	(5,323)	(2,085)
Prepaid expenses	(621)	(604)
Mortgage servicing rights	(8,996)	(6,421)
Deferred loan fees	(75)	(134)
Other	(324)	(318)
Gross deferred tax liabilities	$(24,522)	$(30,392)
Net deferred tax asset (liability)	$15,161	$(294)

The deferred tax assets (liabilities) related to net unrealized gains (losses) on securities available for sale and the deferred tax assets and liabilities related to net unrealized gains (losses) on derivatives had no effect on income tax expense as these gains and losses, net of taxes, were recorded in other comprehensive income. Beginning in 2013, Heartland had a federal low-income housing tax credit carryforward of approximately $217,000 that expires in 2033, and an alternative minimum tax ("AMT") credit carryforward of approximately $256,000 available to reduce future federal income taxes over an indefinite period. As a result of acquisitions, Heartland had net operating loss carryforwards for federal income tax purposes of approximately $6.0 million at December 31, 2013, and $4.6 million at December 31, 2012. The associated deferred tax asset was $2.0 million at December 31, 2013, and $1.6 million at December 31, 2012. These net carryforwards expire beginning December 31, 2026, through December 31, 2033, and are subject to an annual limitation of approximately $524,000. Net operating loss carryforwards for state income tax purposes were approximately $41.6 million at December 31, 2013, and $38.4 million at December 31, 2012. The

associated deferred tax asset, net of federal tax, was $2.4 million at December 31, 2013, and $2.1 million at December 31, 2012. These carryforwards expire beginning December 31, 2021, through December 31, 2033. A valuation allowance against the deferred tax asset due to the uncertainty surrounding the utilization of these state net operating loss carryforwards was $1.9 million at December 31, 2013, and $2.0 million at December 31, 2012. During both 2013 and 2012, Heartland had book writedowns on investments that, for tax purposes, would generate capital losses upon disposal. Due

---

to the uncertainty of Heartland's ability to utilize the potential capital losses, a valuation allowance for these potential losses totaled $2.4 million at December 31, 2013, and $2.2 million at December 31, 2012. Realization of the deferred tax asset over time is dependent upon the existence of taxable income in carryback periods or the ability to generate sufficient taxable income in future periods. In determining that realization of the deferred tax asset was more likely than not, Heartland gave consideration to a number of factors including its taxable income during carryback periods, its recent earnings history, its expectations for earnings in the future and, where applicable, the expiration dates associated with its tax carryforwards.

The actual income tax expense from continuing operations differs from the expected amounts (computed by applying the U.S. federal corporate tax rate of 35% to income before income taxes) as follows, in thousands:

	2013	2012	2011
Computed “expected” tax on net income	$16,493	$23,511	$13,421
Increase (decrease) resulting from:			
Nontaxable interest income	(5,622)	(4,539)	(3,725)
State income taxes, net of federal tax benefit	1,861	3,099	2,056
Nondeductible goodwill and other intangibles	—	—	—
Tax credits	(1,696)	(6,669)	(798)
Valuation allowance	209	1,851	—
Other	(910)	131	(652)
Income taxes	$10,335	$17,384	$10,302
Effective tax rates	21.9 %	25.9 %	26.9 %

Heartland's income taxes included federal historic rehabilitation tax credits totaling $898,000 during 2013 and $5.8 million during 2012. Additionally, investments in certain low-income housing partnerships at Dubuque Bank and Trust Company totaled $4.3 million at December 31, 2013, $4.5 million at December 31, 2012, and $7.6 million at December 31, 2011. These investments generated federal low-income housing tax credits of $798,000 for the years ended December 31, 2013, 2012, and 2011. These investments are expected to generate federal low-income housing tax credits of approximately $798,000 for 2014, $755,000 for 2015, $581,000 for 2016 through 2019 and $241,000 for 2020.

On December 31, 2013, the amount of unrecognized tax benefits was $779,000, including $96,000 of accrued interest and penalties. On December 31, 2012, the amount of unrecognized tax benefits was $773,000, including $80,000 of accrued interest and penalties. If recognized, the entire amount of the unrecognized tax benefits would affect the effective tax rate. A reconciliation of the beginning and ending balances for liabilities associated with unrecognized tax benefits for the years ended December 31, 2013 and 2012, follows, in thousands:

	2013	2012
Balance at January 1	$773	$751
Additions for tax positions related to the current year	65	241
Additions for tax positions related to prior years	188	67
Reductions for tax positions related to prior years	(247)	(286)
Balance at December 31	$779	$773

The tax years ended December 31, 2010, and later remain subject to examination by the Internal Revenue Service. For state purposes, the tax years ended December 31, 2009, and later remain open for examination. Income tax reviews are currently underway with the Colorado Department of Revenue for the years 2008 through 2011 and with the Illinois Department of Revenue for the years 2010 and 2011. During 2012, an income tax review was completed with the Illinois Department of Revenue for the years 2007 and 2008, which resulted in a net tax refund of $29,000. Heartland does not anticipate any significant increase or decrease in unrecognized tax benefits during the next twelve months.

Explanation of Responses:

FOURTEEN
EMPLOYEE BENEFIT PLANS

Heartland sponsors a defined contribution retirement plan covering substantially all employees. Contributions to this plan are subject to approval by the Heartland Board of Directors. The Heartland subsidiaries fund and record as an expense all approved contributions. Costs of these contributions, charged to operating expenses, were $2.6 million, $2.6 million, and $2.2 million for 2013, 2012, and 2011, respectively. This plan includes an employee savings program, under which the Heartland subsidiaries make matching contributions of up to 3% of the participants' wages in 2013, 2012, and 2011. Costs charged to operating expenses with respect to the matching contributions were $1.9 million, $1.6 million, and $1.3 million for 2013, 2012, and 2011, respectively.

FIFTEEN
COMMITMENTS AND CONTINGENT LIABILITIES

Heartland leases certain land and facilities under operating leases. Minimum future rental commitments at December 31, 2013 for all non-cancelable leases were as follows, in thousands:

2014	$3,890
2015	3,469
2016	3,386
2017	2,547
2018	2,035
Thereafter	9,836
	$25,163

Rental expense for premises and equipment leased under operating leases was $4.4 million, $2.8 million, and $2.0 million for 2013, 2012, and 2011, respectively. Some of the Heartland banks lease or sublease portions of the office space they own to third parties. In addition, DB&T Community Development Corp. leases properties it owns to third parties. Occupancy expense is presented net of rental income of $505,000, $496,000, and $1.3 million for 2013, 2012, and 2011, respectively.

Heartland utilizes a variety of financial instruments in the normal course of business to meet the financial needs of customers and to manage its exposure to fluctuations in interest rates. These financial instruments include lending related and other commitments as indicated below as well as derivative instruments shown in Note 12. The Heartland banks make various commitments and incur certain contingent liabilities that are not presented in the accompanying consolidated financial statements. The commitments and contingent liabilities include various guarantees, commitments to extend credit and standby letters of credit.

Commitments to extend credit 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 many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Heartland banks evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Heartland banks upon extension of credit, is based upon management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties. Standby letters of credit and financial guarantees written are conditional commitments issued by the Heartland banks to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. At December 31, 2013, and December 31, 2012, commitments to extend credit aggregated $1.14 billion and $844.6 million, respectively, and standby letters

of credit aggregated $39.7 million and $29.5 million, respectively.

Heartland enters into commitments to sell mortgage loans to reduce interest rate risk on certain mortgage loans held for sale and loan commitments which were recorded in the consolidated balance sheets at their fair values. Heartland does not anticipate any material loss as a result of the commitments and contingent liabilities. Residential mortgage loans sold to others are predominantly conventional residential first lien mortgages originated under Heartland's usual underwriting procedures, and are most often sold on a nonrecourse basis. Heartland's agreements to sell residential mortgage loans in the normal course of business usually require certain representations and warranties on the underlying loans sold, related to credit information, loan documentation, collateral, and insurability, which if subsequently are untrue or breached, could require Heartland to repurchase

certain loans affected. Heartland had a recorded repurchase obligation of $2.3 million and $2.6 million at December 31, 2013, and December 31, 2012, respectively.

Heartland has a loss reserve for unfunded commitments, including loan commitments and letters of credit. At December 31, 2013 and December 31, 2012, the reserve for unfunded commitments, which is included in other liabilities on the consolidated balance sheets, was approximately $78,000 and $98,000, respectively. The appropriateness of the reserve for unfunded commitments is reviewed on a quarterly basis, based upon changes in the amounts of commitments, delinquencies and economic conditions.

There are certain legal proceedings pending against Heartland and its subsidiaries at December 31, 2013, that are ordinary routine litigation incidental to business. While the ultimate outcome of current legal proceedings cannot be predicted with certainty, it is the opinion of management that the resolution of these legal actions should not have a material effect on Heartland's consolidated financial position or results of operations.

SIXTEEN
STOCK-BASED COMPENSATION

Heartland may grant, through its Nominating and Compensation Committee (the "Compensation Committee") non-qualified and incentive stock options, stock appreciation rights, stock awards, restricted stock, restricted stock units and cash incentive awards, under its 2012 Long-Term Incentive Plan (the "Plan"). The Plan, which was approved by stockholders in May 2012 and replaces Heartland's 2005 Long-Term Incentive Plan with respect to grants after such approval, reserved 462,323 shares of common stock at December 31, 2013 for issuance under future awards that may be granted under the Plan to employees and directors of, and service providers to, Heartland or its subsidiaries.

The cost of employee services received in exchange for an award of equity instruments is measured based upon the fair value of the award on the grant date and is recognized in the income statement over the vesting period of the award. The fair value of stock options is estimated on the date of the grant using the Black-Scholes model. The fair value of restricted stock and restricted stock units is based on the fair value of the underlying shares of common stock on the date of the grant.

Options

Although the Plan provides authority to the Compensation Committee to grant stock options, no options were granted during the years ended December 31, 2013, 2012 and 2011. Prior to 2009, options were typically granted annually with an expiration date 10 years after the date of grant. Vesting was generally over a five-year service period with portions of a grant becoming exercisable at three years, four years and five years after the date of grant. The exercise price of stock options granted is established by the Compensation Committee, but the exercise price for the stock options may not be less than the fair market value of the shares on the date that the options are granted or, if greater, the par value of a share of stock. A summary of the status of the stock options as of December 31, 2013, 2012, and 2011, and changes during the years ended December 31, 2013 2012, and 2011, follows:

	2013		2012		2011	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at January 1	377,907	$ 22.62	570,762	$ 21.06	672,721	$ 20.27
Granted	—	—	—	—	—	—
Exercised	(96,921)	19.73	(172,521)	17.39	(53,625)	9.65
Forfeited	(19,050)	23.79	(20,334)	23.42	(48,334)	22.73
Outstanding at December 31	261,936	$ 23.60	377,907	$ 22.62	570,762	$ 21.06
	261,936	$ 23.60	333,024	$ 23.16	436,245	$ 20.86

Options exercisable at
December 31

At December 31, 2013, the vested options have a weighted average remaining contractual life of 2.92 years. The intrinsic value for the vested options as of December 31, 2013, was $1.4 million. The intrinsic value for the total of all options exercised during year ended December 31, 2013, was $878,000. The total fair value of shares under stock options that vested during the year ended December 31, 2013, was $10,000. Total compensation costs recorded for stock options were $10,000, $157,000, and $308,000 for 2013, 2012, and 2011, respectively.

Cash received from options exercised for the year ended December 31, 2013, was $1.9 million, with a related tax benefit of $98,000. Cash received from options exercised for the year ended December 31, 2012, was $3.0 million, with a related tax benefit of $222,000.

Restricted Stock Units

The Plan also permits the Compensation Committee to grant other stock-based benefits, including restricted stock units ("RSUs"). On January 22, 2013, the Compensation Committee granted RSUs with respect to 72,595 shares of common stock and on January 17, 2012, the Compensation Committee granted RSUs with respect to 94,001 shares of common stock to key policy-making employees. The RSUs, which represent the right, without payment, to receive shares of Heartland common stock at a specified date in the future based on specific vesting conditions, vest over five years in three equal installments on the third, fourth and fifth anniversaries of the grant date, will be settled in common stock upon vesting, and will not be entitled to dividends until vested. The time-based RSUs terminate upon termination of employment, except that the 2012 RSUs continue to vest after retirement if retirement occurs after the employee has attained age 62 and has provided at least five years of service to Heartland. Although the 2013 time-based RSUs do not vest at retirement, the Compensation Committee may exercise its discretion to provide for vesting upon retirement if the participant signs a non-solicitation and non-compete agreement.

In addition to the RSUs referenced in the preceding paragraph, the Compensation Committee granted performance-based RSUs with respect to 40,990 shares of common stock on January 22, 2013, and performance-based RSUs with respect to 49,801 shares of common stock on January 17, 2012, to key policy-making employees. These RSUs vest based first on performance measures tied to Heartland's earnings and assets on December 31 of the grant year, and then on time-based vesting conditions. For the grants in 2012, vesting occurs on December 31, 2014, and for the grants in 2013, vesting occurs on December 31, 2015. A summary of the status of RSUs as of December 31, 2013, 2012, and 2011, and changes during the years ended December 31, 2013, 2012, and 2011, follows:

	2013		2012		2011	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Outstanding at January 1	348,897	$ 15.75	211,279	$ 15.79	97,950	$ 13.95
Granted	126,685	26.92	149,002	16.36	122,350	17.26
Exercised	(43,388)	17.00	—	—	—	—
Forfeited	(79,124)	20.79	(11,384)	16.03	(9,021)	15.68
Outstanding at December 31	353,070	$ 18.48	348,897	$ 15.75	211,279	$ 15.79

The total fair value of shares under RSUs that vested during the year ended December 31, 2013, was $836,000. Total compensation costs recorded for RSUs were $1.7 million, $1.8 million and $659,000, for 2013, 2012, and 2011, respectively. As of December 31, 2013, there were $2.6 million of total unrecognized compensation costs related to the 2012 Long-Term Incentive Plan for RSUs which are expected to be recognized through 2016.

In addition, for the years ended December 31, 2013, 2012, and 2011, 5,200 shares of stock awarded each year to Heartland directors in return for services performed. The related compensation expense recorded was $127,000, $90,000, and $83,000 for the respective years.

Employee Stock Purchase Plan

Heartland also maintains an employee stock purchase plan (the "ESPP"), adopted in 2006, that permits all eligible employees to purchase shares of Heartland common stock at a price of not less than 95% of the fair market value (as determined by the Compensation Committee) on the determination date. A maximum of 500,000 shares is available

for sale under the ESPP. For the year ended December 31, 2013, 23,239 shares were purchased under the 2006 ESPP. For the year ended December 31, 2012, 42,879 shares were purchased under the 2006 ESPP. For the year ended December 31, 2011, 3,500 shares were purchased under the 2006 ESPP. Under ASC Topic 718, compensation expense related to the ESPP of $194,000 was recorded in 2013, $151,000 was recorded in 2012, and $39,000 was recorded in 2011 because the price of the shares purchased was set at the beginning of the year for the purchases at the end of the year.

SEVENTEEN
STOCKHOLDER RIGHTS PLAN

Heartland adopted an Amended and Restated Rights Agreement (the "Rights Plan"), dated as of January 17, 2012, which became effective upon approval by the stockholders on May 16, 2012. The primary purpose of the Extended Rights Agreement was to extend the term of the Rights Agreement dated as of June 7, 2002, for an additional ten years and to expand the definition of beneficial owners to include certain forms of indirect ownership. Under the terms of the Rights Plan, a preferred share purchase right (a "Right") is automatically issued with each outstanding share of Heartland common stock and, unless redeemed or unless there is a "Distribution Date," the Rights trade with the shares of common stock until expiration of the Plan on January 17, 2022. Each Right entitles the holder to purchase from Heartland one-thousandth of a share of Series A Junior Participating Preferred Stock, $1.00 value (the "Preferred Stock"), at a price of $70.00 per one one-thousandth of a share of Preferred Stock, subject to adjustment. The Rights are not currently exercisable, and will not become exercisable until a Distribution Date.

The Preferred Stock has a preferential quarterly dividend rate equal to the greater of $1.00 per share or 1,000 times the dividend declared on one share of the Common Stock, a preference over common stock in liquidation equal to the greater of $1,000 per share or 1,000 times the payment made on one share of common stock, 1,000 votes per share voting together with the common stock, customary anti-dilution provisions and other rights that approximate the rights of one share of common stock.

The Rights separate from the common stock and become exercisable only on the tenth day (the "Distribution Date") following the earlier of (i) a public announcement that a person or group of affiliated or associated persons (subject to certain exclusions, “Acquiring Persons”) has commenced an offer to acquire “beneficial ownership” of 15% or more of our outstanding common stock, or (ii) actual acquisition of this level of beneficial ownership.

If any person or group of affiliated or associated persons becomes an Acquiring Person, each holder of a Right, other than Rights that were or are beneficially owned by the Acquiring Person (which will thereafter be void), will have the right to receive upon exercise that number of shares of Common Stock having a market value of two times the Purchase Price.

In 2002, when the Rights Plan was originally created, Heartland designated 16,000 shares, par value $1.00 per share, of Series A Junior Participating preferred stock. There are no shares issued and outstanding and Heartland does not anticipate issuing any shares of Series A Junior Participating preferred stock except as may be required under the Extended Rights Agreement.

EIGHTEEN
CAPITAL ISSUANCE AND REDEMPTION

Preferred Stock

On September 15, 2011, Heartland entered into a Securities Purchase Agreement ("Purchase Agreement") with the Secretary of the Treasury ("Treasury"), pursuant to which Heartland issued and sold to Treasury 81,698 shares of its Senior Non-Cumulative Perpetual Preferred Stock, Series C ("Series C Preferred Stock"), having a liquidation preference of $1,000 per share ("Liquidation Amount"), for aggregate proceeds of $81.7 million. The issuance was made pursuant to the Small Business Lending Fund ("SBLF"), a $30 billion fund established under the Small Business Jobs Act of 2010 that encourages lending to small businesses by providing capital to qualified community banks with assets of less than $10 billion.

The Series C Preferred Stock qualifies as Tier 1 capital for Heartland. Non-cumulative dividends are payable quarterly on the Series C Preferred Stock, beginning October 1, 2011. The dividend rate is calculated as a percentage of the aggregate Liquidation Amount of the outstanding Series C Preferred Stock and is based on changes in the level of Qualified Small Business Lending (“QSBL”). Based upon Heartland's level of QSBL compared to the baseline level calculated under the terms of the Purchase Agreement, the dividend rate for the initial dividend period, which is from the date of issuance through September 30, 2011, was set at 5.00%. For the 2nd through 10th calendar quarters, the annual dividend rate was adjustable to between 1.00% and 5.00%, to reflect the amount of change in Heartland's level of QSBL. For the 11th calendar quarter (starting January 1, 2014) through 4.5 years after issuance (March 15, 2016), the dividend rate is fixed at 1.00% based upon the increase in QSBL as compared to the baseline. Heartland's baseline was revised from $916.0 million, which would have required growth in QSBL of $91.6 million, to $1.24 billion due to acquisitions, which required growth of $124.0 million to have the dividend rate paid to the U.S. Treasury reduced to 1.00%. Any reduction in the dividend rate paid to the U.S. Treasury does not begin until QSBL has grown by more than 2.5% over the baseline. Through December 31, 2013, Heartland's QSBL had grown by $135.0 million or 10.9%. The dividend rate on Heartland's $81.7 million preferred stock issued to the U.S. Treasury was 2.00% for the first quarter of 2013 and was reduced to 1.00% for the remaining nine quarters due to the increase in QSBL.

The Series C Preferred Stock is non-voting, except in limited circumstances. In the event that Heartland misses five dividend payments, whether or not consecutive, the holder of the Series C Preferred Stock will have the right, but not the obligation, to appoint a representative as an observer on Heartland's Board of Directors. In the event that Heartland misses six dividend payments, whether or not consecutive, and if the then outstanding aggregate Liquidation Amount of the Series C Preferred Stock is at least $25.0 million, then the holder of the Series C Preferred Stock will have the right to designate two directors to the Board of Directors of Heartland. Heartland may redeem the shares of Series C Preferred Stock, in whole or in part, at any time at a redemption price equal to the sum of the Liquidation Amount per share and the per share amount of any unpaid dividends for the then-current period, subject to any required prior approval by Heartland's primary federal banking regulator.

The terms of the Series C Preferred Stock impose limits on Heartland's ability to pay dividends on and repurchase shares of its common stock and other securities. In general, Heartland may declare and pay dividends on its common stock or any other stock junior to the Series C Preferred Stock, or repurchase shares of any such stock, only if after payment of such dividends or repurchase of such shares, Heartland's Tier 1 Capital would be at least $247.7 million. If, however Heartland fails to declare and pay dividends on the Series C Preferred Stock in a given quarter, then during such quarter and for the next three quarters following such missed dividend payment Heartland may not pay dividends on or repurchase any common stock or any other securities that are junior to (or in parity with) the Series C Preferred Stock, except in very limited circumstances. If any Series C Preferred Stock remains outstanding on the 10th anniversary of issuance, Heartland may not pay any further dividends on its common stock or any other junior stock until the Series C Preferred Stock is redeemed in full.

On September 15, 2011, Heartland entered into a letter agreement (“Repurchase Document”) with Treasury, pursuant to which, Heartland redeemed from Treasury, in part using the proceeds from the issuance of the Series C Preferred Stock, all 81,698 outstanding shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series B ("Series B Preferred Stock"), for a redemption price of $81.7 million, including accrued but unpaid dividends to the date of redemption. As a result of its redemption of the Series B Preferred Stock, Heartland is no longer subject to the limits provided for under the TARP Capital Purchase Program with respect to future executive compensation decisions and other matters. When the Series B Preferred Stock was issued, $6.3 million of the $81.7 million purchase price was assigned to the associated Warrant and the remaining $75.4 million was assigned to the carrying value of the Series B Preferred Stock. The $6.3 million discount was being amortized over five years, the anticipated life of the Series B Preferred Stock. Upon redemption of the Series B Preferred Stock, $2.6 million of the remaining unamortized discount was recognized.

On September 28, 2011, Heartland repurchased from Treasury a warrant to purchase 609,687 shares of Heartland common stock, $1.00 par value per share, at an exercise price of $20.10 per share (“Warrant”), issued to Treasury on December 19, 2008, in connection with participation in the TARP Capital Purchase Program. Heartland paid an aggregate purchase price of $1.8 million for the repurchase of the Warrant, which has been cancelled.

Shelf Registration

Heartland filed a universal shelf registration statement with the SEC on August 28, 2013, which became effective on September 9, 2013, to register up to $75 million in securities. The shelf registration statement provides Heartland with the ability to raise capital, subject to SEC rules and limitations, if Heartland’s board of directors decides to do so.

NINETEEN
REGULATORY CAPITAL REQUIREMENTS AND RESTRICTIONS ON SUBSIDIARY DIVIDENDS

The Heartland banks 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 Heartland banks' financial statements. The regulations prescribe specific capital adequacy guidelines that involve quantitative measures of a bank's assets, liabilities and certain off balance sheet items as calculated under regulatory accounting practices. Capital classification is also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Heartland banks to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2013 and 2012, that the Heartland banks met all capital adequacy requirements to which they were subject.

As of December 31, 2013 and 2012, the FDIC categorized each of the Heartland banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Heartland banks must maintain minimum

---

total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed each institution's category.

The Heartland banks' actual capital amounts and ratios are also presented in the tables below, in thousands:

	Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
As of December 31, 2013									
Total Capital (to Risk-Weighted Assets)									
Consolidated	$599,038	14.69	%	$326,252	8.00	%	N/A		
Dubuque Bank and Trust Company	141,184	12.30		91,854	8.00		114,818	10.00	%
Galena State Bank & Trust Co.	27,398	13.42		16,328	8.00		20,410	10.00	
Riverside Community Bank	36,324	14.79		19,654	8.00		24,568	10.00	
Wisconsin Bank & Trust	59,747	13.08		36,556	8.00		45,696	10.00	
New Mexico Bank & Trust	96,816	14.82		52,254	8.00		65,317	10.00	
Arizona Bank & Trust	47,335	14.59		25,960	8.00		32,451	10.00	
Rocky Mountain Bank	50,314	14.24		28,257	8.00		35,321	10.00	
Summit Bank & Trust	11,600	12.79		7,253	8.00		9,067	10.00	
Minnesota Bank & Trust	14,475	12.13		9,547	8.00		11,933	10.00	
Morrill & Janes Bank and Trust Company	60,559	13.00		37,267	8.00		46,583	10.00	
Tier 1 Capital (to Risk-Weighted Assets)									
Consolidated	$537,964	13.19	%	$163,126	4.00	%	N/A		
Dubuque Bank and Trust Company	130,859	11.40		45,927	4.00		68,891	6.00	%
Galena State Bank & Trust Co.	25,478	12.48		8,164	4.00		12,246	6.00	
Riverside Community Bank	33,252	13.53		9,827	4.00		14,741	6.00	
Wisconsin Bank & Trust	54,885	12.01		18,278	4.00		27,417	6.00	
New Mexico Bank & Trust	89,601	13.72		26,127	4.00		39,190	6.00	
Arizona Bank & Trust	43,269	13.33		12,980	4.00		19,470	6.00	
Rocky Mountain Bank	46,160	13.07		14,128	4.00		21,193	6.00	
Summit Bank & Trust	10,464	11.54		3,627	4.00		5,440	6.00	
Minnesota Bank & Trust	13,384	11.22		4,773	4.00		7,160	6.00	
Morrill & Janes Bank and Trust Company	60,153	12.91		18,633	4.00		27,950	6.00	
Tier 1 Capital (to Average Assets)									
Consolidated	$537,964	9.67	%	$222,432	4.00	%	N/A		
Dubuque Bank and Trust Company	130,859	8.77		59,717	4.00		74,646	5.00	%
Galena State Bank & Trust Co.	25,478	8.65		11,787	4.00		14,734	5.00	
Riverside Community Bank	33,252	7.42		17,926	4.00		22,407	5.00	
Wisconsin Bank & Trust	54,885	8.76		25,070	4.00		31,337	5.00	
New Mexico Bank & Trust	89,601	8.84		40,530	4.00		50,663	5.00	
Arizona Bank & Trust	43,269	10.33		16,757	4.00		20,947	5.00	
Rocky Mountain Bank	46,160	10.01		18,439	4.00		23,049	5.00	
Summit Bank & Trust	10,464	9.16		4,567	4.00		5,709	5.00	
Minnesota Bank & Trust	13,384	8.14		6,575	4.00		8,218	5.00	
Morrill & Janes Bank and Trust Company	60,153	7.38		32,624	4.00		40,780	5.00	

Explanation of Responses:

	Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
As of December 31, 2012									
Total Capital (to Risk-Weighted Assets)									
Consolidated	$532,502	15.35	%	$277,485	8.00	%	N/A		
Dubuque Bank and Trust Company	138,698	12.44		89,164	8.00		111,455	10.00	%
Galena State Bank & Trust Co.	28,027	14.20		15,790	8.00		19,738	10.00	
Riverside Community Bank	30,097	13.03		18,476	8.00		23,095	10.00	
Wisconsin Bank & Trust	64,378	13.84		37,213	8.00		46,516	10.00	
New Mexico Bank & Trust	90,765	14.51		50,047	8.00		62,559	10.00	
Arizona Bank & Trust	30,903	14.13		17,499	8.00		21,874	10.00	
Rocky Mountain Bank	53,291	16.46		25,902	8.00		32,377	10.00	
Summit Bank & Trust	12,317	13.26		7,432	8.00		9,290	10.00	
Minnesota Bank & Trust	14,446	14.04		8,234	8.00		10,293	10.00	
Heritage Bank, N.A.	11,796	20.13		4,688	8.00		5,860	10.00	
Tier 1 Capital (to Risk-Weighted Assets)									
Consolidated	$463,371	13.36	%	$138,743	4.00	%	N/A		
Dubuque Bank and Trust Company	129,473	11.62		44,582	4.00		66,873	6.00	%
Galena State Bank & Trust Co.	25,985	13.17		7,895	4.00		11,843	6.00	
Riverside Community Bank	27,206	11.78		9,238	4.00		13,857	6.00	
Wisconsin Bank & Trust	60,183	12.94		18,606	4.00		27,910	6.00	
New Mexico Bank & Trust	83,902	13.41		25,023	4.00		37,535	6.00	
Arizona Bank & Trust	28,116	12.85		8,750	4.00		13,125	6.00	
Rocky Mountain Bank	49,243	15.21		12,951	4.00		19,426	6.00	
Summit Bank & Trust	11,155	12.01		3,716	4.00		5,574	6.00	
Minnesota Bank & Trust	13,485	13.10		4,117	4.00		6,176	6.00	
Heritage Bank, N.A.	11,796	20.13		2,344	4.00		3,516	6.00	
Tier 1 Capital (to Average Assets)									
Consolidated	$463,371	9.84	%	$188,284	4.00	%	N/A		
Dubuque Bank and Trust Company	129,473	8.73		59,341	4.00		74,176	5.00	%
Galena State Bank & Trust Co.	25,985	8.84		11,757	4.00		14,697	5.00	
Riverside Community Bank	27,206	6.53		16,660	4.00		20,825	5.00	
Wisconsin Bank & Trust	60,183	10.59		22,741	4.00		28,426	5.00	
New Mexico Bank & Trust	83,902	8.47		39,640	4.00		49,550	5.00	
Arizona Bank & Trust	28,116	9.93		11,327	4.00		14,158	5.00	
Rocky Mountain Bank	49,243	11.41		17,268	4.00		21,585	5.00	
Summit Bank & Trust	11,155	10.48		4,256	4.00		5,320	5.00	
Minnesota Bank & Trust	13,485	11.73		4,600	4.00		5,750	5.00	
Heritage Bank, N.A.	11,796	11.59		4,071	4.00		5,089	5.00	

The ability of Heartland to pay dividends to its stockholders is dependent upon dividends paid by its subsidiaries. The Heartland banks are subject to certain statutory and regulatory restrictions on the amount they may pay in dividends. To maintain acceptable capital ratios in the Heartland banks, certain portions of their retained earnings are not available for the payment of dividends. Retained earnings that could be available for the payment of dividends to Heartland totaled approximately $215.9 million as of December 31, 2013, under the most restrictive minimum capital

requirements. Retained earnings that could be available for the payment of dividends to Heartland totaled approximately $137.0 million as of December 31, 2013, under the capital requirements to remain well capitalized.

TWENTY
FAIR VALUE

Heartland utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available for sale, trading securities and derivatives are recorded in the consolidated balance sheets at fair value on a recurring basis. Additionally, from time to time, Heartland may be required to record at fair value other assets on a nonrecurring basis such as loans held for sale, loans held to maturity and certain other assets including, but not limited to, mortgage servicing rights and other real estate owned. These nonrecurring fair value adjustments typically involve application of lower of cost or fair value accounting or write-downs of individual assets.

Fair Value Hierarchy

Under ASC 820, assets and liabilities are grouped at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 — Valuation is based upon quoted prices for identical instruments in active markets.

Level 2 — Valuation is based upon quoted prices for similar instruments in active markets, or similar instruments in markets that are not active, and model-based valuation techniques for all significant assumptions are observable in the market.

Level 3 — Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value on a recurring or non-recurring basis.

Assets

Securities Available for Sale and Held to Maturity
Securities available for sale are recorded at fair value on a recurring basis. Securities held to maturity are generally recorded at cost and are only recorded at fair value only to the extent a decline in fair value is determined to be other-than-temporary. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury securities. Level 2 securities include U.S. government and agency securities, mortgage-backed securities and private collateralized mortgage obligations, municipal bonds and corporate debt securities. The Level 3 securities consist primarily of Z tranche mortgage-backed securities. On a quarterly basis, a secondary independent pricing service is used for a sample of securities to validate the pricing from Heartland's primary pricing service.

Trading Assets
Trading assets are recorded at fair value and consist of securities held for trading purposes. The valuation method for trading securities is the same as the methodology used for securities classified as available for sale.

Loans Held for Sale
Loans held for sale are carried at the lower of cost or fair value on an aggregate basis. The fair value of loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, Heartland classifies loans held for sale subjected to nonrecurring fair value adjustments as Level 2.

Loans Held to Maturity
Heartland does not record loans held to maturity at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with ASC 310. The fair value of impaired loans is measured using one of the following impairment methods: 1) the present value of expected future cash flows discounted at the loan's effective interest rate or 2) the observable market price of the loan or the fair value of the collateral if the loan is collateral dependent. In accordance with ASC 820, impaired loans where an allowance is established based on the

fair value of collateral require classification in the fair value hierarchy. Heartland classifies impaired loans as nonrecurring Level 3.

Mortgage Servicing Rights
Mortgage servicing rights assets represent the value associated with servicing residential real estate loans that have been sold to outside investors with servicing retained. The fair value for servicing assets is determined through discounted cash flow analysis and utilizes discount rates, prepayment speeds and delinquency rate assumptions as inputs. All of these assumptions require a significant degree of management estimation and judgment. Mortgage servicing rights are subject to impairment testing. The carrying values of these rights are reviewed quarterly for impairment based upon the calculation of fair value as performed by an outside third party. For purposes of measuring impairment, the rights are stratified into certain risk characteristics including note type and note term. If the valuation model reflects a value less than the carrying value, mortgage servicing rights are adjusted to fair value through a valuation allowance. Heartland classifies mortgage servicing rights as nonrecurring with Level 3 measurement inputs.

Derivative Financial Instruments
Heartland's current interest rate risk strategy includes interest rate swaps, interest rate lock commitments, and forward sales of securities. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. To comply with the provisions of ASC 820, Heartland incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, Heartland has considered the impact of netting any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although Heartland has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2013, and December 31, 2012, Heartland has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, Heartland has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Mortgage Derivatives
Mortgage derivatives include interest rate lock commitments to originate held for sale residential mortgage loans for individual customers and forward commitments to sell residential mortgage loans to various investors. The fair value of these derivative instruments is primarily based on quoted prices for similar assets in active markets that Heartland has the ability to access and are classified in Level 2 of the fair value hierarchy.

Other Real Estate Owned
Other real estate owned ("OREO") represents property acquired through foreclosures and settlements of loans. Property acquired is carried at the fair value of the property at the time of acquisition (representing the property's cost basis), plus any acquisition costs, or the estimated fair value of the property, less disposal costs. Heartland considers third party appraisals, as well as independent fair value assessments from realtors or persons involved in selling OREO, in determining the fair value of particular properties. Accordingly, the valuation of OREO is subject to significant external and internal judgment. Heartland periodically reviews OREO to determine if the fair value of the property, less disposal costs, has declined below its recorded book value and records any adjustments accordingly. OREO is classified as nonrecurring Level 3.

Explanation of Responses:

The table below presents Heartland's assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2013, and December 31, 2012, in thousands, aggregated by the level in the fair value hierarchy within which those measurements fall:

	Total Fair Value	Level 1	Level 2	Level 3
December 31, 2013				
Trading securities	$1,801	$1,801	$—	$—
Securities available for sale				
U.S.government corporations and agencies	218,303	4,084	214,219	—
Mortgage-backed securities	1,143,947	—	1,140,649	3,298
Obligations of states and and political subdivisions	266,624	—	266,624	—
Equity securities	5,028	—	5,028	—
Derivative assets	3,015	—	3,015	—
Total assets at fair value	$1,638,718	$5,885	$1,629,535	$3,298
Derivative liabilities	$3,830	$—	$3,830	$—
Total liabilities at fair value	$3,830	$—	$3,830	$—
December 31, 2012				
Trading securities	$380	$380	$—	$—
Securities available for sale				
U.S.government corporations and agencies	21,444	12,811	8,633	—
Mortgage-backed securities	1,036,201	—	1,032,112	4,089
Obligations of states and and political subdivisions	426,445	—	426,445	—
Equity securities	6,241	—	6,241	—
Derivative assets	9,815	—	9,815	—
Total assets at fair value	$1,500,526	$13,191	$1,483,246	$4,089
Derivative liabilities	$7,846	$—	$7,846	$—
Total liabilities at fair value	$7,846	$—	$7,846	$—

There were no transfers between Levels 1, 2 or 3 during the year ended December 31, 2013.

The tables below present Heartland's assets that are measured at fair value on a nonrecurring basis, in thousands:

	Fair Value Measurements at December 31, 2013				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Losses
Assets:					
Collateral dependent impaired loans:					
Commercial	$7,229	$—	$—	$7,229	$919
Commercial real estate	7,749	—	—	7,749	1,881
Agricultural and agricultural real estate	13,062	—	—	13,062	—
Residential real estate	3,396	—	—	3,396	—
Consumer	1,763	—	—	1,763	—
Total collateral dependent impaired loans	$33,199	$—	$—	$33,199	$2,800
Other real estate owned	$29,852	$—	$—	$29,852	$2,799

	Fair Value Measurements at December 31, 2012				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Losses
Assets:					
Collateral dependent impaired loans:					
Commercial	$7,681	$—	$—	$7,681	$1,799
Commercial real estate	44,471	—	—	44,471	6,898
Agricultural and agricultural real estate	16,019	—	—	16,019	1
Residential real estate	6,660	—	—	6,660	988
Consumer	4,121	—	—	4,121	4,818
Total collateral dependent impaired loans	$78,952	$—	$—	$78,952	$14,504
Other real estate owned	$35,822	$—	$—	$35,822	$6,953
Mortgage servicing rights	$15,956	$—	$—	$15,956	$477

The following table presents additional quantitative information about assets measured at fair value on a recurring and nonrecurring basis and for which Heartland has utilized Level 3 inputs to determine fair value, in thousands:

	Quantitative Information About Level 3 Fair Value Measurements			
	Fair Value at 12/31/13	Valuation Technique	Unobservable Input	Range (Weighted Average)
Z-Tranche Securities	$3,298	Discounted cash flows	Pretax discount rate	7 - 9%
			Actual defaults	12.50-28.20% (20.80%)
			Actual deferrals	5.10-16.00% (11.10%)
Collateral dependent impaired loans:				
Commercial	7,229	Modified appraised value	Third party appraisal	NM*
			Appraisal discount	NM*
Commercial real estate	7,749	Modified appraised value	Third party appraisal	NM*
			Appraisal discount	NM*
Agricultural and agricultural real estate	13,062	Modified appraised value	Third party appraisal	NM*
			Appraisal discount	NM*
Residential real estate	3,396	Modified appraised value	Third party appraisal	NM*
			Appraisal discount	NM*
Consumer	1,763	Modified appraised value	Third party appraisal	NM*
			Appraisal discount	NM*
Other real estate owned	29,852	Modified appraised value	Disposal costs	NM*
			Third party appraisal	NM*
			Appraisal discounts	NM*

* Not Meaningful. Third party appraisals are obtained as to the value of the underlying asset, but disclosure of this information would not provide meaningful information, as the range will vary widely from loan to loan. Types of discounts considered included age of the appraisal, local market conditions, current condition of the property, and estimated sales costs. These discounts will also vary from loan to loan, thus providing range would not be meaningful.

Quantitative Information About Level 3 Fair Value Measurements

	Fair Value at 12/31/12	Valuation Technique	Unobservable Input	Range (Weighted Average)
Z-Tranche Securities	$4,089	Discounted cash flows	Pretax discount rate	8 - 10%
			Actual defaults	13.94-20.94% (15.52%)
			Actual deferrals	6.30-23.71% (11.32%)
Collateral dependent impaired loans:				
Commercial	7,681	Modified appraised value	Third party appraisal	NM*
			Appraisal discount	NM*
Commercial real estate	44,471	Modified appraised value	Third party appraisal	NM*
			Appraisal discount	NM*
Agricultural and agricultural real estate	16,019	Modified appraised value	Third party appraisal	NM*
			Appraisal discount	NM*
Residential real estate	6,660	Modified appraised value	Third party appraisal	NM*
			Appraisal discount	NM*
Consumer	4,121	Modified appraised value	Third party appraisal	NM*
			Appraisal discount	NM*
Other real estate owned	35,822	Modified appraised value	Disposal costs	NM*
			Third party appraisal	NM*
			Appraisal discounts	NM*
Mortgage servicing rights	15,956	Discounted cash flows	Prepayment speeds, servicing costs and escrow analysis	Average CPR Life 12.99 - 18.71% (18.05%)

* Not Meaningful. Third party appraisals are obtained as to the value of the underlying asset, but disclosure of this information would not provide meaningful information, as the range will vary widely from loan to loan. Types of discounts considered included age of the appraisal, local market conditions, current condition of the property, and estimated sales costs. These discounts will also vary from loan to loan, thus providing range would not be meaningful.

The changes in Level 3 assets that are measured at fair value on a recurring basis are summarized in the following table, in thousands:

	For the Years Ended December 31, 2013 Fair Value	December 31, 2012 Fair Value
Balance at January 1,	$4,089	$3,151
Total gains (losses):		
Included in earnings	(1,587)	—
Included in other comprehensive income	826	938
Purchases, issuances, sales and settlements:		
Purchases	—	—
Sales	(30)	—
Settlements	—	—
Balance at period end,	$3,298	$4,089

The table below is a summary of the estimated fair value of Heartland's financial instruments as defined by ASC 825 as of December 31, 2013, and December 31, 2012, in thousands. The carrying amounts in the following table are recorded in the consolidated balance sheets under the indicated captions. In accordance with ASC 825, the assets and liabilities that are not financial instruments are not included in the disclosure, such as the value of the mortgage servicing rights, premises, furniture and equipment, goodwill and other intangibles and other liabilities.

Heartland does not believe that the estimated information presented below is representative of the earnings power or value of Heartland. The following analysis, which is inherently limited in depicting fair value, also does not consider any value associated with either existing customer relationships or the ability of Heartland to create value through loan origination, deposit gathering or fee generating activities. Many of the estimates presented below are based upon the use of highly subjective information and assumptions and, accordingly, the results may not be precise. Management believes that fair value estimates may not be comparable between financial institutions due to the wide range of permitted valuation techniques and numerous estimates which must be made. Furthermore, because the disclosed fair value amounts were estimated as of the balance sheet date, the amounts actually realized or paid upon maturity or settlement of the various financial instruments could be significantly different.

	Carrying Amount	Estimated Fair Value	Fair Value Measurements at December 31, 2013 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$125,270	$125,270	$125,270	$—	$—
Time deposits in other financial institutions	3,355	3,355	3,355	—	—
Securities:					
Trading	1,801	1,801	1,801	—	—
Available for sale	1,633,902	1,633,902	4,084	1,626,520	3,298
Held to maturity	237,498	237,437	—	237,437	—
Other investments	21,843	21,843	—	21,608	235
Loans held for sale	46,665	46,665	—	46,665	—
Loans, net:					
Commercial	936,305	930,501	—	923,272	7,229
Commercial real estate	1,516,352	1,512,773	—	1,505,024	7,749
Agricultural and agricultural real estate	374,203	378,086	—	365,024	13,062
Residential real estate	347,266	335,362	—	331,966	3,396
Consumer	286,890	273,139	—	271,376	1,763
Total Loans, net	3,461,016	3,429,861	—	3,396,662	33,199
Mortgage derivatives	3,015	3,015	—	3,015	—
Financial liabilities:					
Deposits					
Demand deposits	1,238,581	1,238,581	—	1,238,581	—
Savings deposits	2,535,242	2,535,242	—	2,535,242	—
Time deposits	892,676	892,676	—	892,676	—
Short term borrowings	408,756	408,756	—	408,756	—
Other borrowings	350,109	355,923	—	355,923	—
Derivatives	3,830	3,830	—	3,830	—

	Carrying Amount	Estimated Fair Value	Fair Value Measurements at December 31, 2012 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$168,054	$168,054	$168,054	$—	$—
Time deposits in other financial institutions	—	—	—	—	—
Securities:					
Trading	380	380	380	—	—
Available for sale	1,490,331	1,490,331	12,811	1,473,431	4,089
Held to maturity	55,502	55,982	—	55,982	—
Other investments	15,744	15,744	—	15,493	251
Loans held for sale	96,165	96,165	—	96,165	—
Loans, net:					
Commercial	700,225	691,605	—	683,924	7,681
Commercial real estate	1,275,770	1,281,031	—	1,236,560	44,471
Agricultural and agricultural real estate	326,867	329,443	—	313,424	16,019
Residential real estate	248,608	237,050	—	230,390	6,660
Consumer	238,617	241,978	—	237,857	4,121
Total Loans, net	2,790,087	2,781,107	—	2,702,155	78,952
Mortgage derivatives	9,815	9,815	—	9,815	—
Financial liabilities:					
Deposits					
Demand deposits	974,232	974,232	—	974,232	—
Savings deposits	2,004,438	2,004,438	—	2,004,438	—
Time deposits	866,990	866,990	—	866,990	—
Short term borrowings	224,626	224,626	—	224,626	—
Other borrowings	389,025	376,422	—	376,422	—
Derivatives	7,846	7,846	—	7,846	—

Cash and Cash Equivalents — The carrying amount is a reasonable estimate of fair value due to the short-term nature of these instruments.

Securities — For securities either held to maturity, available for sale or trading, fair value equals quoted market price if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. For Level 3 securities, Heartland utilizes independent pricing provided by third party vendors or brokers.

Other Investments — Fair value measurement of other investments, which consists primarily of FHLB stock, are based on their redeemable value, which is at cost. The market for these securities is restricted to the issuer of the stock and subject to impairment evaluation. It is not practicable to determine the fair value of these securities within the fair value hierarchy due to the restrictions placed on their transferability.

Loans and Leases — The fair value of loans is estimated using an entrance price concept 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. The fair value of impaired loans is measured using the fair value of the underlying collateral. The fair value of loans held for sale is estimated using quoted market prices.

Mortgage Derivatives — The fair value of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis of the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities.

Derivatives — The fair value of all derivatives is estimated based on the amount that Heartland would pay or would be paid to terminate the contract or agreement, using current rates and, when appropriate, the current creditworthiness of the counter-party.

Deposits — The fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities. If the fair value of the fixed maturity certificates of deposit is calculated at less than the carrying amount, the carrying value of these deposits is reported as the fair value.

Short-term and Other Borrowings — Rates currently available to Heartland for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

Commitments to Extend Credit, Unused Lines of Credit and Standby Letters of Credit — Based upon management's analysis of the off balance sheet financial instruments, there are no significant unrealized gains or losses associated with these financial instruments based upon review of 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.

TWENTY-ONE
MORTGAGE SEGMENT REPORTING

Reportable segments include community banking and retail mortgage banking services. These segments were determined based on the products and services provided or the type of customers served and is consistent with the information that is used by Heartland's key decision makers to make operating decisions and to assess Heartland's performance. Community banking involves making loans to and generating deposits from individuals and businesses in the markets where Heartland has banks. Retail mortgage banking involves the origination of residential loans and subsequent sale of those loans to investors. The mortgage banking segment is a strategic business unit that offers different products and services. It is managed separately because the segment appeals to different markets and, accordingly, requires different technology and marketing strategies. The segment's most significant revenue and expense is non-interest income and non-interest expense, respectively. Heartland does not have other reportable operating segments. The accounting policies of the mortgage banking segment are the same as those described in the summary of significant accounting policies. All intersegment sales prices are market based. All of Heartland's goodwill is associated with the community banking segment.

The following table presents the financial information from Heartland's operating segments for the years ending December 31, 2013, December 31, 2012, and December 31, 2011, in thousands.

	Community and Other Banking	Mortgage Banking	Total
December 31, 2013			
Net Interest Income	$161,452	$2,376	$163,828
Provision for loan losses	9,697	—	9,697
Total noninterest income	49,810	39,808	89,618
Total noninterest expense	150,767	45,794	196,561
Income before income taxes	$50,798	$(3,610)	$47,188
December 31, 2012			
Net Interest Income	$147,903	$2,253	$150,156
Provision for loan losses	8,202	—	8,202
Total noninterest income	50,947	57,715	108,662
Total noninterest expense	142,646	40,735	183,381
Income before income taxes	$48,002	$19,233	$67,235
December 31, 2011			
Net Interest Income	$145,098	$296	$145,394
Provision for loan losses	29,365	—	29,365
Total noninterest income	44,757	14,820	59,577
Total noninterest expense	123,660	13,636	137,296
Income before income taxes	$36,830	$1,480	$38,310
Segment Assets			
December 31, 2013	$5,850,976	$72,740	$5,923,716
December 31, 2012	4,868,618	121,935	4,990,553
December 31, 2011	4,237,922	67,136	4,305,058
Average Loans			
December 31, 2013	$2,939,856	$76,577	$3,016,433
December 31, 2012	2,605,151	91,301	2,696,452
December 31, 2011	2,394,087	24,777	2,418,864

TWENTY-TWO
PARENT COMPANY ONLY FINANCIAL INFORMATION

Condensed financial information for Heartland Financial USA, Inc. is as follows:
BALANCE SHEETS
(Dollars in thousands)

	December 31, 2013	2012
Assets:		
Cash and interest bearing deposits	$17,912	$17,447
Trading securities	1,801	380
Securities available for sale	3,952	6,027
Other investments, at cost	235	235
Investment in subsidiaries	561,272	517,256
Other assets	33,407	29,303
Due from subsidiaries	6,000	7,000
Total assets	$624,579	$577,648
Liabilities and stockholders' equity:		
Other borrowings	$174,153	$158,752
Accrued expenses and other liabilities	10,966	17,091
Total liabilities	185,119	175,843
Stockholders' equity:		
Preferred stock	81,698	81,698
Common stock	18,399	16,828
Capital surplus	91,632	50,359
Retained earnings	265,067	236,279
Accumulated other comprehensive income (loss)	(17,336)	16,641
Treasury stock	—	—
Total stockholders' equity	439,460	401,805
Total liabilities and stockholders' equity	$624,579	$577,648

INCOME STATEMENTS
(Dollars in thousands)

	For the Years Ended December 31,		
	2013	2012	2011
Operating revenues:			
Dividends from subsidiaries	$47,750	$42,800	$26,400
Securities gains, net	2,316	—	1,424
Gain on trading account securities	1,421	47	89
Other	726	664	476
Total operating revenues	52,213	43,511	28,389
Operating expenses:			
Interest	9,206	9,133	9,113
Salaries and benefits	5,104	6,191	5,741
Professional fees	3,671	3,100	2,498
Other operating expenses	1,577	2,417	3,146
Total operating expenses	19,558	20,841	20,498
Equity in undistributed earnings (losses)	(1,275)	19,739	12,852
Income before income tax benefit	31,380	42,409	20,743
Income tax benefit	5,409	7,383	7,301
Net income	36,789	49,792	28,044
Preferred dividends and discount	(1,093)	(3,400)	(7,640)
Net income available to common stockholders	$35,696	$46,392	$20,404

STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	For the Years Ended December 31,		
	2013	2012	2011
Cash flows from operating activities:			
Net income	$36,789	$49,792	$28,044
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed earnings (losses) of subsidiaries	1,275	(19,739)	(12,852)
Security gains, net	(2,316)	—	(1,424)
(Increase) decrease in due from subsidiaries	1,000	(4,250)	—
Increase (decrease) in accrued expenses and other liabilities	(6,125)	4,448	5,714
Increase in other assets	(4,104)	(7,163)	(2,157)
Increase in trading account securities	(1,421)	(47)	(89)
Other, net	4,089	1,776	(442)
Net cash provided by operating activities	29,187	24,817	16,794
Cash flows from investing activities:			
Capital contributions to subsidiaries	(69,429)	(32,841)	(6,000)
Purchases of other securities	—	(195)	—
Proceeds from sales of available for sale securities	2,925	—	1,507
Proceeds from sale of other investments	—	155	—
Net assets acquired	44,697	—	—
Net cash used by investing activities	(21,807)	(32,881)	(4,493)
Cash flows from financing activities:			
Net change in short-term borrowings	—	—	(5,000)
Proceeds from other borrowings	80	10,000	18,165
Repayments of other borrowings	(1,255)	(6,374)	(3,938)
Proceeds from issuance of preferred stock	—	—	81,698
Payment for the repurchase of preferred stock	—	—	(81,698)
Redemption of warrant	—	—	(1,800)
Cash dividends paid	(8,001)	(11,695)	(11,172)
Purchase of treasury stock	(2,004)	(2,937)	(389)
Proceeds from issuance of common stock	4,265	9,557	1,428
Net cash provided (used) by financing activities	(6,915)	(1,449)	(2,706)
Net increase (decrease) in cash and cash equivalents	465	(9,513)	9,595
Cash and cash equivalents at beginning of year	17,447	26,960	17,365
Cash and cash equivalents at end of year	$17,912	$17,447	$26,960
Supplemental disclosure:			
Stock consideration granted for acquisition	$38,755	$—	$—

TWENTY-THREE
SUMMARY OF QUARTERLY FINANCIAL INFORMATION (UNAUDITED)
(Dollars in thousands, except per share data)

2013	December 31	September 30	June 30	March 31
Net interest income	$46,357	$39,880	$38,924	$38,667
Provision for loan and lease losses	2,049	5,149	1,862	637
Net interest income after provision for loan and lease losses	44,308	34,731	37,062	38,030
Noninterest income	17,574	20,718	24,858	26,468
Noninterest expense	53,901	47,147	48,766	46,747
Income taxes	46	1,492	3,598	5,199
Net income	7,935	6,810	9,556	12,552
Net income available to noncontrolling interest, net of tax	—	—	—	(64)
Net income attributable to Heartland	7,935	6,810	9,556	12,488
Preferred stock dividends and discount	(204)	(276)	(205)	(408)
Net income available to common stockholders	7,731	6,534	9,351	12,080
Per share:				
Earnings per share-basic	$0.43	$0.39	$0.55	$0.72
Earnings per share-diluted	0.42	0.38	0.54	0.70
Cash dividends declared on common stock	0.10	0.10	0.10	0.10
Book value per common share	19.44	18.58	18.51	19.54
Weighted average common shares outstanding	18,096,345	16,935,581	16,907,405	16,851,672
Weighted average diluted common shares outstanding	18,360,470	17,221,154	17,203,924	17,187,180

(Dollars in thousands, except per share data)

2012	December 31	September 30	June 30	March 31
Net interest income	$37,974	$36,812	$37,177	$38,193
Provision for loan and lease losses	3,350	(502)	3,000	2,354
Net interest income after provision for loan and lease losses	34,624	37,314	34,177	35,839
Noninterest income	27,230	29,766	28,278	23,388
Noninterest expense	54,623	47,159	41,459	40,140
Income taxes	(2,258)	6,338	7,032	6,272
Net income	9,489	13,583	13,964	12,815
Net income available to noncontrolling interest, net of tax	(82)	4	(7)	26
Net income attributable to Heartland	9,407	13,587	13,957	12,841
Preferred stock dividends and discount	(409)	(949)	(1,021)	(1,021)
Net income available to common stockholders	8,998	12,638	12,936	11,820
Per share:				
Earnings per share-basic	$0.54	$0.77	$0.79	$0.72
Earnings per share-diluted	0.54	0.75	0.77	0.71
Cash dividends declared on common stock	0.20	0.10	0.10	0.10
Book value per common share	19.02	18.81	17.65	17.09

Weighted average common shares outstanding	16,534,217	16,473,760	16,474,455	16,490,051
Weighted average diluted common shares outstanding	16,812,947	16,745,968	16,717,846	16,729,925

Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders
Heartland Financial USA, Inc.:

We have audited the accompanying consolidated balance sheets of Heartland Financial USA, Inc. and subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 Financial USA, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Heartland Financial USA, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 14, 2014 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Des Moines, Iowa
March 14, 2014

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Under the direction of our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of December 31, 2013. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, in a manner that allows timely decisions regarding required disclosure.

MANAGEMENT’S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining effective internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management, board of directors and stockholders regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our internal control over financial reporting based upon the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (1992). Based on our assessment, which excluded Morrill & Janes Bank and Trust Company as described below, our internal control over financial reporting was effective as of December 31, 2013.

Heartland’s most recent acquisition of Morrill & Janes Bank and Trust Company with assets of $891 million and net income of $1.1 million as of December 31, 2013, was excluded from the scope of this report as allowed by the Securities and Exchange Commission. Morrill & Janes Bank and Trust Company assets comprised 15% of Heartland’s assets at December 31, 2013, and Morrill & Janes Bank and Trust Company’s 2013 net income was 3% of Heartland’s net income for 2013. Heartland's acquisition of Freedom Bank with assets of $64 million and net income of $65,000 as of December 31, 2013, was excluded from this report as allowed by the Securities and Exchange Commission. Freedom Bank's assets comprised 1% of Heartland's assets at December 31, 2013 and less than 1% of Heartland's net income for 2013.

KPMG LLP, the independent registered public accounting firm that audited Heartland’s consolidated financial statements as of and for the year ended December 31, 2013, included herein, has issued a report on Heartland’s internal control over financial reporting. This report follows management’s report.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no significant changes to Heartland's disclosure controls or internal controls over financial reporting during the quarter ended December 31, 2013, that have materially affected or are reasonably likely to materially affect Heartland's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders
Heartland Financial USA, Inc.:

We have audited Heartland Financial USA, Inc.'s (the Company) internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Heartland Financial USA, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Heartland Financial USA, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Company acquired The Morrill & Janes Bank and Trust Company, during 2013, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2013, The Morrill & Janes Bank and Trust Company's internal control over financial reporting associated with total assets of $891 million and net income of $1.1 million included in the consolidated financial statements of the Company and subsidiaries as of and for the year ended December 31, 2013. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of The Morrill & Janes Bank and Trust Company.

The Company acquired Freedom Bank, during 2013, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2013, Freedom Bank's internal control over financial reporting associated with total assets of $64 million and net income of $65 thousand included in the consolidated financial statements of the Company and subsidiaries as of and for the year ended December 31, 2013. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of Freedom Bank.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Heartland Financial USA, Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2013, and our report dated March 14, 2014 expressed an unqualified opinion on those consolidated financial statements.

Des Moines, Iowa
March 14, 2014

ITEM 9B. OTHER INFORMATION

Bryan R. McKeag, Executive Vice President and Chief Financial Officer of Heartland, signed a Change in Control Agreement on March 13, 2014. The form of the Change in Control Agreement is similar to that of our other named executive officers. Mr. McKeag's severance amount is an amount equal to one times his base compensation. Mr. McKeag's medical and dental benefits are for a term of 12 months.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information in the Proxy Statement for Heartland's 2014 Annual Meeting of Stockholders to be held on May 21, 2014 (the "2014 Proxy Statement") under the captions "Election of Directors", "Security Ownership of Certain Beneficial Owners and Management", "Section 16(a) Beneficial Ownership Reporting Compliance" and "Corporate Governance and the Board of Directors" is incorporated by reference. The information regarding executive officers is included in Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION

The information in our 2014 Proxy Statement, under the captions "Compensation Discussion and Analysis", "Corporate Governance and the Board of Directors - Committees of the Board - Compensation/Nominating Committee", "Compensation/Nominating Committee Report On Executive Compensation" and "Executive Compensation" is incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information in our 2014 Proxy Statement, under the caption "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Discussion" is incorporated by reference.

The following table sets forth information regarding outstanding options and shares available for future issuance under Heartland's equity plans as of December 31, 2013:

Plan category	Number of shares to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of shares remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a)) (c)
Equity compensation plans approved by stockholders	261,936	$23.60	834,932[1]
Equity compensation plans not approved by stockholders	—	$—	—
Total	261,936	$23.60	834,932

(1) Includes 462,323 shares available for use under the Heartland 2012 Long-Term Incentive Plan and 372,606 shares available for use under the 2006 Employee Stock Purchase Plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information in the 2014 Proxy Statement under the captions "Transactions with Management" and "Corporate Governance and the Board of Directors - Our Board of Directors - Independence" is incorporated by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information in the 2014 Proxy Statement under the caption “Relationship with Independent Registered Public Accounting Firm” is incorporated by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The documents filed as a part of this report are listed below:

1. Financial Statements
   The consolidated financial statements of Heartland Financial USA, Inc. are included in Item 8 of this Form 10-K.
2. Financial Statement Schedules
   None
3. Exhibits
   The exhibits required by Item 601 of Regulation S-K are included along with this Form 10-K and are listed on the "Index of Exhibits" immediately following the signature page.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 14, 2014.

Heartland Financial USA, Inc.

By:	/s/ Lynn B. Fuller Lynn B. Fuller Principal Executive Officer	/s/ Bryan R. McKeag Bryan R. McKeag Executive Vice President, Chief Financial Officer

Date: March 14, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 14, 2014.

By:	/s/ Lynn B. Fuller Lynn B. Fuller President, CEO, Chairman and Director	/s/ John K. Schmidt John K. Schmidt Director
	/s/ James. F. Conlan James F. Conlan Director	/s/ Mark C. Falb Mark C. Falb Director
	/s/ Thomas L. Flynn Thomas L. Flynn Director	/s/ John W. Cox, Jr. John W. Cox, Jr. Director
	/s/ Duane E. White Duane E. White Director	/s/ Kurt M. Saylor Kurt M. Saylor Director

INDEX OF EXHIBITS

3.1	Restated Certificate of Incorporation of Heartland Financial USA, Inc. and Certificate of Designation of Series A Junior Participating Preferred Stock as filed with the Secretary of Delaware on June 10, 2002 (incorporated by reference to Exhibit 3.1 to the Registrant’s Quarterly Report on Form 10-Q filed on November 7, 2008).
3.2	Amendment to Certificate of Incorporation of Heartland Financial USA, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant’s Quarterly Report on Form 10-Q filed on August 10, 2009).
3.3	Certificate of Designations of Senior Non-Cumulative Perpetual Preferred Stock, Series C, as filed with the Secretary of State of the State of Delaware on September 12, 2011 (incorporated by reference to Exhibit 3.1 to the Registrant’s Current Report on Form 8-K filed on September 11, 2011).
3.4	Bylaws of Heartland Financial USA, Inc. (incorporated by reference to Exhibit 3.2 to the Registrant’s Annual Report on Form 10-K filed on March 15, 2004).
4.1	Form of Specimen Stock Certificate for Heartland Financial USA, Inc. common stock (incorporated by reference to Exhibit 4.1 to Registrant’s Registration Statement on Form S-4 (File No. 33-76228) filed on May 4, 1994).
4.2	Rights Agreement, dated as of January 17, 2012, between Heartland Financial USA, Inc. and Dubuque Bank and Trust Company, as Rights Agent (incorporated by reference to Exhibit 4.1 to Registrant’s Form 8-A filed on May 17, 2012).
4.3	Form of Stock Certificate for Fixed Senior Non-Cumulative Perpetual Preferred Stock, Series C (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on September 15, 2011).
10.1	Heartland Financial USA, Inc. Dividend Reinvestment Plan dated as of January 24, 2002 (incorporated by reference to the Registrant’s Registration Statement on Form S-3 filed on January 25, 2002).
10.2 (1)	Heartland Financial USA, Inc. 2003 Stock Option Plan dated as of May 21, 2003 (incorporated by reference to Exhibit B to the Registrant’s Proxy Statement on Form DEF14A filed on April 7, 2003).
10.3	Indenture by and between Heartland Financial USA, Inc. and U.S. Bank National Association, dated as of October 10, 2003 (incorporated by reference to Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q filed on November 13, 2003).
10.4	Indenture by and between Heartland Financial USA, Inc. and U.S. Bank National Association dated as of March 17, 2004 (incorporated by reference to Exhibit 10.12 to the Registrant’s Annual Report on Form 10-K filed on March 14, 2007).
10.5	Indenture by and between Heartland Financial USA, Inc. and Wells Fargo Bank, National Association, dated as of January 31, 2006 (incorporated by reference to Exhibit 10.19 to the Registrant’s Annual Report on Form 10-K filed on March 10, 2006).
10.6 (1)	

	Heartland Financial USA, Inc. 2005 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.01 to the Registrant's Current Report on Form 8-K filed on May 19, 2005).
10.7	Heartland Financial USA, Inc. 2006 Employee Stock Purchase Plan effective January 1, 2006 (incorporated by reference to Exhibit 10.02 to the Registrant's Current Report on Form 8-K filed on May 19, 2005).

10.8 (1)	Form of Agreement for Heartland Financial USA, Inc. 2005 Long-Term Incentive Plan Non-Qualified Stock Option Awards (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 10, 2006).
10.9 (1)	Form of Agreement for Heartland Financial USA, Inc. 2005 Long-Term Incentive Plan Performance Restricted Stock Agreement (incorporated by reference to Exhibit 10.21 to the Registrant's Annual Report on Form 10-K filed on March 10, 2006).
10.10	Indenture between Heartland Financial USA, Inc. and Wilmington Trust Company dated as of June 26, 2007 (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed on August 9, 2007).
10.11	Indenture between Heartland Financial USA, Inc. and Wilmington Trust Company dated as of June 26, 2007 (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed on August 9, 2007).
10.12 (1)	Heartland Financial USA, Inc. Policy on Director Fees and Policy on Expense Reimbursement For Directors (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed on December 5, 2007).
10.13 (1)	Form of Split-Dollar Life Insurance Plan effective November 13, 2001, between the subsidiaries of Heartland Financial USA, Inc. and their selected officers, including four subsequent amendments effective January 1, 2002, May 1, 2002, September 16, 2003 and December 31, 2007. These plans are in place at Dubuque Bank and Trust Company, Galena State Bank & Trust Co., Riverside Community Bank, Wisconsin Bank & Trust and New Mexico Bank & Trust (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on May 12, 2008).
10.14 (1)	Form of Executive Supplemental Life Insurance Plan effective January 1, 2005, between the subsidiaries of Heartland Financial USA, Inc. and their selected officers, including a subsequent amendment effective December 31, 2007. These plans are in place at Dubuque Bank and Trust Company, Galena State Bank & Trust Co., Riverside Community Bank, Wisconsin Bank & Trust and New Mexico Bank & Trust (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on May 12, 2008).
10.15 (1)	Form of Executive Life Insurance Bonus Plan effective December 31, 2007, between Heartland Financial USA, Inc. and selected officers of Heartland Financial USA, Inc. and its subsidiaries, including a subsequent amendment effective December 31, 2007 (incorporated by reference to Exhibit 10.18 to the Registrant's Annual Report on Form 10-K filed on March 16, 2009).
10.16 (1)	Form of Split-Dollar Agreement effective November 1, 2008, between the subsidiaries of Heartland Financial USA, Inc. and their selected officers. These plans are in place at Dubuque Bank and Trust Company, Galena State Bank & Trust Co., Riverside Community Bank, Wisconsin Bank & Trust, New Mexico Bank & Trust, Arizona Bank & Trust, Summit Bank & Trust, Minnesota Bank & Trust and Citizens Finance Co. (incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K filed on March 16, 2009).
10.17 (1)	Form of Agreement for Heartland Financial USA, Inc. 2005 Long-Term Incentive Plan Performance Restricted Stock Unit Agreement with those individuals formerly subject to settlement restrictions due to Heartland's participation in the United States Treasury's Troubled Asset Relief Program.(incorporated by

	reference to Exhibit 10.23 to the Registrant's Annual Report on Form 10-K filed on March 16, 2010).
10.18 (1)	Form of Agreement for Heartland Financial USA, Inc. 2005 Long-Term Incentive Plan Performance Restricted Stock Unit Agreement with those individuals not subject to settlement restrictions due to Heartland's participation in the United States Treasury's Troubled Asset Relief Program (incorporated by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K filed on March 16, 2010).
10.19	Form of Senior Notes of Heartland Financial USA, Inc. (incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K filed on March 16, 2011).

10.20	Promissory Note between Heartland Financial USA, Inc. and Bankers Trust Company dated as of April 20, 2011, including Loan Commitment Letter dated April 5, 2011 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on May 10, 2011).
10.21	ISDA Confirmation Letter between Heartland Financial USA, Inc. and Bankers Trust Company dated April 5, 2011 (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on May 10, 2011).
10.22	Promissory Note between Heartland Financial USA, Inc. and Bankers Trust Company dated April 20, 2011 (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed on May 10, 2011).
10.23	Securities Purchase Agreement between Heartland Financial USA, Inc. and the Secretary of the Treasury dated September 15, 2011 (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on September 15, 2011).
10.24	Repurchase Document between Heartland Financial USA, Inc. and the United States Department of the Treasury dated September 15, 2011 (incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed on September 15, 2011).
10.25	Warrant Letter Agreement between Heartland Financial USA, Inc. and the United States Department of the Treasury dated September 28, 2011 (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on September 28, 2011).
10.26 (1)	Form of Agreement for Heartland Financial USA, Inc. 2005 Long-Term Incentive Plan Restricted Stock Unit Agreement for awards granted in January 2012. (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on May 10, 2012).
10.27 (1)	Form of Agreement for Heartland Financial USA, Inc. 2005 Long-Term Incentive Plan Performance-Based Restricted Stock Unit Agreement for awards granted in January 2012. (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on May 10, 2012).
10.28 (1)	Heartland Financial USA, Inc. 2012 Long-Term Incentive Plan (incorporated by reference to Exhibit 4.4 to the Registrant's Registration Statement on Form S-8 filed on May, 17 2012).
10.29 (1)	Form of Director Restricted Stock Unit Award under the Heartland Financial USA, Inc. 2012 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on May 21, 2012).
10.30 (1)	Form of Change In Control Agreements between Heartland Financial USA, Inc. and Lynn B. Fuller (multiple of 2 and health benefits term of 24 months) dated as of January 1, 2012 (incorporated by reference to Exhibit 10.33 to the Registrant's Annual Report on Form 10-K filed on March 15, 2013).
10.31 (1)	Form of Change In Control Agreements between Heartland Financial USA, Inc. and Kenneth J. Erickson (multiple of 1.5 and health benefits term of 18 months); Douglas J. Horstmann (multiple of 1 and health benefits term of 12 months) and Brian J. Fox (multiple of 1 and health benefits term of 12 months) dated as of January 1, 2012; and Bryan R. McKeag (multiple of 1 and health benefits term of 12 months) dated as of March 13, 2014 (incorporated by reference to Exhibit 10.34 to the Registrant's Annual Report on

Form 10-K filed on March 15, 2013).

10.32	(1)(2)	Form of Time-Based Restricted Stock Unit Award Agreement for Heartland Financial USA, Inc. 2012 Long-Term Incentive Plan.
10.33	(1)(2)	Form of Performance-Based Restricted Stock Unit Award Agreement for Heartland Financial USA, Inc. 2012 Long-Term Incentive Plan.

10.34	(2)	Indenture by and between Morrill Bancshares, Inc. and State Street Bank and Trust Company of Connecticut, National Association dated as of December 19, 2002.
10.35	(2)	Indenture by and between Morrill Bancshares, Inc. and U.S. Bank National Association dated as of December 17, 2003.
11	(2)	Computation of Per Share Earnings
21.1	(2)	Subsidiaries of the Registrant.
23.1	(2)	Consent of KPMG LLP.
31.1	(2)	Certification of Chief Executive Officer pursuant to Rule 13a-15.
31.2	(2)	Certification of Chief Financial Officer pursuant to Rule 13a-15.
32.1	(2)	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	(2)	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	(2)	Financial statement formatted in Extensible Business Reporting Language: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Cash Flows, (iv) the Consolidated Statements of Changes in Equity and Comprehensive Income, and (v) the Notes to Consolidated Financial Statements.

(1) Management contracts or compensatory plans or arrangements.
(2) Filed herewith.