HEARTLAND FINANCIAL USA INC
Form 10-K
March 14, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

R ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013

Commission File Number: 001-15393

HEARTLAND FINANCIAL USA, INC.
(Exact name of Registrant as specified in its charter)

Delaware	42-1405748
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer identification number)
1398 Central Avenue, Dubuque, Iowa 52001	(563) 589-2100
(Address of principal executive offices) (Zip Code)	(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:	
Title of Class	Name of Each Exchange on Which Registered
Common Stock $1.00 par value	The NASDAQ Global Select Market
Preferred Share Purchase Rights	

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ¨ No þ

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes ¨ No þ

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Act.
Large accelerated filer ¨ Accelerated filer þ Non-accelerated filer ¨ Smaller reporting company ¨

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes ¨ No þ

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the last sales price quoted on the NASDAQ Global Select Market on June 30, 2013, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $380,609,222.

As of March 13, 2014, the Registrant had issued and outstanding 18,454,048 shares of common stock, $1.00 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Proxy Statement for the 2014 Annual Meeting of Stockholders are incorporated by reference into Part III.

HEARTLAND FINANCIAL USA, INC.
Form 10-K Annual Report
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PART I

SAFE HARBOR STATEMENT

This document (including information incorporated by reference) contains, and future oral and written statements of Heartland and its management may contain, forward-looking statements, within the meaning of such term in the Private Securities Litigation Reform Act of 1995, with respect to the financial condition, results of operations, plans, objectives, future performance and business of Heartland. Forward-looking statements, which may be based upon beliefs, expectations and assumptions of Heartland's management and on information currently available to management, are generally identifiable by the use of words such as "believe", "expect", "anticipate", "plan", "intend", "estimate", "may", "will", "would", "could", "should" or other similar expressions. Additionally, all statements in this document, including forward-looking statements, speak only as of the date they are made, and Heartland undertakes no obligation to update any statement in light of new information or future events.

Heartland's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. The factors which could have a material adverse effect on the operations and future prospects of Heartland and its subsidiaries are detailed in the "Risk Factors" section included under Item 1A. of Part I of this Form 10-K. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

ITEM 1. BUSINESS

A. GENERAL DESCRIPTION

Heartland Financial USA, Inc. (individually referred to herein as "Parent Company" and together with all of its subsidiaries and affiliates, collectively referred to herein as "Heartland," "we," "us," or "our") is a multi-bank holding company registered under the Bank Holding Company Act of 1956, as amended (the "BHCA") that was originally formed in the state of Iowa in 1981 and reincorporated in the State of Delaware in 1993. Heartland's headquarters are located at 1398 Central Avenue, Dubuque, Iowa. Our website address is www.htlf.com. You can access, free of charge, our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K, our quarterly reports on Form 10-Q, current reports on Form 8-K and any other amendments to those reports, at our website under the Investor Relations tab, or at the Commission's website at www.sec.gov. Proxy materials for our upcoming 2014 Annual Shareholders Meeting to be held on May 21, 2014, will be available electronically via a link on our website at www.htlf.com.

At December 31, 2013, Heartland had total assets of $5.92 billion, total loans of $3.50 billion and total deposits of $4.67 billion. Heartland's total capital as of December 31, 2013, was $439.5 million. Net income available to common stockholders for 2013 was $35.7 million.

Heartland conducts its community banking business through ten bank subsidiaries in the states of Iowa, Illinois, Wisconsin, New Mexico, Arizona, Montana, Colorado, Minnesota, Missouri and Kansas (collectively, the "Bank Subsidiaries"). All Bank Subsidiaries are members of the Federal Deposit Insurance Corporation (the "FDIC"). Listed below are our Bank Subsidiaries, which operate a total of 80 banking locations:

- Dubuque Bank and Trust Company, Dubuque, Iowa, is chartered under the laws of the state of Iowa.
- Galena State Bank & Trust Co., Galena, Illinois, is chartered under the laws of the state of Illinois.
- Riverside Community Bank, Rockford, Illinois, is chartered under the laws of the state of Illinois.
- Wisconsin Bank & Trust (formerly known as Wisconsin Community Bank), Madison, Wisconsin, is chartered under the laws of the state of Wisconsin.

- New Mexico Bank & Trust, Albuquerque, New Mexico, is chartered under the laws of the state of New Mexico.
- Rocky Mountain Bank, Billings, Montana, is chartered under the laws of the state of Montana.
- Arizona Bank & Trust, Phoenix, Arizona, is chartered under the laws of the state of Arizona.
- Summit Bank & Trust, Broomfield, Colorado, is chartered under the laws of the state of Colorado.
- Minnesota Bank & Trust, Edina, Minnesota, is chartered under the laws of the state of Minnesota.
- Morrill & Janes Bank and Trust Company, Merriam, Kansas, is chartered under the laws of the state of Kansas.

Dubuque Bank and Trust Company also has two wholly-owned non-bank subsidiaries:

- DB&T Insurance, Inc., a multi-line insurance agency.
- DB&T Community Development Corp., a community development company with a primary purpose of partnering in low-income housing and historic rehabilitation projects.

Heartland has two active non-bank subsidiaries as listed below:

- Citizens Finance Parent Co. is a consumer finance company with two wholly-owned subsidiaries:
  Citizens Finance Co., a consumer finance company with offices in Iowa and Wisconsin.
  Citizens Finance of Illinois Co., a consumer finance company with offices in Illinois.
- Heartland Community Development Inc., a property management company with a primary purpose of holding and managing certain nonperforming assets acquired from the Bank Subsidiaries.

In addition, Heartland has issued trust preferred securities through seven special purpose trust subsidiaries formed for the purpose of offering the cumulative capital securities, including 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 & Janes Statutory Trust I, and Morrill & Janes Statutory Trust II.

All of Heartland’s subsidiaries are wholly owned as of December 31, 2013. Heartland repurchased all minority shares of Minnesota Bank & Trust on April 15, 2013. Prior to April 15, 2013, Heartland owned 80% of the capital stock.

The principal business of our Bank Subsidiaries consists of making loans to and accepting deposits from businesses and individuals. Our Bank Subsidiaries provide full service commercial and retail banking in their communities. Both our loans and our deposits are generated primarily through strong banking and community relationships, and through management that is locally active. Our lending and investment activities are funded primarily by core deposits. This stable source of funding is achieved by developing strong banking relationships with customers through value-added product offerings, market pricing, convenience and high-touch service. Deposit products, which are insured by the FDIC to the full extent permitted by law, include checking and other demand deposit accounts, NOW accounts, savings accounts, money market accounts, certificates of deposit, individual retirement accounts, health savings accounts and other time deposits. Loans include commercial and industrial, small business, agricultural, real estate mortgage, consumer, home equity, and lines of credit.

We supplement the local services of our Bank Subsidiaries with a full complement of ancillary services, including trust and wealth management services, investment services and insurance services. We provide convenient electronic banking services and client access to account information through business and personal online banking, mobile banking, bill payment, remote deposit capture, treasury management services, VISA debit cards and automated teller machines.

Operating Strategy

Heartland’s operating strategy is to maximize the benefits of a commercial banking model by:

1. Creating strong community ties through local bank delivery.

- Deeply rooted local leadership and boards
- Local community knowledge and relationships
- Local decision-making
- Independent charters
- Locally recognized brands
- Commitment to an exceptional customer experience

2. Providing extensive resources to increase revenue.

- Full range of commercial products, including government guaranteed lending and treasury management services
- Convenient and competitive retail products and services
- Residential mortgage origination
- Extensive menu of wealth management, investment services, insurance, leasing and consumer finance
- Unique approach to consultative relationship building
- Assistance with management of funding costs

3. Centralizing back-office operations for efficiency.

- Leverage expertise across all Bank Subsidiaries
- Leading edge technology for account processing and delivery systems
- Efficient back-office support for loan processing and deposit operations

- Centralized loan underwriting and collections
- Centralized loss management and risk analysis

We believe the personal and professional service offered to customers provides an appealing alternative to the "megabanks" resulting from mergers and acquisitions in the financial services industry. While we employ a community banking philosophy, we believe our size, combined with our complete line of financial products and services, is sufficient to effectively compete in our respective market areas. To remain price competitive, we also believe that we must manage expenses and gain economies of scale by centralizing back office support functions. Although each of our Bank Subsidiaries operates under the direction of its own board of directors, we have standard operating policies regarding asset/liability management, liquidity management, investment management, lending and deposit structure management.

Another component of our operating strategy is to encourage all directors, officers and employees to maintain a strong ownership interest in Heartland. We have established ownership guidelines for our directors and executive management and have made an employee stock purchase plan available to employees since 1996.

We maintain a strong community commitment by supporting the active participation of our employees, officers and board members in local charitable, civic, school, religious and community development activities.

Acquisition and Expansion Strategy

Our primary strategies are to increase profitability and diversify our market area and asset base by expanding existing subsidiaries through acquisitions and to grow organically by increasing our customer base in the markets we serve. In the current environment, we are seeking opportunities for growth through acquisitions. Although we are focused on opportunities in our existing and adjacent markets, we would consider an acquisition in a new market if it fit our business model and would be accretive to earnings within the first year. We typically consider acquisitions of established financial services organizations, primarily commercial banks or thrifts. We have also formed de novo banking institutions in locations determined to have market potential and management with banking expertise and a philosophy similar to our own.

In recent years, we have focused on markets with growth potential in the Midwestern and Western regions of the United States with a strategic goal to expand our presence in Western markets to 50% of total assets, thereby balancing the growth in our Western markets with the stability of our Midwestern markets. As of December 31, 2013, Heartland had approximately 35% of its assets in Western markets.

In August 2003, Heartland and a group of investors opened Arizona Bank & Trust, a de novo banking operation. In 2006, Arizona Bank & Trust expanded by acquiring Bank of the Southwest, a financial institution providing retail and commercial banking services in Phoenix and Tempe, Arizona. In December 2012, Heartland acquired Heritage Bank, N.A., a Phoenix-based commercial bank and subsidiary of Ameri-National Corporation of Overland Park, Kansas, which was merged into Arizona Bank & Trust in March 2013.

In June 2004, we acquired Rocky Mountain Bancorporation, Inc., the one-bank holding company of Rocky Mountain Bank. Headquartered in Billings, Montana, Rocky Mountain Bank has banking locations throughout the state.

In November 2006, we opened Summit Bank & Trust, a de novo banking operation in Broomfield, Colorado. In 2007, Summit Bank & Trust opened two additional branch locations.

In April 2008, we opened Minnesota Bank & Trust in Edina, Minnesota. The capital structure of Minnesota Bank & Trust was very similar to that used with our other de novo banks. Heartland provided 80% of the $16.5 million initial capital and the remaining 20% was provided by a group of local investors. In April 2013, Heartland acquired the 20% minority interest.

In July 2009, Galena State Bank & Trust Co. acquired the deposits of The Elizabeth State Bank in Elizabeth, Illinois in a whole bank with loss sharing transaction facilitated by the FDIC. In addition to assuming all of the deposits of the failed bank, Galena State Bank & Trust Co. purchased $53.6 million of assets.

In July 2012, Dubuque Bank and Trust Company purchased three retail banking offices from Liberty Bank, FSB in its Dubuque, Iowa market. The transaction included deposits of $53.8 million, loans of $9.4 million and certain other assets.

In November 2012, Heartland acquired First Shares Inc., parent company of First National Bank of Platteville in Platteville, Wisconsin. The transaction included assets of $128.0 million, loans of $84.9 million and deposits of $114.2 million. Simultaneous with closing of the transaction, First National Bank was merged into Heartland's Wisconsin Bank & Trust subsidiary. The merger added three communities in southwestern Wisconsin to the bank's service area.

In October 2013, Heartland acquired Morrill Bancshares, Inc., parent company of Morrill & Janes Bank and Trust Company, in Merriam, Kansas. The transaction included assets at fair value of approximately $810.8 million, loans of approximately $377.7 million, and deposits of approximately $665.3 million. The merger added two states to our footprint.

In November 2013, Dubuque Bank & Trust Company acquired Freedom Bank from River Valley Bancorp, Inc., in its Sterling, Illinois market. Freedom Bank, with assets of $67.1 million has three retail branch locations in Whiteside and Mercer Counties in Illinois. Freedom Bank operated independently as a subsidiary of Dubuque Bank and Trust Company until March 2014 when it was merged into Riverside Community Bank.

Primary Business Segments

General
The Bank Subsidiaries provide a wide range of commercial and consumer banking services to businesses and individuals. These activities include credit and deposit products along with investment management, trust, retirement plan services, and brokerage and investment services.

Our bankers actively solicit the business of new companies entering their market areas as well as established members of the Bank Subsidiaries' respective business communities. We believe that our Bank Subsidiaries are successful in attracting new customers in their markets through professional service, competitive pricing, innovative structures, convenient locations and proactive communications.

Commercial Banking
The Bank Subsidiaries have a strong commercial loan base generated primarily through contacts and relationships in the communities they serve. The current portfolios of the Bank Subsidiaries reflect the businesses in those communities and include 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.

Closely integrated with our credit programs is a significant emphasis on treasury management services that expedite our business clients' ability to monitor, accumulate and disburse funds efficiently. A major feature of our electronic banking services is fraud detection and protection.

Many of the businesses in the communities we serve are small to mid-sized businesses, and commercial lending to small businesses has been, and continues to be, an emphasis for our Bank Subsidiaries. Wisconsin Bank & Trust, Rocky Mountain Bank and New Mexico Bank & Trust are each designated as a Preferred Lender by the U.S. Small Business Administration (SBA). Wisconsin Bank & Trust is designated as an SBA Certified Lender, and five of our banks are designated as SBA Express Lenders. These banks are Dubuque Bank and Trust Company, Riverside Community Bank, Wisconsin Bank & Trust, Minnesota Bank & Trust and Morrill & Janes Bank and Trust Company. Additionally, Wisconsin Bank & Trust has been granted USDA Certified Lender status for the USDA Rural Development Business and Industry loan program. We believe that these guaranteed loans help the communities in which we operate and provide us with a source of income and solid future lending relationships with local businesses as they grow and prosper.

Our 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. We value the collateral for most of these loans and leases based upon its liquidation value and require personal guarantees in most instances. 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.

In 2012, Heartland announced that we had teamed with BluePath Finance LLC to provide upfront financing for the installation of energy-efficient building products used by commercial and industrial companies, as well as the non-profit and public sectors. We believe our relationship with BluePath can help our customers become more energy efficient. BluePath can provide the financial model to accomplish this and help companies realize a bottom-line benefit by reducing costs and increasing profits.

In order to limit underwriting risk, we attempt to ensure that all loan personnel are well trained. We use the RMA Diagnostic Assessment in assessing the credit skills and training needs for our credit personnel and have developed specific individualized training. All new lending personnel are expected to complete a similar diagnostic training program. We assist all of the commercial and agricultural lenders of our Bank Subsidiaries in the analysis and underwriting of credit through centralized staff in the credit administration department.

Although the lending personnel of our Bank Subsidiaries report to their respective board of directors each month, we use an internal loan review function to analyze credits of our Bank Subsidiaries and provide periodic reports to those boards of directors. We have attempted to identify problem loans at an early date and to aggressively seek resolution of these situations.

The downturn in the overall economy that negatively impacted our overall asset quality between 2008 and 2011 resulted in the formation of an internal Special Assets group to focus on resolving problem assets. All commercial or agricultural loans in a default or workout status are assigned to the Special Assets group. Special Assets personnel are also responsible for marketing repossessed properties and meet with representatives from each bank on a monthly basis.

Small Business Banking
In 2013, Heartland established a Small Business Lending Center dedicated to serving the credit needs of small businesses with annual sales generally under $5 million. The Center is designed to provide quick turnaround on customer credit requests on a wide variety of credit products. We are of the belief that this is an underserved market segment and see additional opportunity in serving this market with deposit and electronic banking services as well as wealth management and brokerage services. Most of the Bank Subsidiaries have added business bankers to serve the distinct banking needs of this customer segment.

Agricultural Loans
Agricultural loans are emphasized by those Bank Subsidiaries with operations in and around rural markets, including Dubuque Bank and Trust Company, Rocky Mountain Bank, Wisconsin Bank & Trust’s Monroe and Platteville banking centers, New Mexico Bank & Trust’s Clovis banking offices and the Morrill & Janes Bank & Trust Company's northeast Kansas banking offices. Dubuque Bank and Trust Company is one of the largest agricultural lenders in the State of Iowa. Agricultural loans constituted approximately 11% of our total loan portfolio at December 31, 2013. Dubuque Bank and Trust Company, Wisconsin Bank & Trust and Morrill & Janes Bank and Trust Company are designated Preferred Lenders by the USDA Farm Service Agency (FSA). In making agricultural loans, we have policies designating a primary lending area for each Bank Subsidiary, in which a majority of its agricultural operating and real estate loans are made. Under this policy, loans in a secondary market area must be secured by real estate.

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, the lending personnel of our Bank Subsidiaries 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. The Bank Subsidiaries also work closely with governmental agencies, including the Farm Services Agency, to help agricultural customers obtain credit enhancement products such as loan guarantees or interest assistance.

Residential Real Estate Mortgage Lending
Mortgage lending remains a focal point for Heartland as we continue to build our residential real estate lending business. As long-term interest rates have remained at relatively low levels during the past several years, many

customers elected mortgage loans that are fixed rate with fifteen- or thirty-year maturities. We usually sell these loans into the secondary market and retain servicing. We believe that mortgage servicing on sold loans provides a relatively steady source of fee income compared to fees generated solely from mortgage origination operations. Moreover, the retention of servicing provides an opportunity to maintain ongoing contact with borrowers and cross-sell a wide variety of additional services like checking, savings, consumer loans, wealth management and investment products. At December 31, 2013, total residential real estate mortgage loans serviced for others totaled $3.05 billion.

As with agricultural and commercial loans, we encourage participation in lending programs sponsored by U.S. government agencies when justified by market conditions. Loans insured or guaranteed under programs through the Veterans Administration (the "VA") and the Federal Home Administration (the "FHA") are offered at all of the Bank Subsidiaries.

Late in 2010, we announced a significant enhancement to our residential mortgage lending capabilities with the creation of a mortgage lending unit in the Phoenix, Arizona market. Our mortgage unit now provides residential mortgage lending services at all Bank Subsidiaries and operating under the brand, National Residential Mortgage, serves the non-Heartland markets of metro San Diego, California; Reno, Nevada; Buffalo, Wyoming; Meridian, Idaho; Minot, North Dakota; Portland, Oregon; Seattle, Washington; and Omaha, Nebraska. Administrative and back office support for these operations is performed by "Heartland Mortgage," a division of our lead bank, Dubuque Bank and Trust Company.

Dubuque Bank and Trust Company received approval in 2012 to be a Ginnie Mae (GNMA) issuer for the GNMA I and II single-family mortgage-backed securities program. The approval allows Dubuque Bank and Trust Company to pool and securitize Federal Housing Administration (FHA) loans, Department of Veterans Affairs loans, and Department of Agriculture's Rural Development loans, and provides an avenue for increasing growth by adding these loans to the servicing portfolio.

Retail Banking

A wide variety of retail banking services are delivered through our 80 banking centers. Services include transaction, savings, money market accounts, certificates of deposit, IRAs and HSAs. Brokerage services, including fixed rate annuity products are also provided in many locations. Consumer lending services of our Bank Subsidiaries include a broad array of consumer loans, including motor vehicle, home improvement, home equity line of credit (HELOC), fixed rate home equity and personal lines of credit. 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.

Our consumer finance subsidiary, Citizens Finance Parent Co., specializes in consumer lending and currently serves the consumer credit needs of over 11,000 customers from twelve locations in Iowa, Illinois and Wisconsin. Citizens Finance Parent Co. typically lends to borrowers with past credit problems or limited credit histories. Heartland expects to incur a higher level of credit losses on Citizens Finance Parent Co. loans compared to consumer loans originated by the Bank Subsidiaries. Correspondingly, returns on these loans are anticipated to be higher than those at the Bank Subsidiaries.

Wealth Management and Retirement Plan Services

Dubuque Bank and Trust Company, Galena State Bank & Trust Co., Riverside Community Bank, Wisconsin Bank & Trust, New Mexico Bank & Trust, Arizona Bank & Trust, Minnesota Bank & Trust, and Morrill & Janes Bank and Trust Company offer trust and investment services in their respective communities. In those markets that do not yet warrant a full trust department, the sales and administration is performed by Dubuque Bank and Trust Company personnel. As of December 31, 2013, total Heartland trust assets were $1.8 billion, $1.6 billion of which were assets under management. Collectively, the Bank Subsidiaries provide a full complement of trust and investment services for individuals and corporations. Heartland also specializes in Retirement Plan Services, offering business clients customized 401(k), 403(b), and Profit Sharing plans.

Heartland has formed a strategic alliance with LPL Financial Institution Services, a division of LPL Financial, to operate independent securities offices at all of the Bank Subsidiaries. Through LPL Financial, Heartland offers a full array of investment services including mutual funds, annuities, retirement products, education savings products, brokerage services, employer sponsored plans and insurance products. A complete line of vehicle, property and casualty, life and disability insurance is also offered by Heartland through DB&T Insurance.

B. MARKET AREAS

Dubuque Bank and Trust Company

Dubuque Bank and Trust Company is primarily located in Dubuque County, Iowa, which encompasses the city of Dubuque and a number of surrounding rural communities. The city of Dubuque is located in northeastern Iowa, on the

Mississippi River, approximately 175 miles west of Chicago, Illinois, and approximately 200 miles northeast of Des Moines, Iowa. It is strategically situated at the intersection of the state borders of Iowa, Illinois and Wisconsin. Based upon the results of the 2010 census, the city of Dubuque had a total population of 57,637 and Dubuque County had a total population of 93,653.

The principal office of Heartland and Dubuque Bank and Trust Company’s main office currently occupy the same building. Heartland’s operations center is located directly across the street from Dubuque Bank and Trust Company’s main office. A second leased location in downtown Dubuque is occupied by Heartland's credit administration function and Dubuque Bank and Trust Company's mortgage servicing operations. In addition to its main banking office, Dubuque Bank and Trust Company operates eight branch offices in Dubuque County, two branch offices in Keokuk, Iowa, one branch office in Carthage, Illinois and one branch office in East Dubuque, Illinois. In June 2011, Heartland combined its First Community Bank charter with its Dubuque Bank and Trust Company charter. The consolidation of charters was designed to realize efficiencies in operating costs, audits, regulatory examinations and insurance premiums. The First Community Bank offices located in Keokuk and Carthage serve customers in the tri-county region of Lee County, Iowa; Hancock County, Illinois; and Clark County, Missouri. According to the 2010 census, the population of Keokuk, primarily an industrial community, is 10,780 and the population of

Lee County is 35,862. In November 2013, Dubuque Bank and Trust Company acquired Freedom Bank of Sterling, Illinois. In March 2014, Dubuque Bank and Trust Company transferred the shares of Freedom Bank to Heartland by dividend and Freedom Bank was simultaneously merged into Riverside Community Bank.

As a subsidiary of Dubuque Bank and Trust Company, DB&T Insurance has substantially the same market area as its parent organization.

The administrative and back office support for National Residential Mortgage, the brand name used for residential mortgage lending services at our non-footprint locations, operates as a division of Dubuque Bank and Trust Company from an office facility in Scottsdale, Arizona. In 2013, additional satellite offices were opened in Greenwood Village, Colorado and Edina, Minnesota.

Dubuque Bank and Trust Company also operates residential mortgage loan production offices, under the National Residential Mortgage brand name, in metro San Diego, California; Reno and Carson City, Nevada; Portland, Oregon; Seattle, Washington; and Omaha, Nebraska.

Galena State Bank & Trust Co.
Galena State Bank & Trust Co.'s main office is in Galena, Illinois, approximately 20 miles east of Dubuque and 155 miles west of Chicago. Galena State Bank & Trust Co. also operates a second office in Galena, Illinois, an office in Stockton, Illinois, and an office in Elizabeth, Illinois. The four banking offices are located in Jo Daviess County, which has a population of 22,678, according to the 2010 census.

Riverside Community Bank
Riverside Community Bank is located on the northeast edge of Rockford, Illinois, which is approximately 75 miles west of Chicago in Winnebago County. In addition to its main banking office, Riverside Community Bank has three branch offices, all of which are located in the Winnebago County area. Based on the 2010 census, the county had a population of 295,266, and the city of Rockford had a population of 152,871. Effective on March 7, 2014, Freedom Bank was merged into Riverside Community Bank, and its three offices in Sterling, Rock Falls and Seaton, Illinois, became branches of Riverside Community Bank.

Wisconsin Bank & Trust
Wisconsin Bank & Trust’s main office is located in Madison, Wisconsin, in Dane County. The bank operates three branch offices in the Madison suburbs, one branch office in Monroe, Wisconsin, and three branch offices in southwestern Wisconsin in Platteville, Lancaster and Hazel Green. Based on the 2010 census, the Madison Metropolitan Statistical Area has a population of 568,593, and the population of the City of Madison is 233,209. The city of Monroe is approximately 50 miles southwest of Madison in Green County. Wisconsin Bank & Trust has two additional banking offices in the cities of Sheboygan and De Pere, which are located in the northeastern Wisconsin counties of Sheboygan and Brown, respectively. The bank operates three residential mortgage loan production offices in the Wisconsin cities of Green Bay, Madison and Milwaukee.

New Mexico Bank & Trust
New Mexico Bank & Trust operates nine banking offices in or around Albuquerque, New Mexico, three offices in and around Clovis, New Mexico, and two offices in Santa Fe, New Mexico. Located in Bernalillo County, the Albuquerque Metropolitan Statistical Area has a 2010 population of 907,775 and the City of Albuquerque has a 2010 population of 545,852. Clovis, the county seat for Curry County, is located approximately 220 miles east of Albuquerque, 100 miles northwest of Lubbock, Texas, and 105 miles southwest of Amarillo, Texas, and has a population of 37,775. Santa Fe, located in Santa Fe County, has a population of 67,947. New Mexico Bank & Trust operates residential mortgage loan production offices in Albuquerque and Clovis.

Arizona Bank & Trust

Arizona Bank & Trust currently operates seven offices, including one in Phoenix, one in Mesa, one in Tempe, two in Chandler, one in Gilbert and one in Scottsdale. These cities are all located in the Phoenix metropolitan area within Maricopa County. Based on the 2010 Census, the Phoenix metro area is the 14th largest metro area by population in the United States with approximately 4.2 million people. Arizona Bank & Trust operates one residential mortgage loan production office in Scottsdale.

Rocky Mountain Bank

Rocky Mountain Bank operates from ten banking locations throughout the State of Montana. Rocky Mountain Bank's main office and two additional branch offices operate in Billings, which is the state's largest city and an agricultural, retail and business center. Billings is also the county seat of Yellowstone County, which has a 2010 Census population of 147,972 and the city has a population of 104,170. The bank has one banking office in northeastern Montana in the city of Plentywood. Its remaining six banking offices are spread throughout the western corridor of Montana in the cities of Bozeman, Bigfork, Kalispell, Plains, Stevensville and Whitehall. Rocky Mountain Bank operates residential mortgage loan production offices in Buffalo, Wyoming; Meridian, Idaho; and the Montana cities of Missoula, Whitefish, Great Falls and Libby.

Summit Bank & Trust
The main facility for Summit Bank & Trust is located in Broomfield, Colorado. The city and county of Broomfield are located in the northwestern tier of the Denver-Aurora Metropolitan Area. The population of Broomfield, according to the 2010 Census, is 55,889. Broomfield is the sixteenth most populous city in the State of Colorado. A second banking location was opened in June of 2007 in Thornton, just west of the Denver International Airport and a third banking location was added in October of 2007 in Erie, Colorado, which is approximately 25 miles north of Denver. Summit Bank & Trust operates residential mortgage loan production offices in Denver and Greenwood Village, Colorado.

Minnesota Bank & Trust
Minnesota Bank & Trust currently operates from a leased facility in Edina, Minnesota, a first-tier suburb of Minneapolis. The population of Edina was 47,941 in 2010 according to the U.S. Census Bureau. Minnesota Bank & Trust operates a residential mortgage loan production office in Minot, North Dakota and two additional offices in metro Minneapolis.

Morrill & Janes Bank and Trust Company
Morrill & Janes Bank and Trust Company operates 11 banking locations in the greater Kansas City and northeast Kansas markets. Morrill & Janes Bank and Trust Company is headquartered in Merriam, Kansas in the southwestern tier of the Kansas City Metropolitan Area. According to the 2010 Census, the population of Merriam is 11,003 and the population of the Kansas City metro area is approximately 2.0 million people.

Citizens Finance Parent Co.
Citizens Finance Parent Co. is headquartered in Dubuque, Iowa. Its two subsidiary companies have offices in Dubuque, Davenport and Cedar Rapids, Iowa; Madison, Appleton, and Milwaukee, Wisconsin; and the Illinois cities of Loves Park, Tinley Park, Crystal Lake, Elgin, Aurora and Peoria.

The following table sets forth certain information concerning the Bank Subsidiaries as of December 31, 2013, dollars in thousands:

Bank Subsidiaries	Charter Location	Year Acquired or Opened	Number Of Bank Offices	Total Portfolio Loans	Total Deposits
Dubuque Bank and Trust Company(1)	Dubuque, IA	1935	16	$915,377	$1,116,154
Galena State Bank & Trust Co.	Galena, IL	1992	4	$183,639	$244,505
Riverside Community Bank	Rockford, IL	1995	4	$186,739	$353,046
Wisconsin Bank & Trust	Madison, WI	1997	10	$459,594	$531,371
New Mexico Bank & Trust	Albuquerque, NM	1998	14	$529,808	$765,572
Arizona Bank & Trust	Phoenix, AZ	2003	7	$329,211	$368,059
Rocky Mountain Bank	Billings, MT	2004	10	$316,702	$380,011
Summit Bank & Trust	Broomfield, CO	2006	3	$73,150	$101,447
Minnesota Bank & Trust	Edina, MN	2008	1	$101,491	$154,812
Morrill & Janes Bank and Trust Company	Merriam, KS	2013	11	$384,685	$692,038

(1) Includes the three branch offices, $37,616 portfolio loans and $52,089 deposits of Freedom Bank, which was subsequently merged into Riverside Community Bank in March 2014.

C. COMPETITION

We encounter competition in all areas of our business. To compete effectively, develop our market base, maintain flexibility, and keep pace with changing economic and social conditions, we continuously refine and develop our products and services. The principal methods of competing in the financial services industry are through product selection, personal service and convenience.

The market areas of our Bank Subsidiaries are highly competitive. Many financial institutions based in the communities surrounding the Bank Subsidiaries actively compete for customers within our market area. We also face competition from finance companies, insurance companies, mortgage companies, securities brokerage firms, money market funds, loan production offices and other providers of financial services. Under the Gramm-Leach-Bliley Act, effective in 2000, securities firms and insurance companies that elect to become financial holding companies may acquire banks and other financial institutions. The Gramm-Leach-Bliley Act significantly changed, and we anticipate the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") will further change, when fully implemented, the competitive environment in which we operate. The financial services industry is also likely to become more competitive as technological advances enable more companies to provide financial services. These technological advances may diminish the importance of depository institutions and other financial intermediaries in the transfer of funds between parties.

We compete for loans principally through the range and quality of the services we provide, with an emphasis on building long-lasting relationships. Our strategy is to serve our customers above and beyond their expectations through excellence in customer service and needs-based selling. We believe that our long-standing presence in the communities we serve and the personal service we emphasize enhance our ability to compete favorably in attracting and retaining individual and business customers. We actively solicit deposit-oriented clients and compete for deposits by offering personal attention, combined with electronic banking convenience, professional service and competitive interest rates.

D. EMPLOYEES

At December 31, 2013, Heartland employed 1,676 full-time equivalent employees. We place a high priority on staff development, which involves extensive training in a variety of areas, including customer service training. New employees are selected based upon their technical skills and customer service capabilities. None of our employees are covered by a collective bargaining agreement. The Predictive Index® system is utilized to assist with placing potential employees in new positions and with evaluating current positions. We offer a variety of employee benefits, and we consider our employee relations to be excellent.

E. INTERNET ACCESS

Heartland maintains an Investor Relations website at www.htlf.com. We offer our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and other reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") free of charge from our website.

F. SUPERVISION AND REGULATION

General

Financial institutions, their holding companies, and their affiliates are extensively regulated under federal and state law. As a result, the growth and earnings performance of Heartland may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory authorities.

As a bank holding company with subsidiary banks chartered under the laws of nine different states, Heartland is regulated by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). Each of the Bank Subsidiaries is regulated by the FDIC as its principal federal regulator and one of the following as its state regulator: the Arizona State Banking Department (the "Arizona Department"), the Colorado Department of Regulatory Agencies, Division of Banking (the "Colorado Division"), the Illinois Department of Financial and Professional Regulation (the "Illinois DFPR"), the Iowa Superintendent of Banking (the "Iowa Superintendent"), the State Bank

Commissioner of Kansas Division of Banking (the "Kansas Division"), the Minnesota Department of Commerce: Division of Financial Institutions (the "Minnesota Division"), the Montana Division of Banking and Financial Institutions (the "Montana Division"), the New Mexico Financial Institutions Division (the "New Mexico FID"), the Division of Banking of the Wisconsin Department of Financial Institutions (the "Wisconsin DFI").

Heartland also operates a consumer finance company, Citizens Finance Parent Co., with state licenses in Iowa, Illinois and Wisconsin and as such is subject to regulation by the state banking authorities for those states. Further, the Dodd-Frank Act created the Bureau of Consumer Financial Protection (the "CFPB"), which has supervisory authority over banks with assets of more than $10 billion and over nonbank entities that provide consumer financial services and products. The CFPB has supervisory authority over Heartland's consumer finance subsidiary, and rulemaking authority for federal laws covering the consumer financial services and products offered by all Heartland subsidiaries.

As a recipient of Capital Purchase Program (the "CPP") funds under the Troubled Asset Relief Program (the "TARP") established by the Emergency Economic Stabilization Act of 2008 (the "EESA") until September 15, 2011, and a participant in the Small Business Lending Fund (the "SBLF") established by the Small Business Jobs Act of 2010, Heartland is also subject to direct supervision by the United States Department of the Treasury (the "U.S. Treasury").

Federal and state laws and regulations generally applicable to financial institutions regulate, among other things, the scope of business, the kinds and amounts of investments, reserve requirements, capital levels, the establishment of branches, mergers and consolidations and the payment of dividends. This system of supervision and regulation establishes a comprehensive framework for the respective operations of Heartland and its subsidiaries and is intended primarily for the protection of the FDIC-insured deposits and depositors of the Bank Subsidiaries, rather than stockholders.

The following is a summary of material elements of the regulatory framework that applies to Heartland and its subsidiaries. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. As such, the following is qualified in its entirety by reference to applicable law. Significant changes in the regulation of banks and bank holding companies have occurred since the adoption of the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010 (the “Dodd-Frank Act”). Among other things, the Dodd-Frank Act created the CFPB and provided the CFPB with broad authority to regulate consumer financial products and services; reduced interchange fees on debit card transactions, revised the deposit insurance limits and assessment base for assessing deposits, and directed the banking agencies to adopt rules regulating proprietary trading, risk retention on mortgage originations, and compensation practices with mortgage originators. The CFPB has examination and enforcement authority over all banks with more than $10 billion in assets. Banks with $10 billion or less in assets will continue to be examined for compliance with the consumer laws and regulations of the CFPB by their primary bank regulators. Heartland does not currently have assets in excess of $10 billion, but it may at some point in the future. Although many of these regulations are described below, the federal agencies that regulate Heartland and its Bank Subsidiaries are required to adopt other regulations under the Dodd-Frank Act. Any change in regulations or regulatory policies, or further change in applicable law, may have a material effect on the business of Heartland and its subsidiaries.

Heartland

General

Heartland, as the sole shareholder of Dubuque Bank and Trust Company, New Mexico Bank & Trust, Rocky Mountain Bank, Wisconsin Bank & Trust, Galena State Bank & Trust Co., Riverside Community Bank, Arizona Bank & Trust, Summit Bank & Trust, Minnesota Bank & Trust, and Morrill & Janes Bank and Trust Company, is a bank holding company. As a bank holding company, Heartland is registered with, and is subject to regulation by, the Federal Reserve under the Bank Holding Company Act ("BHCA"). In accordance with Federal Reserve policy, Heartland is expected to act as a source of financial and managerial strength to the Bank Subsidiaries and to commit resources to support the Bank Subsidiaries in circumstances where Heartland might not otherwise do so. In addition, under the Dodd-Frank Act, the FDIC has backup enforcement authority over a depository institution holding company, such as Heartland, if the conduct or threatened conduct of the holding company poses a risk to the Deposit Insurance Fund, although such authority may not be used if the holding company is in sound condition and does not pose a foreseeable and material risk to the insurance fund.

Under the BHCA, Heartland is subject to periodic examination by the Federal Reserve. Heartland is also required to file with the Federal Reserve periodic reports of Heartland's operations and such additional information regarding Heartland and its subsidiaries as the Federal Reserve may require.

Acquisitions, Activities and Change in Control

The primary purpose of a bank holding company is to control and manage banks. The BHCA generally requires the prior approval of the Federal Reserve for any merger involving a bank holding company or any acquisition by a bank holding company. Subject to certain conditions (including certain deposit concentration limits established by the BHCA), the Federal Reserve may allow a bank holding company to acquire banks located in any State of the United States. In approving interstate acquisitions, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its insured depository institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state depository institutions or their holding companies).

The BHCA generally prohibits Heartland from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank and from engaging in any business other than that of banking, managing and controlling banks, or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve to be "so closely related to banking ... as to be a proper incident thereto." This authority would permit Heartland to engage in a variety of banking-related businesses, including consumer finance, equipment leasing, mortgage banking, brokerage, and the operation of a computer service bureau (including software development). Under the Dodd-Frank Act, however, any such non-bank subsidiary would be subject to regulation no less stringent than that applicable to the lead bank of the bank holding company. The BHCA generally does not place territorial restrictions on the domestic activities of non-bank subsidiaries of bank holding companies.

Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities. As of the date of this filing, Heartland has not applied for approval to operate as a financial holding company.

Federal law also prohibits any person or persons acting in concert from acquiring “control” of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator or any other company acquiring “control” without Federal Reserve approval to become a bank holding company. “Control” is conclusively presumed to exist upon the acquisition of 25% or more of the outstanding voting securities of a bank or bank holding company, but may arise at 10% ownership for companies with registered securities, such as Heartland, and under certain other circumstances. Each of the Bank Subsidiaries is generally subject to similar restrictions on changes in control under the law of the state granting its charter.

Capital Requirements
Bank holding companies are required to maintain minimum levels of capital in accordance with Federal Reserve capital adequacy guidelines, separate from and in addition to the capital requirements applicable to subsidiary financial institutions. If a bank holding company is not well-capitalized, it will have difficulty engaging in acquisition transactions and if its capital levels fall below the minimum required levels, a bank holding company, among other things, may be denied approval to acquire or establish additional banks or non-bank businesses.

The Federal Reserve's capital guidelines applicable to bank holding companies, like the regulations applicable to subsidiary banks, require holding companies to comply with both (i) a risk-based requirement expressed as a percentage of total assets weighted according to risk; and (ii) a leverage requirement expressed as a percentage of total assets. Although the amount of capital required for holding companies is generally the same as required for subsidiary banks as described under “The Bank Subsidiaries-Capital Requirements” below, historically the form of capital has differed for holding companies and allowed the inclusion of certain hybrid instruments, such as trust preferred, in Tier 1 capital. Under the Dodd-Frank Act, these distinctions were eliminated for instruments issued after May 19, 2010. Although the distinctions are also phased out for trust preferred issued by larger institutions prior to that date, the trust preferred issued by Heartland, as a holding company with less than $15 billion in assets, are grandfathered as Tier 1 capital by the Dodd-Frank Act.

As described below under the caption “The Bank Subsidiaries-Regulatory Capital,” on July 2, 2013, the Federal Reserve approved revised regulatory capital rules applicable to both banks and bank holding companies that implement revisions recommended by The Basel Committee on Banking Supervision to the Basel capital framework (the “Basel III Rules”). The Basel III rules become effective for Heartland commencing on January 1, 2015, but are phased in through January 1, 2019.

As of December 31, 2013, Heartland had regulatory capital in excess of the Federal Reserve's minimum requirements.

Treasury Regulation
Bank holding companies that received funding under the TARP CPP or the SBLF are subject to direct regulation by the U.S. Treasury. The TARP CPP, created by the U.S. Treasury in 2008, allowed qualifying financial institutions to sell senior preferred stock and common stock warrants to the U.S. Treasury and include the senior preferred stock as Tier 1 capital under the Federal Reserve's capital guidelines. Under this program, in December 2008 Heartland issued

and sold to the U.S. Treasury $81.7 million of its senior preferred stock together with a 10-year warrant to purchase 609,687 shares of Heartland's common stock at $20.10 per share. Although the capital raised through TARP CPP provided Heartland with considerable regulatory flexibility during 2009 and 2010, the regulations that governed institutions that received TARP CPP contained a number of troubling restrictions relating to dividends and on compensation paid to executive officers.

Under the SBLF, and starting in 2011, the U.S. Treasury made available up to $30.0 billion of capital to qualifying banks and allowed certain participants in the TARP CPP to refinance the senior preferred stock issued under the TARP CPP with SBLF funds. Under the SBLF, the U.S. Treasury purchased senior perpetual non-cumulative preferred stock with a liquidation preference of $1,000 per share. Like the preferred stock issued under TARP, the preferred stock issued under the SBLF is non-voting (except in limited circumstances) and qualifies as Tier 1 capital under the Federal Reserve's guidelines.

Heartland applied for and received SBLF Funding on September 15, 2011, issuing 81,698 shares of its Senior Non-Cumulative Perpetual Preferred Stock, Series C (the “Series C Preferred Stock”), to the U.S. Treasury. Heartland simultaneously used the $81.7 million received under the SBLF to redeem the 81,698 shares of senior preferred stock it had issued under the TARP CPP program. As part of this transaction, Heartland recorded a charge of $2.6 million representing the unamortized discount on the TARP senior preferred stock that was redeemed. Further, on September 28, 2011, Heartland repurchased the warrant to purchase 609,687 shares of its common stock that it issued to the U.S. Treasury under the TARP CPP program for $1.8 million.

The Series C Preferred Stock issued under the SBLF requires quarterly dividends payable to the U.S. Treasury initially equal to 5.00% of the liquidation value of the Preferred Stock. The dividend rate payable under the Series C Preferred Stock is subject to reduction during the second to tenth quarters after issuance (through December 31, 2013, for Heartland) based upon increases in Heartland's qualified small business lending ("QSBL") over a baseline amount. Based upon increases in its QSBL through September 30, 2013, the dividend rate payable by Heartland will be fixed at 1.00% through March 15, 2016, but will increase to 9.00% if the SBLF funding has not been repaid by March 16, 2016.

The terms of the Series C Preferred Stock also prohibit Heartland from paying dividends on its common stock, or repurchasing shares, to the extent that, after payment of such dividends or repurchases, Heartland's Tier 1 Capital would be less than $247.7 million. If Heartland fails to declare and pay dividends on the Series C Preferred Stock in a given quarter, then Heartland may not pay dividends on or repurchase any common stock for the next three quarters, except in very limited circumstances. If any Series C Preferred Stock remains outstanding on the tenth 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.

Dividend Payments

In addition to the restrictions imposed under the SBLF, Heartland's ability to pay dividends to its stockholders may be affected by both general corporate law considerations, and policies of the Federal Reserve applicable to bank holding companies. As a Delaware corporation, Heartland is subject to the limitations of the Delaware General Corporation Law (the “DGCL”), which allows Heartland to pay dividends only out of its surplus (as defined and computed in accordance with the provisions of the DGCL) or if Heartland has no such surplus, out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. In addition, policies of the Federal Reserve caution that a bank holding company should not pay cash dividends unless its net income available to common stockholders over the past year has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears consistent with its capital needs, asset quality, and overall financial condition. The Federal Reserve also possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies.

The Bank Subsidiaries

General

All of the Bank Subsidiaries are state chartered, non-member banks, which means that they are all formed under state law and are not members of the Federal Reserve System. As such, each bank is subject to direct regulation by the banking authorities in the State in which it was chartered, as well as by the FDIC as its primary federal regulator.

Dubuque Bank and Trust Company is an Iowa-chartered bank. As an Iowa-chartered bank, Dubuque Bank and Trust Company is subject to the examination, supervision, reporting and enforcement requirements of the Iowa Superintendent, the chartering authority for Iowa banks.

Galena State Bank & Trust Co. and Riverside Community Bank are Illinois-chartered banks. As Illinois-chartered banks, Galena State Bank & Trust Co. and Riverside Community Bank are subject to the examination, supervision, reporting and enforcement requirements of the Illinois DFPR, the chartering authority for Illinois banks.

New Mexico Bank & Trust is a New Mexico-chartered bank. As a New Mexico-chartered bank, New Mexico Bank & Trust is subject to the examination, supervision, reporting and enforcement requirements of the New Mexico FID, the chartering authority for New Mexico banks.

Rocky Mountain Bank is a Montana-chartered bank. As a Montana-chartered bank, Rocky Mountain Bank is subject to the examination, supervision, reporting and enforcement requirements of the Montana Division, the chartering authority for Montana banks.

Wisconsin Bank & Trust is a Wisconsin-chartered bank. As a Wisconsin-chartered bank, Wisconsin Bank & Trust is subject to the examination, supervision, reporting and enforcement requirements of the Wisconsin DFI, the chartering authority for Wisconsin banks.

Summit Bank & Trust is a Colorado-chartered bank. As a Colorado-chartered bank, Summit Bank & Trust is subject to the examination, supervision, reporting and enforcement requirements of the Colorado Division, the chartering authority for Colorado banks.

Arizona Bank & Trust is an Arizona-chartered bank. As an Arizona-chartered bank, Arizona Bank & Trust is subject to the examination, supervision, reporting and enforcement requirements of the Arizona Department, the chartering authority for Arizona banks.

Minnesota Bank & Trust is a Minnesota-chartered bank. As a Minnesota-chartered bank, Minnesota Bank & Trust is subject to the examination, supervision, reporting and enforcement requirements of the Minnesota Division, the chartering authority for Minnesota banks.

Morrill & Janes Bank and Trust Company is a Kansas-chartered bank. As a Kansas-chartered bank, Morrill & Janes Bank and Trust Company is subject to the examination, supervision, reporting and enforcement requirements of the Kansas Division, the chartering authority for Kansas banks.

Deposit Insurance
The FDIC is an independent federal agency that insures the deposits, up to $250,000 per depositor, of federally insured banks and savings institutions and safeguards the safety and soundness of the commercial banking and thrift industries.

As FDIC-insured institutions, the Bank Subsidiaries are required to pay deposit insurance premium assessments to the FDIC based upon a risk-based assessment system. Under this system, each institution is assigned a risk classification based upon its capital levels and the level of supervisory concern it poses. The rate of insurance premium the institution pays was based on this risk classification and the amount of its deposits until April 1, 2011. Currently, FDIC insurance assessments are based upon average total consolidated assets minus tangible equity of the insured bank.

The Dodd-Frank Act directed that the minimum deposit insurance fund reserve ratio would increase from 1.15% to 1.35% by September 30, 2020, and the cost of the increase will be borne by depository institutions with assets of $10 billion or more. The Dodd-Frank Act also provides the FDIC with discretion to determine whether to pay rebates to insured depository institutions when its deposit insurance reserves exceed certain thresholds. Previously, the FDIC was required to give rebates to depository institutions equal to the excess once the reserve ratio exceeded 1.50%, and was required to rebate 50% of the excess over 1.35% but not more than 1.50% of insured deposits.

The FDIC established a Temporary Liquidity Guarantee Program on October 23, 2008, under which the FDIC fully guaranteed all non-interest-bearing transaction accounts and all senior unsecured debt of insured depository institutions or their qualified holding companies issued between October 14, 2008, and October 31, 2009. Heartland did not opt out of the program and as such, was assessed ten basis points during the first quarter of 2010 and fifteen basis points for the remainder of 2010 for transaction account balances in excess of $250,000 and, since it did not issue any senior unsecured debt during the designated time period, was not assessed the applicable rate of 75 basis points on the amount of debt issued. The guarantee of non-interest-bearing transaction accounts was twice extended by the FDIC, and under the Dodd-Frank Act was extended to December 31, 2012, and made applicable to all institutions, without further assessment.

In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, an agency of the Federal government established to recapitalize the predecessor to the Savings Association Insurance Fund. During 2012, the assessment rate was 0.0165% of total deposits and during 2013 was .00160 % of total deposits. These assessments will continue until the

Financing Corporation bonds mature in 2019.

Supervisory Assessments

Each of the Bank Subsidiaries is required to pay supervisory assessments to its respective state banking regulator to fund the operations of that agency. In general, the amount of the assessment is calculated on the basis of each institution's total assets. During 2013, the Bank Subsidiaries paid supervisory assessments totaling $659,000.

Capital Requirements

Under current federal regulations, the Bank Subsidiaries are subject to the following minimum capital standards: (i) a leverage requirement consisting of a minimum ratio of Tier 1 capital to total assets (the "Leverage Ratio") of 3.0% for the most highly-rated banks with a minimum requirement of at least 4.0% for all others; and (ii) a risk-based capital requirement consisting of a minimum ratio of Tier 1 capital to total risk-weighted assets (the "Tier1 Risk-Based Capital Ratio") of 4.0% and (iii) a risk-based capital requirement consisting of a minimum ratio of total capital to total risk-weighted assets (the "Total Risk-Based Capital Ratio") of 8.0%. For purposes of these capital standards, Tier 1 capital consists primarily of permanent stockholders' equity less intangible assets (other than certain loan servicing rights and purchased credit card relationships). Total capital consists primarily of Tier 1 capital plus certain other debt and equity instruments that do not qualify as Tier 1 capital and, for Heartland, a portion of its allowance for loan and lease losses.

The Basel III Rules, which will be effective for Heartland and the Bank Subsidiaries on January 1, 2015, will (1) increase the minimum Leverage Ratio to 4.0% for all banks, (2) increase the Tier 1 Risk-Based Capital Ratio to 6.0% on January 1, 2015 and to 8.5% on January 1, 2019, and (3) create a new requirement to maintain a ratio of common equity Tier 1 Capital (“Common Tier1 Capital”) to risk-weighted assets of 4.5% on January 1, 2015, gradually increasing to 7.0% on January 1, 2019. The Basel III Rules require inclusion in Common Tier 1 Capital of the effects of other comprehensive income adjustments, such as gains and losses on securities held to maturity, that are currently excluded from the definition of Tier1 capital, but allow institutions, such as Heartland, to make a one-time election not to include those effects. Further, under the Basel III rules, if an institution grows beyond $15 billion in assets and makes an acquisition, its ability to include trust preferred securities in Tier 1 capital is phased out. Heartland and its subsidiary banks intend to elect not to include the effects of other comprehensive income in Common Tier 1 Capital.

The capital requirements described above are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual institutions. For example, federal regulations provide that additional capital may be required to take adequate account of, among other things, interest rate risk or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. As a de novo bank, Minnesota Bank & Trust is required to maintain higher Tier 1 capital to assets ratios for the first seven years of its operations (through April 2016).

Further, federal law and regulations provide various incentives for financial institutions to maintain regulatory capital at levels in excess of minimum regulatory requirements. For example, a financial institution generally must be “well-capitalized” to engage in acquisitions, and well-capitalized institutions may qualify for exemptions from prior notice or application requirements otherwise applicable to certain types of activities and may qualify for expedited processing of other required notices or applications. Additionally, one of the criteria that determines a bank holding company's eligibility to operate as a financial holding company is a requirement that both the holding company and all of its financial institution subsidiaries be “well-capitalized.” Under current federal regulations, in order to be “well-capitalized” a financial institution must maintain a Total Risk-Based Capital Ratio of 10.0% or greater, a Tier 1 Risk-Based Capital Ratio of 6.0% or greater and a Leverage Ratio of 5.0% or greater. In order to be "well-capitalized" under the new Basel III Rules, a bank or bank holding company will be required to have a Total Risk-Based Capital Ratio of 10.0% or greater, a Tier 1 Risk-Based Capital Ratio of 8.0% or greater, a Leverage Ratio of 5.0% or greater, and a Common Tier 1 Capital Ratio of 6.5% or greater.

Federal law also provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized,” in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: (i) requiring the institution to submit a capital restoration plan; (ii) limiting the institution's asset growth and restricting its activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; (iv) restricting transactions between the institution and its affiliates; (v) restricting the interest rate the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring that senior executive officers or directors be dismissed; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution.

As of December 31, 2013: (i) none of the Bank Subsidiaries was subject to a directive from its primary federal regulator to increase its capital; (ii) each of the Bank Subsidiaries exceeded its minimum regulatory capital requirements under applicable capital adequacy guidelines; (iii) each of the Bank Subsidiaries was "well-capitalized," as defined by applicable regulations; and (iv) each of the Bank Subsidiaries subject to a directive to maintain capital higher than the regulatory capital requirements, as discussed below under "Safety and Soundness Standards," complied with the directive.

Liability of Commonly Controlled Institutions

Under federal law, institutions insured by the FDIC may be liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with the default of commonly controlled FDIC-insured depository institutions or any assistance provided by the FDIC to commonly controlled FDIC-insured depository institutions in danger of default. Because Heartland controls each of the Bank Subsidiaries, the Bank Subsidiaries are commonly controlled for purposes of these provisions of federal law.

Anti-Money Laundering

The Bank Secrecy Act, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “PATRIOT Act”) and other related federal laws and regulations require financial institutions, including the Bank Subsidiaries, to implement policies and procedures relating to anti-money laundering, customer identification and due diligence requirements and the reporting of certain types of transactions and suspicious activity.

Dividend Payments

The primary source of funds for Heartland is dividends from the Bank Subsidiaries. In general, the Bank Subsidiaries may only pay dividends either out of their historical net income after any required transfers to surplus or reserves have been made or out of their retained earnings.

The payment of dividends by any financial institution is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, each of the Bank Subsidiaries exceeded its minimum capital requirements under applicable guidelines as of December 31, 2013. Minnesota Bank & Trust is subject to the FDIC's further prohibition on the payment of dividends during the first seven years of a bank's operations, allowing cash dividends to be paid only from net operating income, and prohibiting the payment of dividends until an appropriate allowance for loan and lease losses has been established and overall capital is adequate.

As of December 31, 2013, approximately $137.0 million was available to be paid as dividends by the Bank Subsidiaries. Notwithstanding the availability of funds for dividends, however, the FDIC may prohibit the payment of any dividends by the Bank Subsidiaries.

Transactions with Affiliates

The Federal Reserve regulates transactions between Heartland and its subsidiaries. Generally, the Federal Reserve Act and Regulation W, as amended by the Dodd-Frank Act, limit Heartland's banking subsidiaries to lending and other “covered transactions” with affiliates. The aggregate amount of covered transactions a banking subsidiary may enter into with an affiliate may not exceed 10% of the capital stock and surplus of the banking subsidiary. The aggregate amount of covered transactions with all affiliates may not exceed 20% of the capital stock and surplus of the banking subsidiary.

Covered transactions with affiliates are also subject to collateralization requirements and must be conducted on arm’s length terms. Covered transactions include (a) a loan or extension of credit by the banking subsidiary, including derivative contracts, (b) a purchase of securities issued to a banking subsidiary, (c) a purchase of assets by the banking subsidiary unless otherwise exempted by the Federal Reserve, (d) acceptance of securities issued by an affiliate to the banking subsidiary as collateral for a loan, and (e) the issuance of a guarantee, acceptance or letter of credit by the banking subsidiary on behalf of an affiliate.

Insider Transactions

The Bank Subsidiaries are subject to certain restrictions imposed by federal law on extensions of credit to Heartland and its subsidiaries, on investments in the stock or other securities of Heartland and its subsidiaries and the acceptance of the stock or other securities of Heartland or its subsidiaries as collateral for loans made by the Bank Subsidiaries. Certain limitations and reporting requirements are also placed on extensions of credit by each of the Bank Subsidiaries to its directors and officers, to directors and officers of Heartland and its subsidiaries, to principal stockholders of Heartland and to “related interests” of such directors, officers and principal stockholders. In addition, federal law and regulations may affect the terms upon which any person who is a director or officer of Heartland or any of its subsidiaries or a principal stockholder of Heartland may obtain credit from banks with which the Bank Subsidiaries maintain correspondent relationships.

Safety and Soundness Standards

The federal banking agencies have adopted guidelines that establish operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings. In general, the safety and soundness guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the institution's primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If an institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator's order is cured, the regulator may restrict the institution's rate of growth, require the institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with the standards established by the safety and soundness guidelines may also constitute grounds for other enforcement action by the federal banking regulators, including cease and desist orders and civil money penalty assessments.

Branching Authority

Each of the Bank Subsidiaries has the authority, pursuant to the laws under which it is chartered, to establish branches anywhere in the state in which its main office is located, subject to the receipt of all required regulatory approvals.

Federal law permits state and national banks to merge with banks in other states subject to: (i) regulatory approval; (ii) federal and state deposit concentration limits; and (iii) state law limitations requiring the merging bank to have been in existence for a minimum period of time (not to exceed five years) prior to the merger. Under the Dodd-Frank Act, banks are permitted to establish new branches in another state to the same extent as banks chartered in the other state.

State Bank Investments and Activities

Each of the Bank Subsidiaries generally is permitted to make investments and engage in activities directly or through subsidiaries as authorized by the laws of the state under which it is chartered. However, under federal law and FDIC regulations, FDIC-insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. Federal law and FDIC regulations also prohibit FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as principal in any activity that is not permitted for a national bank unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines the activity would not pose a significant risk to the deposit insurance fund of which the bank is a member.

Incentive Compensation Policies and Restrictions

In July 2010, the federal banking agencies issued guidance that applies to all banking organizations supervised by the agencies. Pursuant to the guidance, to be consistent with safety and soundness principles, Heartland’s incentive compensation arrangements should: (1) provide employees with incentives that appropriately balance risk and reward; (2) be compatible with effective controls and risk management; and (3) be supported by strong corporate governance including active and effective oversight by Heartland's board of directors.

In addition, in March 2011, the federal banking agencies, along with the Federal Housing Finance Agency, and the Securities and Exchange Commission, released a proposed rule intended to ensure that regulated financial institutions design their incentive compensation arrangements to account for risk. Specifically, the proposed rule would require compensation practices for Heartland to be consistent with the following principles: (1) compensation arrangements appropriately balance risk and financial reward; (2) such arrangements are compatible with effective controls and risk management; and (3) such arrangements are supported by strong corporate governance. In addition, financial institutions with $1 billion or more in assets would be required to have policies and procedures to ensure compliance with the rule and would be required to submit annual reports to their primary federal regulator. The comment period has closed and a final rule has not yet been published; however, Heartland believes it is in compliance with the rule as currently proposed.

The Volcker Rule and Proprietary Trading

In December 2013, federal banking regulators jointly issued a final rule to implement the “Volcker Rule” under the Dodd-Frank Act, which prohibits banking entities (including Heartland and the Bank Subsidiaries) from engaging in proprietary trading of securities, derivatives and certain other financial instruments for the entity’s own account, and prohibits certain interests in, or relationships with, a hedge fund or private equity fund. It also imposes rules regarding compliance programs. The final rule will become effective April 1, 2014. Heartland does not believe that it engages in any significant amount of proprietary trading as defined in the Volcker Rule and that any impact would be minimal. Heartland has reviewed its investment portfolio to determine if any investments meet the Volcker Rule's definition of covered funds. Based on the review, Heartland believes that any impact related to investments considered to be covered funds would not have a significant effect on its financial condition or results of operations. However, Heartland may be required to divest certain investments subject to the Volcker Rule by mid-2015.

Federal Reserve Liquidity Regulations

Federal Reserve regulations, as presently in effect, require depository institutions to maintain non-interest earning reserves against their transaction accounts (primarily NOW and regular checking accounts), as follows: (i) for transaction accounts aggregating $10.7 million or less, there is no reserve requirement; (ii) for transaction accounts over $10.7 million and up to $55.2 million, the reserve requirement is 3% of total transaction accounts; and (iii) for transaction accounts aggregating in excess of $55.2 million, the reserve requirement is $1.335 million plus 10% of the aggregate amount of total transaction accounts in excess of $55.2 million. These reserve requirements are subject to annual adjustment by the Federal Reserve. The Bank Subsidiaries are in compliance with the foregoing requirements.

Community Reinvestment Act Requirements

The Community Reinvestment Act requires the Bank Subsidiaries to have a continuing and affirmative obligation in a safe and sound manner to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. The FDIC and the respective state regulators regularly assess the Bank Subsidiaries' record of meeting the credit needs of its communities. Applications for additional acquisitions would be affected by the evaluation of the Bank Subsidiaries' effectiveness in meeting their Community Reinvestment Act requirements.

Consumer Protection

Each of the Bank Subsidiaries is subject to a number of statutes and regulations designed to protect consumers. These include statutes and regulations applicable to loan operations which govern disclosures of credit terms (the Truth-in-Lending Act and Regulation Z), prohibit discrimination in the extension of credit (the Equal Credit Opportunity Act and Regulation B), govern the use and provision of information to consumer reporting agencies (the Fair Credit Reporting Act) and govern debt collection practices (the Fair Debt Collection Practices Act) and statutes and regulations applicable to deposit operations, which govern disclosure of deposit terms (the Truth in Savings Act and Regulation DD) and the availability of deposit funds (Regulation CC). Other such laws and regulations impose duties to maintain the confidentiality of consumer information and provide privacy policy disclosures (the Gramm-Leach-Bliley Act and the Right to Financial Privacy Act) and those governing electronic fund transfers (the Electronic Funds Transfer Act and Regulation E). The CFPB and other federal agencies have and will continue to propose and finalize rules relating to these statutes and regulations.

Mortgage Operations

Each of the Banking Subsidiaries is subject to a number of rules affecting residential mortgages, including the Home Mortgage Disclosure Act and Regulation C and the Real Estate Settlement Procedures Act ("RESPA") and Regulation X. Over the last year, the CFPB and other federal agencies have proposed and finalized a number of rules affecting residential mortgages. These rules implement the Dodd-Frank Act amendments to the Equal Credit Opportunity Act, the Truth in Lending Act and RESPA. The final rules, among other things, impose requirements regarding procedures to ensure compliance with "ability to repay" requirements, new or revised disclosure requirements, policies and procedures for servicing mortgages, and additional rules and restrictions regarding mortgage loan originator compensation and qualification and registration requirements for individual loan originator employees.

Ability-to-Repay and Qualified Mortgage Rule

Pursuant to the Dodd Frank Act, the CFPB issued a final rule on January 10, 2013 (effective on January 10, 2014), amending Regulation Z as implemented by the Truth in Lending Act, requiring mortgage lenders to make a reasonable and good faith determination based on verified and documented information that a consumer applying for a mortgage loan has a reasonable ability to repay the loan according to its terms. Mortgage lenders are required to determine consumers' ability to repay in one of two ways. The first alternative requires the mortgage lender to consider the following eight underwriting factors when making the credit decision: (1) current or reasonably expected income or assets; (2) current employment status; (3) the monthly payment on the covered transaction; (4) the monthly payment on any simultaneous loan; (5) the monthly payment for mortgage-related obligations; (6) current debt obligations, alimony, and child support; (7) the monthly debt-to-income ratio or residual income; and (8) credit history. Alternatively, the mortgage lender can originate "qualified mortgages," which are entitled to a presumption that the creditor making the loan satisfied the ability-to-repay requirements. In general, a "qualified mortgage" is a mortgage loan without negative amortization, interest-only payments, balloon payments, or terms exceeding 30 years. In addition, to be a qualified mortgage the points and fees paid by a consumer cannot exceed 3% of the total loan amount. Qualified mortgages that are "higher-priced" (e.g. subprime loans) garner a rebuttable presumption of compliance with the ability-to-repay rules, while qualified mortgages that are not "higher-priced" (e.g. prime loans) are given a safe harbor of compliance. Heartland primarily originates compliant qualified mortgages.

Interchange Fees

The Durbin Amendment (a provision of the Dodd-Frank Act) required the Federal Reserve to establish a cap on the interchange fees that merchants pay banks for electronic clearing of debit transactions. The Federal Reserve issued final rules implementing the Durbin Amendment which were effective October 1, 2011, and, among other things, established standards for assessing whether debit card interchange fees received by debit card issuers were reasonable and proportional costs incurred by issuers and established maximum permissible interchange fees. In July 2013, a Washington, D.C. District Court judge invalidated the interchange fee rule. If upheld, the decision would keep in place current interchange fee transaction standards until new regulations or interim standards are drafted. The decision has been appealed and a stay is in effect. The final impact of this decision on the Banking Subsidiaries will depend on factors such as the outcome of the appeal and the substance of any new or revised regulations that are promulgated. The Durbin Amendment currently applies to banks with greater than $10 billion in assets. Heartland does not currently have assets in excess of $10 billion, but it may at some point in the future.

ITEM 1A. RISK FACTORS

In addition to the other information in this Annual Report on Form 10-K, stockholders or prospective investors should carefully consider the following risk factors that may adversely affect our business, financial results or stock price. Additional risks that we currently do not know about or currently view as immaterial may also impair our business or adversely impact our financial results or stock price.

Credit Risks

Our business and financial results are significantly affected by general business and economic conditions.
Our business activities and earnings are affected by general business conditions in the United States and particularly in the states in which our Bank Subsidiaries operate. Factors such as the volatility of interest rates, home prices and real estate values, unemployment, credit defaults, increased bankruptcies, decreased consumer spending and household income, volatility in the securities markets, and the cost and availability of capital negatively impacted our business during the recession. Although financial markets have stabilized and we are currently benefiting from a modest economic recovery, certain segments of the economy continue to be depressed. Further economic deterioration that affects household and/or corporate incomes could result in renewed credit deterioration and reduced demand for credit or fee-based products and services, negatively impacting our performance. In addition, changes in securities market conditions and monetary fluctuations could adversely affect the availability and terms of funding necessary to meet our liquidity needs.

We could suffer material credit losses if we do not appropriately manage our credit risk.
There are risks inherent in making any loan, including risks inherent in dealing with individual borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and risks resulting from changes in economic and industry conditions. We attempt to minimize our credit risk through prudent loan application approval procedures, careful monitoring of the concentration of our loans within specific industries and periodic independent reviews of outstanding loans by our loan review department. However, changes in the economy can cause the assumptions that we made at origination to change and can cause borrowers to be unable to make payments on their loans, and significant changes in collateral values such as those that occurred in 2009 and 2010 can cause us to be unable to collect the full value of loans we make. We cannot assure you that such approval and monitoring procedures will reduce these credit risks.

Commercial loans, which present risks related to the value of the assets that serve as collateral, make up a significant portion of our loan portfolio.
Commercial loans were $2.48 billion (including $1.53 billion of commercial real estate loans), or approximately 71% of our total loan portfolio as of December 31, 2013. Our commercial loans are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral consists of accounts receivable, inventory, machinery or real estate. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The other types of collateral securing these loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

Our loan portfolio has a large concentration of commercial real estate loans, which involve risks specific to real estate value.

Commercial real estate lending is a large portion of our commercial loan portfolio. These loans were $1.53 billion, or approximately 62%, of our total commercial loan portfolio as of December 31, 2013. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Adverse developments affecting real estate values could negatively affect some of our commercial real estate loans, and further developments could increase the credit risk associated with our loan portfolio. Non-owner occupied commercial real estate loans typically are dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. A weaker economy has an impact on the absorption period associated with lot and land development loans. When the source of repayment is reliant on the successful and timely sale of lots or land held for resale, a default on these loans becomes a greater risk. Economic events or governmental regulations outside of the control of the borrower or lender could negatively impact the future cash flow and market values of the affected properties.

The construction, land acquisition and development loans that are part of our commercial real estate loans present project completion risks, as well as, the risks applicable to other commercial real estate loans.
Our commercial real estate loans also include commercial construction loans, including land acquisition and development, which involve additional risks because funds are advanced based upon estimates of costs and the estimated value of the completed project. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation on real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. As a result, commercial construction loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of the completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project.

We may encounter issues with environmental law compliance if we take possession, through foreclosure or otherwise, of the real property that secures a commercial real estate loan.
A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses which may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

Our agricultural loans are often dependent upon the health of the agricultural industry in the location of the borrower, and the ability of the borrower to repay may be affected by many factors outside of the borrower's control.
At December 31, 2013, agricultural real estate loans totaled $207.0 million or 6% of our total loan and lease portfolio. Payments on agricultural real estate loans are dependent on the profitable operation or management of the farm property securing the loan. The success of the farm may be affected by many factors outside the control of the borrower, including adverse weather conditions that prevent the planting of a crop or limit crop yields (such as hail, drought and floods), loss of livestock due to disease or other factors, declines in market prices for agricultural products (both domestically and internationally) and the impact of government regulations (including changes in price supports, subsidies and environmental regulations). In addition, many farms are dependent on a limited number of key individuals whose injury or death may significantly affect the successful operation of the farm. If the cash flow from a farming operation is diminished, the borrower's ability to repay the loan may be impaired. The primary crops in our market areas are corn, soybeans, peanuts and wheat. Accordingly, adverse circumstances affecting these crops could have an adverse effect on our agricultural real estate loan portfolio.

We also originate agricultural operating loans. At December 31, 2013, these loans totaled $169.7 million or 5% of our total loan and lease portfolio. As with agricultural real estate loans, the repayment of operating loans is dependent on the successful operation or management of the farm property. Likewise, agricultural operating loans involve a greater degree of risk than lending on residential properties, particularly in the case of loans that are unsecured or secured by rapidly depreciating assets such as farm equipment or assets such as livestock or crops. The primary livestock in our market areas include dairy cows, hogs and feeder cattle. In these cases, any repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation.

Our one- to four-family residential mortgage loans may result in lower yields and profitability.
One- to four-family residential mortgage loans comprised $349.3 million or approximately 10% of our loan and lease portfolio at December 31, 2013, with approximately 64% secured by properties located in the Midwest. These loans generally result in lower yields and lower profitability for us than other loans in Heartland's portfolio and are generally made on the basis of the borrower's ability to make repayments from his or her employment and the value of the property securing the loan.

Our consumer loans generally have a higher degree of risk of default than our other loans.
At December 31, 2013, consumer loans totaled $294.1 million or approximately 8% of our total loan and lease portfolio. Consumer loans typically have shorter terms and lower balances with higher yields as compared to one- to four-family residential mortgage loans, but generally carry higher risks of default. Consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances.

Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on these loans.

Our allowance for loan losses may prove to be insufficient to absorb losses in our loan portfolio.
We establish our allowance for loan losses in consultation with management of the Bank Subsidiaries and maintain it at a level considered appropriate by management to absorb probable loan losses that are inherent in the portfolio. The amount of future loan losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond our control, and such losses may exceed current estimates. In each year from 2008 through 2011, we were required to record provisions for loan losses in excess of our pre-2008 historical experience because of the impact of the economy and real estate values on some of our borrowers, resulting in charge-offs and an increased level of nonperforming assets. At December 31, 2013, our allowance for loan losses as a percentage of total loans, exclusive of loans covered by loss share agreements, was 1.19% and as a percentage of total nonperforming loans was approximately 98%. Although we believe that the allowance for loan losses is appropriate to absorb losses on any existing loans that may become uncollectible, we cannot predict loan losses with certainty, and we cannot assure you that our allowance for loan losses will prove sufficient to cover actual loan losses in the future. Further significant provisions, or charge-offs against our allowance that result in provisions, could have a significant negative impact on our profitability. Loan losses in excess of our reserves may adversely affect our business, financial condition and results of operations.

Our business is concentrated in and dependent upon the continued growth and welfare of the various markets that we serve.
We operate over a wide area, including markets in Iowa, Illinois, Wisconsin, Arizona, New Mexico, Montana, Colorado, Minnesota, and Kansas, and our financial condition, results of operations and cash flows are subject to changes in the economic conditions in those areas. Our success depends upon the business activity, population, income levels, deposits and real estate activity in those areas. Although our customers' business and financial interests may extend well beyond our market areas, adverse economic conditions that affect our specific market area could reduce our growth rate, affect the ability of our customers to repay their loans to us and generally affect our financial condition and results of operations.

Our expansion into new markets through National Residential Mortgage could subject us to economic risks in markets with which we are less familiar.
We have expanded our residential real estate mortgage production capability by adding personnel and capacity in our Heartland Mortgage and National Residential Mortgage unit, and have added residential loan production offices with new personnel in several new geographies. Although we have generally sold the mortgages we originate through National Residential Mortgage into the secondary market, we may elect to retain mortgages in our portfolio in the future, and regardless of such retention have some liability as the originator and servicer of the mortgages. If we inaccurately monitor credit risk in these markets, or retain personnel for National Residential Mortgage who do not accurately report and monitor credit risk, our operations could be negatively affected. Further, new rules promulgated by the CFPB in 2013 may impact our origination and servicing of mortgage loans by eliminating incentives for mortgage personnel and requiring other changes in origination practices.

Liquidity and Interest Rate Risks

Changes in interest rates and other conditions could negatively impact our results of operations.
Our profitability is in part a function of the spread between the interest rates earned on investments and loans and the interest rates paid on deposits and other interest-bearing liabilities. Like most banking institutions, our net interest spread and margin will be affected by general economic conditions and other factors, including fiscal and monetary policies of the federal government, that influence market interest rates and our ability to respond to changes in such rates. At any given time, our assets and liabilities will be such that they are affected differently by a given change in

interest rates. As a result, an increase or decrease in rates, the length of loan terms or the mix of adjustable and fixed rate loans in our portfolio could have a positive or negative effect on our net income, capital and liquidity. We measure interest rate risk under various rate scenarios and using specific criteria and assumptions. A summary of this process, along with the results of our net interest income simulations, is presented under the heading "Quantitative and Qualitative Disclosures About Market Risk" included under Item 7A of Part II of this Form 10-K. Although we believe our current level of interest rate sensitivity is reasonable and effectively managed, significant fluctuations in interest rates may have an adverse effect on our business, financial condition and results of operations.

Revenue from our mortgage banking operations is sensitive to changes in economic conditions, decreased economic activity, a slowdown in the housing market, higher interest rates or new legislation and may adversely impact our profits.

Our mortgage banking division, conducted through our Heartland Mortgage and National Residential Mortgage unit, provided a significant portion of our consolidated revenue during 2012. Our overall mortgage banking revenue is highly dependent upon the volume of loans we originate and sell in the secondary market. Mortgage loan production levels are sensitive to changes in economic conditions and suffer from decreased economic activity, a slowdown in the housing market and higher interest rates.

The mild increase in mortgage interest rates nationwide during 2013 significantly impacted mortgage volumes of most mortgage banking operations, including our own, negatively impacting our mortgage banking revenue in 2013 relative to 2012. Generally, any additional sustained period of decreased economic activity or higher interest rates could adversely affect mortgage originations and, consequently, reduce our income from mortgage lending activities.

The value of our mortgage servicing rights can decline during periods of falling interest rates and we may be required to take a charge against earnings for the decreased value.
A mortgage servicing right ("MSR") is the right to service a mortgage loan for a fee. We acquire MSRs when we originate mortgage loans and keep the servicing rights after we sell the loans. We carry MSRs at the lower of amortized cost or estimated fair value. Fair value is the present value of estimated future net servicing income, calculated based on a number of variables, including assumptions about the likelihood of prepayment by borrowers. Changes in interest rates can affect prepayment assumptions. When interest rates fall, borrowers are more likely to prepay their mortgage loans by refinancing them at a lower rate. As the likelihood of prepayment increases, the fair value of our MSRs can decrease. Each quarter we evaluate our MSRs for impairment based on the difference between the carrying amount and fair value. If temporary impairment exists, we establish a valuation allowance through a charge to earnings for the amount by which the carrying amount exceeds fair value.

The derivative instruments that we use to hedge interest rate risk associated with the loans held for sale and rate locks on our mortgage banking business are complex and can result in significant losses.
We typically use derivatives and other instruments to hedge changes in the value of loans held for sale and interest rate lock commitments. We generally do not hedge all of our risk, and we may not be successful in hedging any of the risk. Hedging is a complex process, requiring sophisticated models and constant monitoring, and is not a perfect science. We may use hedging instruments that may not perfectly correlate with the value or income being hedged. We could incur significant losses from our hedging activities. There may be periods where we elect not to use derivatives and other instruments to hedge mortgage banking interest rate risk.

The market for loans held for sale with secondary purchasers, including government-sponsored entities ("GSEs"), has changed during recent years and further changes could impair the gains we recognize on sale of mortgage loans.
We sell most of the mortgage loans we originate in order to reduce our credit risk and provide funding for additional loans. We rely on GSEs to purchase loans that meet their conforming loan requirements and on other capital markets investors to purchase loans that do not meet those requirements, referred to as “nonconforming” loans. During the past few years investor demand for nonconforming loans has fallen sharply, increasing credit spreads and reducing the liquidity for those loans. In response to the reduced liquidity in the capital markets, we may retain more nonconforming loans. When we retain a loan, not only do we keep the credit risk of the loan, but we also do not receive any sale proceeds that could be used to generate new loans. Continued lack of liquidity could limit our ability to fund, and thus originate, new mortgage loans, reducing the fees we earn from originating and servicing loans. In addition, we cannot assure that GSEs will not materially limit their purchases of conforming loans because of capital constraints or changes in their criteria for conforming loans (e.g., maximum loan amount or borrower eligibility). Each of the GSEs is currently in conservatorship, with its primary regulator, the Federal Housing Finance Agency acting as conservator. We cannot predict if, when or how the conservatorship will end, or any associated changes to the business structure and operations of the GSEs that could result. As noted above, there are various proposals to reform the housing finance market in the U.S., including the role of the GSEs in the housing finance market. The extent and timing of any such regulatory reform regarding the housing finance market and the GSEs, including whether the GSEs will continue to exist in their current form, as well as any effect on Heartland's business and financial results, are uncertain.

Our growth may require us to raise additional capital in the future, but that capital may not be available when it is needed.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate that our existing capital resources will satisfy our capital requirements for the foreseeable future. However, we may at some point need to raise additional capital to support continued growth, both internally and through acquisitions. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside of our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital if needed on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired.

We rely on dividends from our subsidiaries for most of our revenue.

The primary source of funds for Heartland is dividends from the Bank Subsidiaries. In general, the Bank Subsidiaries may only pay dividends either out of their historical net income after any required transfers to surplus or reserves have been made or out of their retained earnings. The payment of dividends by any financial institution is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. These dividends are the principal source of funds to pay dividends on Heartland's common stock and preferred stock, and to pay interest and principal on the debt.

Operational Risks

We have a continuing need for technological change and we may not have the resources to effectively implement new technology.
The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to being able to better serve customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as, to create additional efficiencies in our operations as we continue to grow and expand our market areas. Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we will be able to offer, which would put us at a competitive disadvantage.

System failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities.
The computer systems and network infrastructure we use could be vulnerable to unforeseen problems. Our operations are dependent upon our ability to protect our computer equipment against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any damage or failure that causes an interruption in our operations could have a material adverse effect on our financial condition and results of operations. Computer break-ins, phishing and other disruptions could also jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us and may cause existing and potential customers to refrain from doing business with us. Although we, with the help of third-party service providers, intend to continue to implement security technology and establish operational procedures to prevent such damage, there can be no assurance that these security measures will be successful. In addition, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms we and our third-party service providers use to encrypt and protect customer transaction data. A failure of such security measures could have a material adverse effect on our financial condition and results of operations.

We are subject to risks from employee errors, customer or employee fraud and data processing system failures and errors.
Employee errors and employee or customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence. We maintain a system of internal controls and insurance coverage to mitigate against operational risks, including data processing system failures and errors and customer or employee fraud. Should our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition and results of operations.

Our market and growth strategy relies heavily on our management team, and the unexpected loss of key managers may adversely affect our operations.
Much of our success to date has been influenced strongly by our ability to attract and to retain senior management experienced in banking and financial services and familiar with the communities in our different market areas.

Because our service areas are spread over such a wide geographical area, our management headquartered in Dubuque, Iowa, is dependent on the effective leadership and capabilities of the management in our local markets for the continued success of Heartland. Our ability to retain executive officers, the current management teams and loan officers of our operating subsidiaries will continue to be important to the successful implementation of our strategy. It is also critical, as we grow, to be able to attract and retain qualified additional management and loan officers with the appropriate level of experience and knowledge about our market area to implement our community-based operating strategy. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business, financial condition and results of operations.

Reduction in the value, or impairment of our investment securities, can impact our earnings and common stockholders' equity.
We maintained a balance of $1.90 billion, or 32% of our assets, in investment securities at December 31, 2013. Changes in market interest rates can affect the value of these investment securities, with increasing interest rates generally resulting in a

reduction of value. Although the reduction in value from temporary increases in market rates does not affect our income until the security is sold, it does result in an unrealized loss recorded in other comprehensive income that can reduce our common stockholders' equity. Further, we must periodically test our investment securities for other-than-temporary impairment in value. In assessing whether the impairment of investment securities is other-than-temporary, we consider 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 to retain our investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value in the near term.

We have recorded goodwill as a result of acquisitions that can significantly affect our earnings if it becomes impaired. Under current accounting standards, goodwill is not amortized but, instead, is subject to impairment tests on at least an annual basis or more frequently if an event occurs or circumstances change that reduce the fair value of a reporting unit below its carrying amount. Although we do not anticipate impairment charges, if we conclude that some portion of our goodwill may be impaired, a non-cash charge for the amount of such impairment would be recorded against earnings. Such a charge would have no impact on tangible capital. A decline in our stock price or occurrence of a triggering event following any of our quarterly earnings releases and prior to the filing of the periodic report for that period could, under certain circumstances, cause us to perform a goodwill impairment test and result in an impairment charge being recorded for that period which was not reflected in such earnings release. At December 31, 2013, we had goodwill of $35.6 million, representing approximately 8% of stockholders' equity.

We have substantial deferred tax assets that could require a valuation allowance and a charge against earnings if we conclude that the tax benefits represented by the assets are unlikely to be realized.
Our balance sheet reflected approximately $39.7 million of deferred tax assets at December 31, 2013, that represents differences in the timing of the benefit of deductions, credits and other items for accounting purposes and the benefit for tax purposes. To the extent we conclude that the value of this asset is not more likely than not to be realized, we would be obligated to record a valuation allowance against the asset, impacting our earnings during the period in which the valuation allowance is recorded. Assessing the need for, or the sufficiency of, a valuation allowance requires management to evaluate all available evidence, both negative and positive. Positive evidence necessary to overcome the negative evidence includes whether future taxable income in sufficient amounts and character within the carryback and carryforward periods is available under the tax law. When negative evidence (e.g., cumulative losses in recent years, history of operating losses or tax credit carryforwards expiring unused) exists, more positive evidence than negative evidence will be necessary. If the positive evidence is not sufficient to exceed the negative evidence, a valuation allowance for deferred tax assets is established. The impact of each of these impairment matters could have a material adverse effect on our business, results of operations, and financial condition.

Strategic and External Risks

Government regulation can result in limitations on our operations.
We operate in a highly regulated environment and are subject to supervision and regulation by a number of governmental regulatory agencies, including the Federal Reserve, the FDIC, the CFPB, and the various state agencies where we have a bank presence. Regulations adopted by these agencies, which are generally intended to provide protection for depositors and customers rather than for the benefit of stockholders, govern a comprehensive range of matters relating to ownership and control of our shares, our acquisition of other companies and businesses, permissible activities for us to engage in, maintenance of adequate capital levels and other aspects of our operations. These bank regulators possess broad authority to prevent or remedy unsafe or unsound practices or violations of law deemed to be unfair, abusive and deceptive acts and practices. The laws and regulations applicable to the banking industry could change at any time and we cannot predict the effects of these changes on our business and profitability. Increased regulation could increase our cost of compliance and adversely affect profitability. For example, new legislation or regulation may limit the manner in which we may conduct our business, including our ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads. The CFPB's

extensive rulemaking in particular may impact our residential mortgage origination and servicing business.

The soundness of other financial institutions could adversely affect our liquidity and operations.
Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different counterparties, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by Heartland or the Bank Subsidiaries or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or

is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due us. There is no assurance that any such losses would not materially and adversely affect our results of operations.

Further downgrades in the U.S. government's sovereign credit rating could present risks to Heartland.
In 2012, ratings agencies have downgraded the sovereign credit rating they publish for, or otherwise negatively revised their outlook for, the U.S. government, and have indicated that they will continue to assess fiscal projections, as well as the medium-term economic outlook for the United States. This development, combined with uncertainty caused by political gridlock, creates a risk of an additional downgrade to the sovereign credit rating of the U.S. government, including the ratings of U.S. Treasury securities. If such a downgrade were to occur, the value and liquidity of instruments issued, insured or guaranteed by institutions, agencies or instrumentalities directly linked to the U.S. government could be adversely affected. Instruments of this nature are often held by financial institutions, including Heartland, for investment, liquidity planning and collateral purposes. A downgrade of the sovereign credit ratings of the U.S. government and perceived creditworthiness of U.S. government-related obligations could impact Heartland's liquidity.

We may experience difficulties in managing our growth and our growth strategy involves risks that may negatively impact our net income.
As part of our general growth strategy, we recently acquired several banks and may acquire additional banks that we believe provide a strategic and geographic fit with our business. We cannot predict the number, size or timing of acquisitions. To the extent that we grow through acquisitions, we cannot assure you that we will be able to adequately and profitably manage this growth. Acquiring other banks and businesses will involve risks commonly associated with acquisitions, including:

- potential exposure to unknown or contingent liabilities of banks and businesses we acquire;
- exposure to potential asset quality issues of the acquired bank or related business;
- difficulty and expense of integrating the operations and personnel of banks and businesses we acquire;
- potential disruption to our business;
- potential restrictions on our business resulting from the regulatory approval process;
- potential diversion of our management’s time and attention; and
- the possible loss of key employees and customers of the banks and businesses we acquire.

In addition to acquisitions, we may expand into additional communities or attempt to strengthen our position in our current markets by undertaking additional de novo bank formations or branch openings. Based on our experience, we believe that it generally takes three years or more for new banking facilities to first achieve operational profitability, due to the impact of organization and overhead expenses and the start-up phase of generating loans and deposits. To the extent that we undertake additional branching and de novo bank and business formations, we are likely to continue to experience the effects of higher operating expenses relative to operating income from the new operations, which may have an adverse effect on our levels of reported net income, return on average equity and return on average assets.

We face intense competition in all phases of our business and competitive factors could adversely affect our business.
The banking and financial services business in our markets is highly competitive and is currently undergoing significant change. Our competitors include large regional banks, local community banks, online banks, thrifts, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market mutual funds, credit unions and other non-bank financial service providers, and increasingly these competitors provide integrated financial services over a broad geographic area. Some of our competitors may also have access to governmental programs that impact their position in the marketplace favorably. Increased competition in our markets may result in a decrease in the amounts of our loans and deposits, reduced spreads between loan rates and deposit

rates or loan terms that are more favorable to the borrower. Any of these results could have a material adverse effect on our ability to grow and remain profitable.

Legal, Compliance and Reputational Risks

Recent legislation has impacted our operations, and additional legislation and rulemaking could impact us adversely. New laws passed during the past five years, together with regulations adopted or to be adopted by the banking agencies under those laws, significantly impact financial institutions. The Dodd-Frank Act is particularly far reaching, establishing the CFPB with broad authority to administer and enforce a new federal regulatory framework of consumer financial regulation, changing the base for deposit insurance assessments, introducing regulatory rate-setting for interchange fees charged to merchants for debit card transactions, enhancing the regulation of consumer mortgage banking, changing the methods and standards for resolution of troubled institutions, and changing the Tier 1 regulatory capital ratio calculations for bank holding companies. In particular, the new Basel III Rules that establish new and increasing capital requirements may limit or otherwise restrict how Heartland uses its capital, including application for dividends and stock repurchases, and may require Heartland to increase its capital. Many of the provisions of the Dodd-Frank Act have extended implementation periods and delayed effective dates and will require additional rulemaking by various regulatory agencies, and many could have far reaching implications on our operations. Accordingly, Heartland cannot currently quantify the ultimate impact of this legislation and the related future rulemaking, but expects that the legislation may have a detrimental impact on revenues and expenses, require Heartland to change certain of its business practices, increase Heartland's capital requirements and otherwise adversely affect its business.

Other changes in the laws, regulations and policies governing financial services companies could alter our business environment and adversely affect operations.
The Board of Governors of the Federal Reserve System regulates the supply of money and credit in the United States. Its fiscal and monetary policies determine, in a large part, our cost of funds for lending and investing and the return that can be earned on those loans and investments, both of which affect our net interest margin. Federal Reserve Board policies can also materially affect the value of financial instruments that we hold, such as debt securities and mortgage servicing rights. Recent changes in the laws and regulations that apply to us have been significant. Further dramatic changes in statutes, regulations or policies could affect us in substantial and unpredictable ways, including limiting the types of financial services and products that we offer and/or increasing the ability of non-banks to offer competing financial services and products. We cannot predict whether any of this potential legislation will be enacted, and if enacted, the effect that it or any regulations would have on our financial condition or results of operations.

We may be required to repurchase mortgage loans or reimburse investors and others as a result of breaches in contractual representations and warranties.
We sell residential mortgage loans to various parties, including GSEs and other financial institutions that purchase mortgage loans for investment or private label securitization. The agreements under which we sell mortgage loans and the insurance or guaranty agreements with the FHA and VA contain various representations and warranties regarding the origination and characteristics of the mortgage loans, including ownership of the loan, compliance with loan criteria set forth in the applicable agreement, validity of the lien securing the loan, absence of delinquent taxes or liens against the property securing the loan, and compliance with applicable origination laws. We may be required to repurchase mortgage loans, indemnify the investor or insurer, or reimburse the investor or insurer for credit losses incurred on loans in the event of a breach of contractual representations or warranties that is not remedied within a period (usually 90 days or less) after we receive notice of the breach. Contracts for mortgage loan sales to the GSEs include various types of specific remedies and penalties that could be applied to inadequate responses to repurchase requests. Similarly, the agreements under which we sell mortgage loans require us to deliver various documents to the investor, and we may be obligated to repurchase any mortgage loan as to which the required documents are not delivered or are defective. We establish a mortgage repurchase liability related to the various representations and warranties that reflect management's estimate of losses for loans which we have a repurchase obligation. Our mortgage repurchase liability represents management's best estimate of the probable loss that we may expect to incur for the representations and warranties in the contractual provisions of our sales of mortgage loans. Because the level of mortgage loan repurchase losses depends upon economic factors, investor demand strategies and other external conditions that may change over the life of the underlying loans, the level of the liability for mortgage loan repurchase losses is difficult to estimate and requires considerable management judgment. If economic conditions and the housing market deteriorate or future investor repurchase demand and our success at appealing repurchase requests differ from past experience, we could experience increased repurchase obligations and increased loss severity on repurchases, requiring additions to the repurchase liability.

Our participation in the SBLF subjects us to certain reporting obligations and imposes restrictions on the payment of dividends on our common stock and the repurchase of shares of our common stock.
Under the SBLF, we have quarterly reporting obligations to the U. S. Treasury that were used to determine the dividend rate to be paid on the Series C Preferred Stock issued to the U.S. Treasury. The interest rate on the $81.7 million of SBLF funds will remain at 1.00% through March 15, 2016, but will increase to 9.00% if we do not redeem the Series C Preferred Stock by that time.

The terms of the SBLF securities purchase agreement between us and the U.S. Treasury also prohibits us from paying dividends on our common stock, or repurchasing shares, to the extent that, after payment of such dividends or repurchases, our Tier 1 Capital would generally fall below $247.7 million. Additionally, if we fail to pay an SBLF dividend in a given quarter, we may not pay dividends on or repurchase any common stock for the next three quarters, except in very limited circumstances. If any of the Series C Preferred Stock issued to the U.S. Treasury has not been redeemed by September 15, 2021, the tenth anniversary of issuance, we may not pay any further dividends on our common stock until the Series C Preferred Stock is redeemed in full.

Negative publicity could adversely impact our business and financial results.
Reputation risk, or the risk to our earnings and capital from negative publicity, is inherent to our business. Current public uneasiness with the United States banking system heightens this risk, as banking customers often transfer news regarding financial difficulties or even failure of some institutions, to fear of financial difficulty or failure of even the most secure

institutions. In this climate, any negative news may become cause for curtailment of business relationships, withdrawal of funds or other actions that can have a compounding effect, and could adversely affect our operations.

Our ability to obtain reimbursement from the FDIC under loss share agreements depends on our compliance with the terms of those loss share agreements.
Under loss share agreements we have with the FDIC relating to assets of The Elizabeth State Bank that we purchased, we are obligated to certify to the FDIC on a quarterly basis our compliance with the terms of the loss share agreements as a prerequisite to obtaining reimbursement from the FDIC for realized losses on the covered assets. These agreements have specific, detailed and cumbersome compliance, servicing, notification and reporting requirements. Our failure to comply with the terms of the agreements or to properly service the loans and other real estate owned under the requirements of the agreements may cause a specific asset or group of assets to lose eligibility for loss share payments from the FDIC. Additionally, management may decide to forgo loss share coverage on certain assets to allow greater flexibility over the management of those assets. As of December 31, 2013, Heartland had $5.7 million of loans and $58,000 of other real estate owned, or a total of $5.8 million (0.1% percent of total assets), covered by loss share agreements with the FDIC.

Market Risks

Our stock price can be volatile.
Our stock price can fluctuate widely in response to a variety of factors, including: actual or anticipated variations in our quarterly operating results; recommendations by securities analysts; acquisitions or business combinations; capital commitments by or involving Heartland or our Bank Subsidiaries; operating and stock price performance of other companies that investors deem comparable to us; new technology used or services offered by our competitors; new reports relating to trends, concerns and other issues in the financial services industry; and changes in government regulations. General market fluctuations, industry factors and general economic and political conditions and events have caused a decline in our stock price in the past, and these factors, as well as, interest rate changes, continued unfavorable credit loss trends, or unforeseen events such as terrorist attacks could cause our stock price to be volatile regardless of our operating results.

Certain banking laws and the Heartland Stockholder Rights Plan may have an anti-takeover effect.
Certain federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire Heartland, even if doing so would be perceived to be beneficial to Heartland’s shareholders. In addition, Heartland's Amended and Restated Rights Agreement (the “Rights Plan”) is intended to discourage any person from acquiring 15% or more of Heartland's outstanding stock (with certain limited exceptions). The combination of these provisions may inhibit a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of Heartland's common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

As of December 31, 2013, Heartland had no unresolved staff comments.

ITEM 2. PROPERTIES

The following table is a listing of Heartland's principal operating facilities as of December 31, 2013:

Name and Main Facility Address	Main Facility Square Footage	Main Facility Owned or Leased	Number of Locations[1]
Heartland Financial USA, Inc. 1398 Central Avenue Dubuque, IA 52001	65,000	Owned	3
Dubuque Bank and Trust Company 1398 Central Avenue Dubuque, IA 52001	65,500	Owned	29
Galena State Bank & Trust Co. 971 Gear Street Galena, IL 61036	18,000	Owned	4
Riverside Community Bank 6855 E. Riverside Blvd. Rockford, IL 60114	8,000	Owned	4
Wisconsin Bank & Trust 8240 Mineral Point Rd. Madison, WI 53719	19,000	Owned	13
New Mexico Bank & Trust 320 Gold NW Albuquerque, NM 87102	11,400	Lease term through 2016	16
Arizona Bank & Trust 2036 E. Camelback Rd. Phoenix, AZ 85016	14,000	Owned	8
Rocky Mountain Bank 2615 King Avenue West Billings, MT 59102	16,600	Owned	16
Summit Bank & Trust 2002 E. Coalton Road Broomfield, CO 80027	14,000	Owned	5
Minnesota Bank & Trust 7701 France Avenue South, Suite 110 Edina, MN 55435	6,100	Lease term through 2018	4
Morrill & Janes Bank and Trust Company 6740 Antioch Road Merriam, KS 66204	7,500	Lease term through 2022	11
Citizens Finance Parent Co. 1275 Main Street Dubuque, IA 52001	5,600	Owned	12

(1) Includes loan production offices.

The corporate office of Heartland is located in Dubuque Bank and Trust Company's main office. A majority of the support functions provided to the Bank Subsidiaries by Heartland are performed in two leased facilities: one located at 1301 Central Avenue in Dubuque, Iowa, which is leased from Dubuque Bank and Trust Company, and the other located at 700 Locust Street, Suite 300 in Dubuque, Iowa.

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings to which Heartland or its subsidiaries are a party at December 31, 2013, other than ordinary routine litigation incidental to their respective businesses. 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.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

EXECUTIVE OFFICERS

The names and ages of the executive officers of Heartland as of December 31, 2013, position held by these officers on that date and other positions held with Heartland and its subsidiaries are set forth below:

Name	Age	Position with Heartland and Subsidiaries and Principal Occupation
Lynn B. Fuller	64	Chairman, President and Chief Executive Officer of Heartland; Vice Chairman of Dubuque Bank and Trust Company, Wisconsin Bank & Trust, New Mexico Bank & Trust, Arizona Bank & Trust, Rocky Mountain Bank, Summit Bank & Trust and Minnesota Bank & Trust; Chairman of Citizens Finance Parent Co.
Bryan R. McKeag	53	Executive Vice President and Chief Financial Officer of Heartland; Treasurer of Citizens Finance Parent Co.
Kenneth J. Erickson	62	Executive Vice President, Chief Credit Officer of Heartland; Executive Vice President, Lending, of Dubuque Bank and Trust Company; Vice Chairman of Citizens Finance Parent Co.
Douglas J. Horstmann	60	Executive Vice President, Lending, of Heartland; Director, President and Chief Executive Officer of Dubuque Bank and Trust Company; Vice Chairman of Galena State Bank & Trust Co. and Riverside Community Bank
John J. Berg	62	Executive Vice President, Marketing and Sales of Heartland
Brian J. Fox	65	Executive Vice President, Operations of Heartland
David L. Horstmann	64	Executive Vice President, Finance/Corporate Strategy of Heartland

Lynn B. Fuller has been a Director of Heartland and of Dubuque Bank and Trust Company since 1984 and has been President of Heartland since 1987. Until 2004, Mr. Fuller had been a Director of Galena State Bank & Trust Co. since 1992 and Riverside Community Bank since 1995. He has been a Director of Wisconsin Bank & Trust since 1997, New Mexico Bank & Trust since 1998, Arizona Bank & Trust since 2003, Summit Bank & Trust since 2006, Minnesota Bank & Trust since 2008 and Heritage Bank, N.A. from 2012 until its merger with Arizona Bank & Trust in 2013. Mr. Fuller became a director of Morrill & Janes Bank and Trust Company in January 2014. Mr. Fuller joined Dubuque Bank and Trust Company in 1971 as a consumer loan officer and was named Dubuque Bank and Trust Company's Executive Vice President and Chief Executive Officer in 1985. Mr. Fuller was President of Dubuque Bank and Trust Company from 1987 until 1999 at which time he was named Chief Executive Officer of Heartland. Mr. Fuller is the brother-in-law of Mr. James F. Conlan, who is a director of Heartland.

Bryan R. McKeag joined Heartland in 2013 as Chief Financial Officer. Prior to joining Heartland, Mr. McKeag served as Executive Vice President, Corporate Controller and Principal Accounting Officer with Associated Banc-Corp in Green Bay, Wisconsin. He is an inactive holder of the certified public accountant certification.

Kenneth J. Erickson was named Executive Vice President, Chief Credit Officer, of Heartland in 1999. Mr. Erickson has been employed by Dubuque Bank and Trust Company since 1975, and was appointed Vice President, Commercial Loans in 1985, Senior Vice President, Lending in 1989 and Executive Vice President in 2000. He was named Vice Chairman of Citizens Finance Co. in 2004. Prior to 2004, Mr. Erickson was Senior Vice President at Citizens Finance Co. Mr Erickson was named Vice Chairman of Citizens Finance Parent Co. when it was formed in 2013.

Douglas J. Horstmann was named Executive Vice President, Lending, of Heartland in 2012. Mr. Horstmann previously served as Senior Vice President, Lending, of Heartland since 1999. He has been employed by Dubuque Bank and Trust Company since 1980, was appointed Vice President, Commercial Loans in 1985, Senior Vice President, Lending in 1989, Executive Vice President, Lending in 2000 and Director, President and Chief Executive Officer in 2004. Mr. Horstmann also served as Vice Chairman of First Community Bank from 2007 until its merger with Dubuque Bank and Trust Company in 2011. In 2013, Mr. Horstmann was elected a Director of Galena State Bank & Trust Co. and Riverside Community Bank. Prior to joining Dubuque Bank and Trust Company, Mr.

Horstmann was an examiner for the Iowa Division of Banking. Mr. Horstmann is the brother of David L. Horstmann, Heartland's Executive Vice President, Finance/Corporate Strategy.

John J. Berg joined Heartland in 2005 as Senior Vice President, Marketing and Sales. In 2008, he was promoted to Executive Vice President, Marketing and Sales. Mr. Berg’s background includes over 30 years of retail marketing and banking experience. Previous to joining Heartland, Mr. Berg served as Vice President and Marketing Director of First Federal Capital Bank in LaCrosse, Wisconsin. His prior experience includes marketing management positions with commercial banks and savings banks in West Des Moines, Iowa; St. Louis, Missouri; Waterloo, Iowa; and Lansing, Michigan.

Brian J. Fox joined Heartland in 2010 as Executive Vice President, Operations. From 2008 until joining Heartland, Mr. Fox served as Chief Information Officer of First Olathe Bancshares in Overland Park, Kansas. One year after joining First Olathe Bancshares, he was asked to help its principal subsidiary, First National Bank of Olathe, comply with a formal agreement it had entered with the Office of the Comptroller of the Currency (the "OCC") and served as its Chief Risk Officer. In October 2011, First National Bank of Olathe was placed in receivership by the OCC. For the eight years prior to joining First Olathe Bancshares, Mr. Fox drew on his 30 years experience at various banking organizations to provide consulting services to over 100 community banks as Senior Consultant at Vitex, Inc. His areas of responsibility have included strategic planning, credit administration, loan workouts, information technology, project management, mortgage banking, deposit operations and loan operations.

David L. Horstmann joined Heartland in 2004 as Vice President, Finance. In 2009, he was promoted to Senior Vice President, Finance. In 2013, he was named Executive Vice President, Finance/Corporate Strategy and served as Interim Chief Financial Officer from July 2013 through September 2013. Prior to joining Heartland, Mr. Horstmann was vice president of finance and operations at Wartburg Theological Seminary in Dubuque, Iowa from 2001 to 2004. He was a founding director and the executive vice president and chief financial officer of Premier Bank in Dubuque, Iowa from 1998 to 2001. His experience includes various executive and financial positions between 1978 and 1998 with Mercantile Bank of Eastern Iowa, Mercantile Bank, FSB of Davenport, Iowa, Harvest Savings Bank of Dubuque, Iowa and Dubuque Savings and Loan Association. Mr. Horstmann is an inactive holder of the certified public accountant certification. Mr. Horstmann is the brother of Douglas J. Horstmann, Heartland's Executive Vice President, Lending.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Heartland's common stock was held by approximately 2,300 stockholders of record as of March 14, 2014, and approximately 2,100 additional stockholders held shares in street name. The common stock of Heartland has been quoted on the NASDAQ Stock Market since May 2003 under the symbol “HTLF” and is a NASDAQ Global Select Market security.

For the periods indicated, the following table shows the range of reported prices per share of Heartland's common stock in the NASDAQ Global Select Market. These quotations represent inter-dealer prices without retail markups, markdowns, or commissions and do not necessarily represent actual transactions.

Calendar Quarter	High	Low
2013:		
First	$27.58	$23.13
Second	28.00	22.29
Third	30.00	26.50
Fourth	29.81	26.18
2012:		
First	$17.70	$14.82
Second	24.00	15.10
Third	28.26	22.67
Fourth	28.70	24.98

Cash dividends have been declared by Heartland quarterly during the two years ending December 31, 2013. A special dividend of $0.10 per common share was declared and paid in December 2012. The following table sets forth the cash dividends per share paid on Heartland's common stock for the past two years:

Calendar Quarter	2013	2012
First	$0.10	$0.10
Second	0.10	0.10
Third	0.10	0.10
Fourth	0.10	0.20

Heartland's ability to pay dividends to stockholders is largely dependent upon the dividends it receives from the Bank Subsidiaries, and the Bank Subsidiaries are subject to regulatory limitations on the amount of cash dividends they may pay. Heartland is also subject to direct regulatory limitations on the amount of dividends it may pay under the terms of its Series C Preferred Stock issued under the SBLF. See "Business – Supervision and Regulation – Heartland – Dividend Payments" and "Business – Supervision and Regulation - The Bank Subsidiaries – Dividend Payments" and "Note 18 Capital Issuance and Redemption to Consolidated Financial Statements" for a more detailed description of these limitations.

Heartland has issued junior subordinated debentures in several private placements. Under the terms of the debentures, Heartland may be prohibited, under certain circumstances, from paying dividends on shares of its common stock. None of these circumstances currently exist.

Effective January 24, 2008, Heartland's board of directors authorized management to acquire and hold up to 500,000 shares of common stock as treasury shares at any one time. During participation in the Treasury's Capital Purchase Program, which was terminated on September 15, 2011, Heartland was prohibited from any repurchase, redemption, or acquisition of its common stock, except for certain repurchases to the extent of increases in shares outstanding because of issuances under existing benefit plans. Heartland and its affiliated purchasers made no purchases of its common stock during the quarter ended December 31, 2013.

Effective October 18, 2013, Heartland issued 1,402,431 shares of its common stock as partial consideration for the purchase of Morrill Bancshares, Inc., the holding company of Morrill & Janes Bank and Trust Company with an aggregate value of $38.8 million. Effective December 31, 2013, Heartland issued 3,894 shares of its common stock to directors of Dubuque Bank and

Trust Company and Wisconsin Bank & Trust, at their election, as compensation for their service on the Board during 2013. These shares of Heartland common stock were issued without registration under the Securities Act of 1933 in reliance upon the exemption set forth in Section 4(a)(2) and Rule 506 promulgated thereunder.

The following table and graph show a five-year comparison of cumulative total returns for Heartland, the NASDAQ Composite Index, the NASDAQ Bank Stock Index and the SNL Bank and Thrift Index. Figures for our common stock represent inter-dealer quotations, without retail markups, markdowns or commissions and do not necessarily represent actual transactions. The table and graph were prepared at our request by SNL Financial, LC.

Cumulative Total Return Performance

	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
Heartland Financial USA, Inc.	$100.00	$71.73	$89.55	$80.84	$141.00	$157.63
NASDAQ Composite	$100.00	$145.36	$171.74	$170.38	$200.63	$281.22
NASDAQ Bank	$100.00	$83.70	$95.55	$85.52	$101.50	$143.84
SNL Bank and Thrift	$100.00	$98.66	$110.14	$85.64	$115.00	$157.46

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN*
ASSUMES $100 INVESTED ON DECEMBER 31, 2008
*Total return assumes reinvestment of dividends

ITEM 6. SELECTED FINANCIAL DATA

The following tables contain selected historical financial data for Heartland for the years ended December 31, 2013, 2012, 2011, 2010, and 2009. The selected historical consolidated financial information set forth below is qualified in its entirety by reference to, and should be read in conjunction with, Heartland's consolidated financial statements and notes thereto, included elsewhere in this report and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

SELECTED FINANCIAL DATA
(Dollars in thousands, except per share data)

	For the Years Ended December 31,				
	2013	2012	2011	2010	2009
STATEMENT OF INCOME DATA					
Interest income	$199,511	$189,338	$191,737	$198,932	$203,293
Interest expense	35,683	39,182	46,343	55,880	70,530
Net interest income	163,828	150,156	145,394	143,052	132,763
Provision for loan and lease losses	9,697	8,202	29,365	32,508	39,377
Net interest income after provision for loan and lease losses	154,131	141,954	116,029	110,544	93,386
Noninterest income	89,618	108,662	59,577	52,329	52,704
Noninterest expenses	196,561	183,381	137,296	129,239	132,520
Income taxes	10,335	17,384	10,302	9,846	7,196
Net income	36,853	49,851	28,008	23,788	6,374
Net (income) loss available to noncontrolling interest, net of tax	(64)	(59)	36	115	188
Net income attributable to Heartland	36,789	49,792	28,044	23,903	6,562
Preferred dividends and discount	(1,093)	(3,400)	(7,640)	(5,344)	(5,344)
Net income available to common stockholders	$35,696	$46,392	$20,404	$18,559	$1,218
PER COMMON SHARE DATA					
Net income – diluted	$2.04	$2.77	$1.23	$1.13	$0.07
Cash dividends	0.40	0.50	0.40	0.40	0.40
Dividend payout ratio	19.61 %	18.05 %	32.52 %	35.14 %	53.24 %
Book value	$19.44	$19.02	$16.29	$15.26	$14.38
Tangible book value per share (1)	16.90	17.03	14.62	13.54	12.52
Weighted average shares outstanding-diluted	17,460,066	16,768,602	16,575,506	16,461,679	16,325,320

(1) Tangible common equity is common equity excluding goodwill and other intangible assets. Tangible assets is assets excluding goodwill and other intangible assets.
(2) Tax equivalent using a 35% tax rate.

SELECTED FINANCIAL DATA (Continued)
(Dollars in thousands, except per share data)

	For the Years Ended December 31,				
	2013	2012	2011	2010	2009
BALANCE SHEET DATA					
Investments and federal funds sold	$1,895,044	$1,561,957	$1,326,794	$1,264,564	$1,175,217
Loans held for sale	46,665	96,165	53,528	23,904	17,310
Total loans and leases receivable	3,502,701	2,828,802	2,494,631	2,364,787	2,363,002
Allowance for loan and lease losses	41,685	38,715	36,808	42,693	41,848
Total assets	5,923,716	4,990,553	4,305,058	3,999,455	4,012,991
Total deposits	4,666,499	3,845,660	3,210,113	3,034,048	3,050,389
Long-term obligations	350,109	389,025	372,820	362,527	451,429
Preferred equity	81,698	81,698	81,698	78,483	77,224
Common stockholders’ equity	357,762	320,107	268,520	250,608	235,057
EARNINGS PERFORMANCE DATA					
Return on average total assets	0.70 %	1.04 %	0.50 %	0.46 %	0.03 %
Return on average stockholders’ equity	10.87	15.78	7.77	7.51	0.51
Net interest margin ratio(2)	3.78	3.98	4.16	4.12	3.99
Earnings to fixed charges:					
Excluding interest on deposits	3.02x	3.34x	2.51x	2.43x	1.58x
Including interest on deposits	1.96	2.15	1.70	1.55	1.18
ASSET QUALITY RATIOS					
Nonperforming assets to total assets	1.23 %	1.59 %	2.39 %	3.07 %	2.71 %
Nonperforming loans and leases to total loans and leases	1.21	1.53	2.31	3.87	3.35
Net loan and lease charge-offs to average loans and leases	0.22	0.23	1.46	1.31	1.38
Allowance for loan and lease losses to total loans and leases	1.19	1.37	1.48	1.82	1.80
Allowance for loan and lease losses to nonperforming loans and leases	98.27	89.71	64.09	47.12	53.56
CONSOLIDATED CAPITAL RATIOS					
Average equity to average assets	8.09 %	8.47 %	8.47 %	8.13 %	8.40 %
Average common equity to average assets	6.46	6.58	6.45	6.13	6.32
Total capital to risk-adjusted assets	14.69	15.35	15.87	16.23	15.20
Tier 1 leverage	13.19	13.36	14.08	14.06	13.53

(1) Tangible common equity is common equity excluding goodwill and other intangible assets. Tangible assets is assets excluding goodwill and other intangible assets.
(2) Tax equivalent using a 35% tax rate.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following presents management’s discussion and analysis of the consolidated financial condition and results of operations of Heartland as of the dates and for the periods indicated. This discussion should be read in conjunction with the Selected Financial Data, Heartland’s Consolidated Financial Statements and the Notes thereto and other financial data appearing elsewhere in this report. The Consolidated Financial Statements include the accounts of Heartland and its subsidiaries. All of Heartland’s subsidiaries are wholly-owned.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, income and expenses. These estimates are based upon historical experience and on various other assumptions that management believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The estimates and judgments that management believes have the most effect on Heartland’s reported financial position and results of operations are as follows:

Allowance For Loan And Lease Losses

The process utilized by Heartland to estimate the allowance for loan and lease losses is considered a critical accounting policy for Heartland. The allowance for loan and lease losses represents management’s estimate of identified and unidentified probable losses in the existing loan portfolio. Therefore, the accuracy of this estimate could have a material impact on Heartland’s earnings. The allowance for loan and lease losses is determined using factors that include the overall composition of the loan portfolio, general economic conditions, types of loans, loan collateral values, past loss experience, loan delinquencies, and potential losses from identified substandard and doubtful credits.

For loans individually evaluated and determined to be impaired, the allowance is allocated on a loan-by-loan basis as deemed necessary. These estimates reflect consideration of one of three impairment measurement methods as of the evaluation date:

- the present value of expected future cash flows discounted at the loan's effective interest rate;
- the loan's observable market price; or
- the fair value of the collateral if the loan is collateral dependent.

All other loans, including individually evaluated loans determined not to be impaired, are segmented into groups of loans with similar risk characteristics for evaluation and analysis. Loss rates for various collateral types of commercial and agricultural loans are established through assigned discount factors based upon the realizable value historically received on the various types of collateral. For smaller commercial and agricultural loans, residential real estate loans and consumer loans, a historic loss rate is established for each group of loans based upon a twelve-quarter weighted moving average loss rate. The appropriateness of the allowance for loan and lease losses is monitored on an ongoing basis by the loan review staff, senior management and the boards of directors of each Bank Subsidiary.

There can be no assurances that the allowance for loan and lease losses will be adequate to cover all loan losses, but management believes that the allowance for loan and lease losses was appropriate at December 31, 2013. While management uses available information to provide for loan and lease losses, the ultimate collectibility of a substantial portion of the loan portfolio and the need for future additions to the allowance will be based on changes in economic conditions. Should the economic climate deteriorate, borrowers may experience difficulty, and the level of nonperforming loans, charge-offs, and delinquencies could rise and require further increases in the provision for loan and lease losses. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan and lease losses carried by the Heartland subsidiaries. Such agencies may require us to make additional provisions to the allowance based upon their judgment about information available to them at the time of their examinations.

Our allowance for loan and lease losses methodology includes the establishment of a dual risk rating system, which allows the utilization of a probability of default and loss given default for commercial and agricultural loans in the calculation of the allowance for loan lease losses. In addition to the allowance methodology, our software also has the ability to perform stress testing and migration analysis on various portfolio segments.

Goodwill And Other Intangibles

We record all assets and liabilities acquired in purchase acquisitions, including intangibles, at fair value. Goodwill and indefinite-lived assets are not amortized but are subject, at a minimum, to annual tests for impairment. In certain situations, interim impairment tests may be required if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Other intangible assets are amortized over their estimated useful lives using straight-line and accelerated methods and are subject to impairment if events or circumstances indicate a possible inability to realize the carrying amount.

The initial recognition of goodwill and other intangible assets and subsequent impairment analysis require us to make subjective judgments concerning estimates of how the acquired assets will perform in the future using valuation methods including discounted cash flow analysis. Additionally, estimated cash flows may extend beyond five years and, by their nature, are difficult to determine over an extended timeframe. Events and factors that may significantly affect the estimates include, among others, competitive forces, customer behaviors, changes in revenue growth trends, cost structures, technology, changes in discount rates and market conditions. In determining the reasonableness of cash flow estimates, Heartland reviews historical performance of the underlying assets or similar assets in an effort to assess and validate assumptions utilized in its estimates.

In assessing the fair value of reporting units, we may consider the stage of the current business cycle and potential changes in market conditions in estimating the timing and extent of future cash flows. Also, we often utilize other information to validate the reasonableness of our valuations including public market comparables, and multiples of recent mergers and acquisitions of similar businesses. Valuation multiples may be based on revenue, price-to-earnings and tangible capital ratios of comparable companies and business segments. These multiples may be adjusted to consider competitive differences, including size, operating leverage and other factors. The carrying amount of a reporting unit is determined based on the capital required to support the reporting unit's activities, including its tangible and intangible assets. The determination of a reporting unit's capital allocation requires judgment and considers many factors, including the regulatory capital regulations and capital characteristics of comparable companies in relevant industry sectors. In certain circumstances, we will engage a third-party to independently validate its assessment of the fair value of its reporting units.

We assess the impairment of identifiable intangible assets, long lived assets and related goodwill whenever events or changes in circumstances indicate the carrying value may not be recoverable. Factors considered important, which could trigger an impairment review include the following:

- Significant under-performance relative to expected historical or projected future operating results.
- Significant changes in the manner of use of the acquired assets or the strategy for the overall business.
- Significant negative industry or economic trends.
- Significant decline in the market price for our common stock over a sustained period; and market capitalization relative to net book value.
- For intangible assets and long-lived assets, if the carrying value of the asset exceeds the undiscounted cash flows from such asset.

Heartland conducted an internal assessment of the goodwill both collectively and at its subsidiaries in both 2012 and 2013 and determined no further goodwill impairment charges were required.

OVERVIEW

Heartland is a diversified financial services company providing banking, mortgage, wealth management, investments, insurance and consumer finance services to individuals and businesses. Heartland currently has ten banking subsidiaries with 80 locations in 59 communities in Iowa, Illinois, Wisconsin, New Mexico, Arizona, Montana, Colorado, Minnesota, Kansas and Missouri and loan production offices in California, Nevada, Wyoming, Idaho, North Dakota, Oregon, Washington and Nebraska. In addition, Heartland has separate subsidiaries in the consumer finance, insurance and property management businesses. Our primary strategy is to balance our focus on increasing profitability with asset growth and diversification through acquisitions, de novo bank formations and branch openings within existing market areas.

Our results of operations depend primarily on net interest income, which is the difference between interest income from interest earning assets and interest expense on interest bearing liabilities. Noninterest income, which includes service charges and fees, loan servicing income, trust income, brokerage and insurance commissions, securities gains and gains on sale of loans, also affects our results of operations. Our principal operating expenses, aside from interest expense, consist of the provision for loan and lease losses, salaries and employee benefits, occupancy and equipment costs, professional fees and FDIC insurance premiums. During the most recent years, our operating expenses have also been significantly impacted by net losses on repossessed assets.

Net income recorded for 2013 was $36.8 million, compared to $49.8 million recorded during 2012, a decrease of $13.0 million or 26%. Net income available to common stockholders was $35.7 million, or $2.04 per diluted common share, for the year ended December 31, 2013, compared to $46.4 million, or $2.77 per diluted common share, earned during the prior year. Return on average common equity was 10.87% and return on average assets was 0.70% for 2013, compared to 15.78% and 1.04%, respectively, for 2012.

The reduction in earnings for 2013 was due to a decline in income from our mortgage lending operations, offset in part by increased earnings from our community banking. Earnings for 2013, in comparison to 2012, were most positively affected by increases in net interest income, loan servicing income and service charges and fees, combined with decreases in net loss on repossessed assets and other noninterest expenses. These improvements were more than offset by a decline in gains on sale of loans, reduced securities gains and increases in salaries and employee benefits, occupancy and professional fees expenses. Net interest income was $163.8 million during 2013 compared to $150.2 million during 2012, an increase of $13.6 million. Loan servicing income increased $3.1 million and service charges and fees increased $2.4 million, while net loss on repossessed assets decreased $2.7 million and other noninterest expenses decreased $4.1 million. The most significant contributing factors to the reduced earnings in 2013 as compared to 2012 were gains on sale of loans, which decreased $21.8 million, and salaries and employee benefits, which increased $12.5 million.

Net income recorded for 2012 was a record $49.8 million, compared to $28.0 million recorded during 2011, an increase of $21.8 million or 78%. Net income available to common stockholders was $46.4 million, or $2.77 per diluted common share, for 2012, compared to $20.4 million, or $1.23 per diluted common share, earned during 2011. Return on average common equity was 15.78% and return on average assets was 1.04% for 2012, compared to 7.77% and 0.50%, respectively, for 2011.

The factors contributing most significantly to the increased earnings in 2012 compared to 2011 were the continued expansion of mortgage operations, coupled with a reduced provision for loan and lease losses and increased net interest income. Gains on sale of loans were $49.2 million during 2012 compared to $11.4 million during 2011, a $37.8 million increase, and loan servicing income was $11.3 million during 2012 compared to $5.9 million during 2011, a $5.4 million increase. The provision for loan and lease losses during 2012 was $8.2 million compared to $29.4 million during 2011, a decrease of $21.2 million. Net interest income was $150.2 million during 2012 compared to $145.4 million during 2011, an increase of $4.8 million. The effect of these positive factors was offset somewhat by an increase in salaries and employee benefits, which totaled $105.7 million during 2012 compared to $75.5 million during 2011, a $30.2 million increase and other noninterest expenses, which totaled $26.2 million during 2012 compared to $15.7 million during 2011, a $10.5 million increase.

On October 18, 2013, Heartland completed a merger transaction with Morrill Bancshares, Inc., the holding company for Morrill & Janes Bank and Trust Company, based in Merriam, Kansas. On the date of merger, Morrill & Janes Bank and Trust Company had total loans valued at $377.7 million and total deposits valued at $665.3 million. After the merger, Morrill & Janes Bank and Trust Company became Heartland's tenth independent, state-chartered, bank subsidiary and continues to operate under its current name and management team. The aggregate purchase price, which was based on the 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.

On November 22, 2013, Heartland acquired Freedom Bank in Sterling, Illinois, from its parent company, River Valley Bancorp, Inc., a Davenport, Iowa-based bank holding company. The acquisition of Freedom Bank was arranged through a negotiated transfer of ownership with Heartland's flagship bank, Dubuque Bank and Trust Company. On the date of acquisition, Freedom Bank had total loans valued at $39.3 million and total deposits valued at $54.1 million. Freedom Bank operated independently as a subsidiary of Dubuque Bank and Trust Company until March 2014 when it was merged into Riverside Community Bank, Heartland's Rockford, Illinois-based bank.

During 2012, Heartland completed three acquisitions. On July 13, 2012, the purchase of three retail banking offices from Liberty Bank, FSB in the Dubuque, Iowa market was completed through Dubuque Bank and Trust Company. It included loans of $9.4 million and deposits of $53.8 million. On November 16, 2012, Heartland completed the purchase of First Shares, Inc. headquartered in Platteville, Wisconsin. Simultaneous with closing of this transaction, First National Bank of Platteville was merged into Heartland's Wisconsin Bank & Trust subsidiary. The merger expanded the number of Wisconsin Bank & Trust locations from seven to ten and added three communities in southwestern Wisconsin to the bank's service area. The transaction included, at fair value, assets of $128.0 million, loans of $84.9 million and deposits of $114.2 million. Finally, on December 7, 2012, Heartland completed the purchase of Heritage Bank, N.A. located in Phoenix, Arizona. Heritage Bank, N.A. operated as a separate charter until late in the first quarter of 2013 when it merged into Heartland's Arizona Bank & Trust subsidiary. The transaction included, at fair value, assets of $109.1 million, loans of $63.4 million and deposits of $83.3 million.

Total assets were $5.92 billion at December 31, 2013, an increase of $933.2 million or 19% since December 31, 2012. On the date acquired, Morrill & Janes Bank and Trust Company had $810.8 million in assets and Freedom Bank had $67.1 million in assets. Securities represented 32% of Heartland's total assets at December 31, 2013, compared to 31% at year-end 2012. Total loans and leases held to maturity were $3.50 billion at December 31, 2013, compared to $2.82 billion at year-end 2012, an increase of $675.4 million or 24%, with $595.2 million of the increase occurring during the fourth quarter. Included in the loan growth for the fourth quarter of 2013 were $377.7 million of loans acquired in the Morrill & Janes merger and $39.3 million acquired in the Freedom acquisition. Excluding these acquisitions, loan growth totaled $258.4 million or 9% for 2013. Commercial and commercial real estate loans, which totaled $2.48 billion at December 31, 2013, increased $478.6 million or 24% since year-end 2012, with $295.6 million attributable to the acquisitions. Residential mortgage loans, which totaled $349.3 million at December 31, 2013, increased $99.7 million or 40% since year-end 2012, with $56.9 million attributable to the acquisitions. Agricultural and agricultural real estate loans, which totaled $376.7 million at December 31, 2013, increased $48.4 million or 15% since year-end 2012, with $49.4 million attributable to the acquisitions. Consumer loans, which totaled $294.1 million at December 31, 2013, increased $48.5 million or 20% since year-end 2012, with $15.0 million attributable to the acquisitions.

Total deposits were $4.67 billion at December 31, 2013, compared to $3.85 billion at year-end 2012, an increase of $820.8 million or 21%, with $665.3 million attributable to the Morrill & Janes merger and $54.1 million attributable to the Freedom acquisition. Demand deposits totaled $1.24 billion at December 31, 2013, an increase of $264.3 million or 27% since year-end 2012, with $91.6 million attributable to the acquisitions. Exclusive of $543.6 million acquired, savings deposits decreased $12.8 million or 1% since year-end 2012. Certificates of deposit decreased $58.5 million or 7% when excluding $84.2 million in acquired certificates of deposit. The composition of Heartland's deposits continued its positive trend as no-cost demand deposits as a percentage of total deposits were 27% at December 31, 2013, compared to 25% at December 31, 2012, while higher-cost certificates of deposit as a percentage of total deposits were 19% at December 31, 2013, compared to 23% at December 31, 2012.

Total assets were $4.99 billion at December 31, 2012, an increase of $685.5 million or 16% since December 31, 2011. Included in this asset growth were $290.6 million in assets acquired in acquisitions during the year. Securities represented 31% of total assets at both December 31, 2012 and 2011.Total loans and leases held to maturity were $2.82 billion at December 31, 2012, compared to $2.48 billion at year-end 2011, an increase of $340.3 million or 14%. Exclusive of $157.7 million in loans attributable to the acquisitions, loan growth during 2012 was $182.6 million or 7%. Commercial and commercial real estate loans, which totaled $2.00 billion at December 31, 2012, increased $191.9 million or 11% since year-end 2011, with $83.7 million attributable to the acquisitions. Residential mortgage loans, which totaled $249.7 million at December 31, 2012, increased $55.3 million or 28% since year-end 2011, with $26.3 million attributable to acquisitions. Agricultural and agricultural real estate loans, which totaled $328.3 million at December 31, 2012, increased $65.3 million or 25% since year-end 2011, with $37.7 million of this growth attributable to the acquisitions. Consumer loans, which totaled $245.7 million at December 31, 2012, increased $25.6 million or 12% since year-end 2011, with $10.1 million of the growth attributable to acquisitions.

Total deposits were $3.85 billion at December 31, 2012, compared to $3.21 billion at year-end 2011, an increase of $635.5 million or 20%. Exclusive of the $251.3 million in deposits attributable to the acquisitions, deposit growth during 2012 was $384.2 million or 12%.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income is the difference between interest income earned on earning assets and interest expense paid on interest bearing liabilities. As such, net interest income is affected by changes in the volume and yields on earning assets and the volume and rates paid on interest bearing liabilities. Net interest margin is the ratio of tax equivalent net interest income to average earning assets.

Net interest margin, expressed as a percentage of average earning assets, was 3.78% during 2013 compared to 3.98% during 2012 and 4.16% during 2011. These declines are a result of the sustained low interest rate environment where yields on the securities and loan portfolios declined at a greater pace than rates paid on deposits and other borrowings. With deposit rates at close to the bottom of their manageable range and reinvestment rates on maturing securities at dramatically lower levels, the sustainability of net interest margin as a percentage at current levels will be contingent on management's ability to shift dollars from the securities portfolio into the loan portfolio. Management believes net interest margin in dollars will continue to increase as the amount of earning assets grows.

On a tax-equivalent basis, interest income increased $12.3 million or 6% to $209.0 million from $196.7 million during 2012 and decreased $939,000 or less than 1% from $197.7 million in 2011. Average earning assets increased $620.0 million or 16% during 2013 compared to 2012, with approximately $171.4 million of the growth attributable to the acquisitions completed during the fourth quarter. Average earning assets increased $322.3 million or 9% during 2012 compared to 2011, with approximately $45.0 million attributable to acquisitions completed during the last half of 2012. The average interest rate earned on total average earning assets was 4.56% during 2013 compared to 4.97% during 2012 and 5.43% during 2011. The overall yield earned on the securities portfolio was 2.63% in 2013 compared to 2.97% in 2012 and 3.69% in 2011, a decrease of 34 basis points in 2013 and 72 basis points during 2012. The overall yield earned on the loan portfolio was 5.61% in 2013 compared to 5.95% in 2012 and 6.36% in 2011, a decrease of 34 basis points in 2013 and 41 basis points during 2012. The composition of average earning assets changed as the percentage of average loans, which are typically the highest yielding asset, to total average earning assets was 65% during 2013 compared to 67% during 2012 and 65% during 2011.

Interest expense decreased $3.5 million or 9% during 2013 to $35.7 million compared to $39.2 million during 2012 and decreased $7.2 million or 15% during 2012 from $46.3 million during 2011. Even though average interest bearing liabilities increased $348.5 million or 11% for 2013 and $175.8 million or 6% for 2012, the average interest rate paid on Heartland's deposits and borrowings declined during both years. The average interest rate paid on Heartland's interest bearing deposits and borrowings was 1.01% in 2013 compared to 1.23% in 2012 and 1.53% in 2011. Contributing to these improvements in interest expense was a continued change in the mix of deposits as balances shifted from higher cost certificates of deposit to lower cost interest-bearing deposits. Average savings balances, as a percentage of total average interest bearing deposits, was 71% during 2013 compared to 69% during 2012 and 65% for 2011. Additionally, the average interest rate paid on savings deposits was 0.32% during 2013 compared to 0.38% during 2012 and 0.57% during 2011. Management continues to look for opportunities to reduce Heartland's funding costs. Certificates of deposit maturing within the next six months total $281.2 million at an average weighted interest rate of 1.19%, and an additional $215.9 million matures in the second half of the year at an average interest rate of 1.50%. For the past several months, the average renewal interest rate on maturing certificates of deposit has been ranging between 0.30% and 0.50%. The rates currently paid on our non-maturity deposits are effectively approaching a floor and we believe there is less flexibility to pay lower rates on these deposits in the future.

Net interest income on a tax-equivalent basis totaled $173.3 million during 2013, an increase of $15.7 million or 10% from the $157.6 million recorded during 2012. Net interest income on a tax-equivalent basis increased $6.2 million or 4% during 2012 from the $151.3 million recorded during 2011.

We attempt to manage our balance sheet to minimize the effect that a change in interest rates has on our net interest margin. We plan to continue to work toward improving both our earning asset and funding mix through targeted organic growth strategies, which we believe will result in additional net interest income. We believe our net interest income simulations reflect a well-balanced and manageable interest rate posture. Approximately 40% of our commercial and agricultural loan portfolios consist of floating rate loans that reprice based upon changes in the national prime or LIBOR interest rate. Since nearly 70% of these floating rate loans have interest rate floors that are currently in effect, an upward movement in the national prime interest rate or LIBOR would not have an immediate positive effect on our interest income. Item 7A of this Form 10-K contains additional information about the results of our most recent net interest income simulations. Note 12 to the consolidated financial statements contains a detailed discussion of the derivative instruments we have utilized to manage interest rate risk.

The following table provides certain information relating to our average consolidated balance sheets and reflects the yield on average earning assets and the cost of average interest bearing liabilities for the years indicated, in thousands.

Dividing income or expense by the average balance of assets or liabilities derives such yields and costs. Average balances are derived from daily balances, and nonaccrual loans and loans held for sale are included in each respective loan category. Assets with tax favorable treatment are evaluated on a tax-equivalent basis assuming a federal income tax rate of 35%. Tax favorable assets generally have lower contractual pre-tax yields than fully taxable assets. A tax-equivalent yield is calculated by adding the tax savings to the interest earned on tax favorable assets and dividing by the average balance of the tax favorable assets.

ANALYSIS OF AVERAGE BALANCES, TAX EQUIVALENT YIELDS AND RATES(1)

	For the Year Ended December 31,								
	2013			2012			2011		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate	Average Balance	Interest	Rate
EARNING ASSETS									
Securities:									
Taxable	$1,198,777	$21,501	1.79%	$1,015,624	$22,129	2.18%	$1,069,747	$34,095	3.19%
Nontaxable(1)	395,578	20,452	5.17	283,735	16,459	5.80	190,399	12,362	6.49
Total securities	1,594,355	41,953	2.63	1,299,359	38,588	2.97	1,260,146	46,457	3.69
Interest bearing deposits	9,242	12	0.13	5,658	8	0.14	3,179	3	0.09
Federal funds sold	1,417	1	0.07	556	4	0.72	430	1	0.23
Loans and Leases:(2)									
Commercial and commercial real estate(1)	2,078,594	105,239	5.06	1,889,891	100,644	5.33	1,748,669	100,024	5.72
Residential mortgage	344,606	14,511	4.21	293,850	13,142	4.47	198,312	10,172	5.13
Agricultural and agricultural real estate(1)	331,622	17,494	5.28	282,519	15,896	5.63	255,615	15,553	6.08
Consumer	261,611	24,210	9.25	230,192	22,874	9.94	216,268	20,526	9.49
Fees on loans	—	5,556	—	—	5,580	—	—	4,939	—
Less: allowance for loan and lease losses	(39,151)	—	—	(39,757)	—	—	(42,693)	—	—
Net loans and leases	2,977,282	167,010	5.61	2,656,695	158,136	5.95	2,376,171	151,214	6.36
Total earning assets	4,582,296	208,976	4.56	3,962,268	196,736	4.97	3,639,926	197,675	5.43
NONEARNING ASSETS									
Total nonearning assets	500,835			501,397			431,885		
TOTAL ASSETS	$5,083,131			$4,463,665			$4,071,811		
INTEREST BEARING LIABILITIES									
Savings	$2,101,295	$6,674	0.32%	$1,763,233	$6,736	0.38%	$1,589,697	$9,090	0.57%
Time, $100,000 and over	315,623	4,403	1.40	272,338	4,776	1.75	265,664	5,928	2.23
Other time deposits	532,157	8,891	1.67	531,351	10,718	2.02	590,767	14,206	2.40
Short-term borrowings	257,084	808	0.31	252,849	818	0.32	202,183	893	0.44
Other borrowings	339,578	14,907	4.39	377,478	16,134	4.27	373,119	16,226	4.35
Total interest bearing liabilities	3,545,737	35,683	1.01	3,197,249	39,182	1.23	3,021,430	46,343	1.53
NONINTEREST BEARING LIABILITIES									

Noninterest bearing deposits	1,064,177	829,566	667,952
Accrued interest and other liabilities	62,161	58,572	37,551
Total noninterest bearing liabilities	1,126,338	888,138	705,503
STOCKHOLDERS' EQUITY	411,056	378,278	344,878
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$5,083,131	$4,463,665	$4,071,811
Net interest income[1]	$173,293	$157,554	$151,332
Net interest spread[1]	3.55%	3.74%	3.90%
Net interest income to total earning assets[1]	3.78%	3.98%	4.16%
Interest bearing liabilities to earning assets	77.38 %	80.69 %	83.01 %

(1) Tax equivalent basis is calculated using a tax rate of 35%.
(2) Nonaccrual loans are included in average loans outstanding.

The following table presents the dollar amount of changes in interest income and interest expense for the major components of interest earning assets and interest bearing liabilities, in thousands. It quantifies the changes in interest income and interest expense related to changes in the average outstanding balances (volume) and those changes caused by fluctuating interest rates. For each category of interest earning assets and interest bearing liabilities, information is provided on changes attributable to (i) changes in volume, calculated by multiplying the difference between the average balance for the current period and the average balance for the prior period by the rate for the prior period, and (ii) changes in rate, calculated by multiplying the difference between the rate for the current period and the rate for the prior period by the average balance for the prior period. The unallocated change has been allocated pro rata to volume and rate variances.

ANALYSIS OF CHANGES IN NET INTEREST INCOME(1)

	For the Years Ended December 31,					
	2013 Compared to 2012			2012 Compared to 2011		
	Change Due to			Change Due to		
	Volume	Rate	Net	Volume	Rate	Net
EARNING ASSETS / INTEREST INCOME						
Investment securities:						
Taxable	$3,634	$(4,262)	$(628)	$(1,650)	$(10,316)	$(11,966)
Municipals(1)	5,935	(1,942)	3,993	5,530	(1,433)	4,097
Interest bearing deposits	5	(1)	4	3	2	5
Federal funds sold	3	(6)	(3)	—	3	3
Loans and leases(1)(2)	18,338	(9,464)	8,874	17,106	(10,184)	6,922
TOTAL EARNING ASSETS	27,915	(15,675)	12,240	20,989	(21,928)	(939)
LIABILITIES / INTEREST EXPENSE						
Interest bearing deposits:						
Savings	1,176	(1,238)	(62)	911	(3,265)	(2,354)
Time, $100,000 and over	691	(1,064)	(373)	146	(1,298)	(1,152)
Other time deposits	16	(1,843)	(1,827)	(1,340)	(2,148)	(3,488)
Short-term borrowings	14	(24)	(10)	195	(270)	(75)
Other borrowings	(1,654)	427	(1,227)	188	(280)	(92)
TOTAL INTEREST BEARING LIABILITIES	243	(3,742)	(3,499)	100	(7,261)	(7,161)
NET INTEREST INCOME	$27,672	$(11,933)	$15,739	$20,889	$(14,667)	$6,222

(1) Tax equivalent basis is calculated using a tax rate of 35%.
(2) Nonaccrual loans are included in average loans outstanding.

In both years, the decrease in rates on deposits and borrowings had a significant positive impact on net interest income, with the increase in the volume of these interest bearing liabilities having only a very slight negative impact. In 2013, the increase in the volume of earning assets more than offset the decrease in rate earned on these assets resulting in $12.2 million of the $15.7 million net increase in interest income, while the increased interest income resulting from the higher volume of these assets in 2012 did not quite offset the decrease in interest income resulting from the decreased rate on assets in 2012. In both years the decreasing rates had a significant negative impact on net interest income as asset yields declined more significantly than the rates paid on liabilities, but these decreases in rate were more than offset by the increase in interest income resulting from increased volume of earning assets.

Provision For Loan And Lease Losses

The allowance for loan and lease losses is established through a provision charged to expense to provide, in Heartland management's opinion, an appropriate allowance for loan and lease losses. In determining that the allowance for loan and lease losses is appropriate, management uses factors that include the overall composition of the loan portfolio, general economic conditions, types of loans, loan collateral values, past loss experience, loan delinquencies, substandard credits, and doubtful credits. For additional details on the specific factors considered, refer to the discussion under the captions "Critical Accounting Policies" and "Allowance For Loan and Lease Losses" in this report. Heartland believes the allowance for loan and lease losses as of December 31, 2013, was at a level commensurate with the overall risk exposure of the loan portfolio. However, if economic conditions should become more unfavorable, certain borrowers may experience difficulty and the level of nonperforming loans, charge-offs and delinquencies could rise and require further increases in the provision for loan and lease losses.

Exclusive of loans covered under loss sharing agreements, the allowance for loan and lease losses at December 31, 2013, was 1.19% of loans and leases and 98.27% of nonperforming loans compared to 1.37% of loans and leases and 89.71% of nonperforming loans at December 31, 2012, and 1.48% of loans and leases and 64.09% of nonperforming loans at December 31, 2011. Exclusive of acquired loans, for which a valuation reserve is recorded, the allowance for loan and lease losses at December 31, 2013, was 1.42% of loans and leases and 105.70% of nonperforming loans. The provision for loan losses was $9.7 million during 2013 compared to $8.2 million during 2012 and $29.4 million during 2011. The increased provision in 2013 was primarily a result of a provision to create a specific allowance for a single impaired loan, resulting in an aggregate allowance for loan and lease losses on impaired loans of $6.7 million at December 31, 2013, and an allowance on non-impaired loans, exclusive of acquisitions, of $35.0 million. A reduction in the level of the allowance for loan and lease losses maintained for impaired loans was the primary contributor to the lower provision during 2012. The portion of the allowance for loan and lease losses maintained for impaired loans was $4.6 million at December 31, 2012, leaving the allowance on non-impaired loans, exclusive of acquisitions, relatively stable at 1.32% of loans and leases at December 31, 2012, compared to 1.31% at December 31, 2011. The provision for loan and lease losses began increasing with the recession in 2008, as depressed economic conditions resulted in increased delinquencies. Particularly affected were our Western markets in Arizona and Montana. The increased, although moderated, provisions continued during 2011 as some individual credits continued to be impacted and updated appraised values of collateral reflected a decline in property values due primarily to a lack of recent comparable sales and an extension of absorption periods. During 2013 and 2012, the provision returned to a pre-recession level, as property values stabilized and, in some areas, increased.

Noninterest Income

The table below summarizes Heartland's noninterest income for the years indicated, in thousands.

NONINTEREST INCOME

	For the Years Ended December 31,			% Change	
	2013	2012	2011	2013/2012	2012/2011
Service charges and fees	$17,660	$15,242	$14,303	16 %	7 %
Loan servicing income	14,413	11,300	5,932	28	90
Trust fees	11,708	10,478	9,856	12	6
Brokerage and insurance commissions	4,561	3,702	3,511	23	5
Securities gains, net	7,121	13,998	13,104	(49)	7
Gain on trading account securities, net	1,421	47	89	2,923	(47)
Impairment loss on securities	—	(981)	—	100	—
Gains on sale of loans held for sale	27,430	49,198	11,366	(44)	333
Valuation adjustment on mortgage servicing rights	496	(477)	(19)	204	(2,411)
Income on bank owned life insurance	1,555	1,442	1,349	8	7

Other noninterest income	3,253	4,713	86	(31	)	5,380	
Total Noninterest Income	$89,618	$108,662	$59,577	(18	)%	82	%

Noninterest income was $89.6 million in 2013 compared to $108.7 million in 2012, a decrease of $19.1 million or 18%, driven primarily by decreases in gains on sale of loans held for sale from our mortgage banking operations, and from decreased gains on sale of securities. These decreases were partially offset by increases in other fee income categories. During 2012, noninterest income was $108.7 million compared to $59.6 million in 2011, an increase of $49.1 million or 82% driven almost exclusively from significantly increased gains on sale of loans held for sale and servicing income from our mortgage banking operations.

Service charges and fees increased $2.4 million or 16% from 2012 to 2013 and increased $939,000 or 7% from 2011 to 2012.
Service charges on checking and savings accounts totaled $4.8 million during 2013 compared to $3.9 million during 2012, an increase of $927,000 or 24%. For 2012, service charges on checking and savings accounts increased $590,000 or 18% from $3.3 million recorded in 2011. Overdraft fees totaled $5.8 million during 2013, $5.5 million during 2012 and $5.4 million during 2011. Interchange revenue from activity on bank debit cards, along with surcharges on ATM activity, resulted in service charges and fees of $6.1 million during 2013, $5.1 million during 2012 and $5.0 million during 2011. These increases are primarily attributable to a larger demand deposit customer base in 2013, a portion of which is due to the acquisitions completed during the last half of 2012.

Loan servicing income increased $3.1 million or 28% for 2013 and $5.4 million or 90% for 2012. Included in loan servicing income are the fees collected for the servicing of mortgage loans for others, which are dependent upon the aggregate outstanding balance of these loans, rather than quarterly production and sale of mortgage loans. Fees collected for the servicing of mortgage loans for others were $6.9 million during 2013 compared to $4.4 million during 2012 and $3.6 million during 2011. The portfolio of mortgage loans serviced for others by Heartland totaled $3.05 billion at December 31, 2013, compared to $2.20 billion at December 31, 2012, and $1.54 billion at December 31, 2011. Two additional components of loan servicing income related to the mortgage loans serviced for others portfolio, mortgage servicing rights and amortization of mortgage servicing rights, are dependent upon the level of loans Heartland originates and sells into the secondary market, which in turn is highly influenced by market interest rates for home mortgage loans. Mortgage servicing rights income was $12.8 million during 2013 compared to $11.5 million during 2012 and $3.7 million during 2011. The amortization of mortgage servicing rights was $7.3 million during 2013 compared to $6.6 million during 2012 and $3.6 million during 2011. Note 8 to the consolidated financial statements contains a discussion about our mortgage servicing rights. Significant expansion of our National Residential Mortgage unit, together with historically low interest rates, combined to generate significantly higher residential mortgage loan origination activity during 2012. Slightly increasing and more stable interest rates in 2013 resulted in less refinancing activity and less loan origination activity in 2013.

The following table summarizes Heartland's residential mortgage loan activity for the years indicated, in thousands:

	As of and For the Years Ended December 31,		
	2013	2012	2011
Mortgage Servicing Fees	$6,897	$4,431	$3,605
Mortgage Servicing Rights Income	12,769	11,451	3,723
Mortgage Servicing Rights Amortization	(7,314)	(6,597)	(3,637)
Total Residential Mortgage Loan Servicing Income	$12,352	$9,285	$3,691
Valuation Adjustment on Mortgage Servicing Rights	$496	$(477)	$(19)
Gains On Sale of Loans Held For Sale	$26,959	$48,907	$11,134
Residential Mortgage Loans Originated	$1,484,949	$1,647,650	$608,236
Residential Mortgage Loans Sold	$1,421,497	$1,531,563	$452,930
Residential Mortgage Loan Servicing Portfolio	$3,045,893	$2,199,486	$1,541,517

Gains on sale of loans held for sale totaled $27.4 million during 2013 compared to $49.2 million during 2012 and $11.4 million during 2011, which result primarily from the gain or loss on sales of mortgage loans into the secondary market, related fees and fair value marks on the associated derivatives. As reflected in the table above, the volume of residential mortgage loans sold totaled $1.42 billion during 2013 compared to $1.53 billion during 2012 and $452.9 million during 2011. Refinancing activity increased during the last half of 2011 as long-term mortgage loan rates fell

to all-time lows and continued throughout 2012 and then tapered off during 2013 as residential mortgage loan interest rates increased. For the fourth quarter of 2013, refinancing activity represented 35% of Heartland's total mortgage loan originations compared to 71% during the fourth quarter of 2012.
In 2011, we began the expansion of our residential mortgage loan operations with the opening of loan production offices in both existing states, as well the new states of California and Nevada during 2011; Wyoming, Nevada, Idaho and North Dakota during 2012; and Oregon, Washington and Nebraska during 2013.

Trust fees increased $1.2 million or 12% during 2013 and $622,000 or 6% during 2012. A large portion of trust fees are based upon the market value of the trust assets under management, which was $1.62 billion at December 31, 2013, compared to $1.38 billion at December 31, 2012, and $1.36 billion at December 31, 2011. Those values fluctuate throughout the year as market conditions improve or decline. The total number of trust accounts was 1,944 at December 31, 2013, compared to 1,950 at December 31, 2012, and 1,987 at December 31, 2011.

Brokerage and insurance commissions increased $859,000 or 23% during 2013 and $191,000 or 5% during 2012. These fees benefited from a more active securities market in 2013.

Securities gains totaled $7.1 million during 2013 compared to $14.0 million during 2012 and $13.1 million during 2011. As market interest rates began to increase in the last three quarters of 2013, the value of Heartland's securities portfolio was impacted, making the realization of securities gains more difficult. During both years 2012 and 2011, volatility in the bond market provided opportunities to swap securities from one sector of the portfolio to another without significantly changing the duration of the portfolio. During 2012, we implemented a strategy of selling short duration (less than 1.5 years) mortgage-backed securities and replacing with well-structured, non-callable bonds, which are expected to protect us under a wider range of possible interest rate scenarios and decrease susceptibility to the mortgage prepayment risk associated with mortgage-backed securities. Strategies implemented during 2011 included the sale of taxable municipal bonds and reinvestment into tax-exempt municipal bonds and the shift of a portion of the securities portfolio from agencies to treasuries and shorter-term mortgage-backed securities. Additionally, during 2013, two private label Z tranche securities with a book value of $31,000 were sold at a gain of $1.6 million. During 2011, one of these private label Z tranche securities with a book value of $10,000 was sold at a gain of $1.4 million. Five of these Z tranche securities remain in Heartland's securities available for sale portfolio at a book value of $89,000 and a market value of $3.3 million at December 31, 2013. Management has not determined when any future sales of these Z tranche securities will occur.

Offsetting, in part, the securities gains during 2012 was an impairment loss on three private-label mortgage-backed securities totaling $981,000 recorded during the first quarter of 2012. This impairment charge related to a decline in the credit quality of these securities. Management does not anticipate further declines on these or any other securities within the portfolio due to credit quality, but will continue to monitor the portfolio for any further declines. Based on its analysis, management believes it is prudent to continue to hold these securities as their economic value exceeds their market value.

Trading securities experienced net gains of $1.4 million during 2013 compared to $47,000 during 2012 and $89,000 during 2011. The net gains in 2013 were primarily attributable to shares of Fannie Mae preferred stock Heartland has held in its trading securities portfolio since 2008. Subsequent to December 31, 2013, this stock was sold.

Other noninterest income was $3.3 million during 2013 compared to $4.7 million during 2012 and $86,000 during 2011. Affecting other noninterest income were payments due to or from the FDIC under loss share agreements associated with The Elizabeth State Bank acquisition completed in 2009. Payments due to the FDIC totaled $913,000 during 2011, whereas payments due from the FDIC totaled $463,000 during 2013 and $203,000 during 2012. Included in other noninterest income during 2013 was $438,000 in gains on two real estate properties obtained through collection efforts on nonperforming loans. Included in other noninterest income during 2012 was $2.0 million in equity earnings which resulted from the sale of two low-income housing projects within partnerships in which Dubuque Bank and Trust Company was a member and a $682,000 write up on the appraised value of real property obtained through collection efforts on nonperforming loans.

Noninterest Expenses

The following table summarizes Heartland's noninterest expenses for the years indicated, in thousands.
NONINTEREST EXPENSES

	For the Years Ended December 31,			% Change	
	2013	2012	2011	2013/2012	2012/2011
Salaries and employee benefits	$118,224	$105,727	$75,537	12 %	40 %
Occupancy	13,459	10,629	9,363	27	14
Furniture and equipment	8,040	6,326	5,636	27	12
Professional fees	17,532	15,338	12,567	14	22
FDIC insurance assessments	3,544	3,292	3,777	8	(13)
Advertising	5,294	5,294	4,292	—	23
Intangible assets amortization	1,063	562	572	89	(2)
Net loss on repossessed assets	7,244	9,969	9,807	(27)	2
Other noninterest expenses	22,161	26,244	15,745	(16)	67
Total Noninterest Expenses	$196,561	$183,381	$137,296	7 %	34 %
Efficiency ratio, fully taxable equivalent (1)	76.84 %	72.71 %	69.41 %		

(1) Efficiency ratio, fully taxable equivalent, is noninterest expense, divided by the sum of taxable equivalent net interest income plus noninterest income, excluding securities gains (losses), net. This efficiency ratio is presented on a taxable equivalent basis, which adjusts net interest income for the tax-favored status of certain loans and investment securities. Management believes this measure to be the preferred industry measurement of net interest income as it enhances the comparability of net interest income arising from taxable and tax-exempt sources, and it excludes certain specific revenue items (such as investment securities gains (losses), net). This is a non-GAAP measure.

Noninterest expenses totaled $196.6 million in 2013 compared to $183.4 million in 2012, a $13.2 million or 7% increase. During 2013, significant increases in salaries and employee benefits, occupancy, furniture and equipment and professional fees were partially offset by decreases in net losses on repossessed assets and other noninterest expenses Noninterest expenses totaled $183.4 million in 2012 compared to $137.3 million in 2011, a $46.1 million or 34% increase. Categories contributing most significantly to the increase during 2012 were salaries and employee benefits, occupancy, professional fees, advertising and other noninterest expenses.

The largest component of noninterest expense, salaries and employee benefits, increased $12.5 million or 12% in 2013 and $30.2 million or 40% in 2012. A large portion of these increases resulted from the expansion of Heartland's residential loan origination operations, with a smaller portion attributable to the additional employees joining Heartland through the acquisitions completed during the last two quarters of 2012. On a sequential quarterly basis, salaries and employee benefits expense decreased during the third quarter of 2013 and were relatively flat during the first half of 2013 as expansion of Heartland's mortgage banking operations slowed. A large portion of the increase during 2012 resulted from the expansion of residential loan origination and the addition of personnel in the Heartland Mortgage and National Residential Mortgage unit. Commission expense, a large portion of which is associated with mortgage loan origination activity, was $19.3 million during 2013, $19.8 million during 2012 and $6.8 million during 2011. Additionally, the accrual for incentive plan compensation payouts was significantly higher in 2012, in direct correlation with the higher earnings and the reinstatement of incentive compensation for Heartland's executive officers after the repayment of TARP (Troubled Asset Relief Program) funds. Full-time equivalent employees totaled 1,676 on December 31, 2013, compared to 1,498 on December 31, 2012. The acquisitions completed in the fourth quarter of 2013 added 133 full-time equivalent employees representing 75% of this increase. Total average full-time equivalent employees were 1,339 during 2012 compared to 1,098 during 2011.

Occupancy expense increased $2.8 million or 27% in 2013 and $1.3 million or 14% in 2012. Furniture and equipment expense increased $1.7 million or 27% during 2013 and $690,000 or 12% during 2012. These increases primarily resulted from the residential loan origination operations expansion and the acquisitions completed during the last two quarters of 2012.

Professional fees increased $2.2 million or 14% during 2013 and $2.8 million or 22% during 2012. These increases were primarily attributable to Heartland's expansion of its mortgage loan origination operations and the services provided to Heartland by third-party consultants, including those performed in relation to acquisitions.

Advertising expense remained consistent at $5.3 million during 2013 and 2012 compared to $4.3 million during 2011. Promotional expenses increased during 2012 commensurate with our residential mortgage expansion, increased media advertising for retail checking accounts and television and radio production expenses for branding campaigns, which continued to be utilized in 2013.

Net losses on repossessed assets totaled $7.2 million during 2013 compared to $10.0 million during 2012 and $9.8 million during 2011. The majority of the losses during 2012 and 2011 resulted from valuation adjustments due to reductions in real estate values.

Other noninterest expenses were $22.2 million during 2013 compared to $26.2 million during 2012 and $15.7 million during 2011. Included in other noninterest expenses during the fourth quarter of both years were writedowns on investments in commercial and residential real estate projects which qualified for historic rehabilitation tax credits totaling $623,000 during 2013 and $5.8 million during 2012. These writedowns were $596,000 in 2013 and $5.3 million in 2012. Also included in the 2012 noninterest expenses were $442,000 in costs incurred for early termination fees on service contracts, severance payouts and retention bonuses paid as a result of the acquisitions. Provisions to fund a repurchase reserve for the potential buyback of residential mortgage loans were recorded in the amount of $530,000 during 2013, $2.6 million during 2012 and $613,000 during 2011, the first year we began such a provision. Also included in the 2012 other noninterest expenses was a $302,000 charge for an early payment fee and remaining unamortized issuance costs due to the early redemption of $5.0 million of trust preferred securities. The 2011 noninterest expenses included a $403,000 writedown on land in Phoenix, Arizona, which had originally been purchased for branch expansion but has now been listed for sale. Additionally, a large portion of the increases in other noninterest expenses in both years was attributable to the expansion of our mortgage origination operations.

Income Taxes

Heartland's effective tax rate was 21.9% for 2013 compared to 25.9% for 2012 and 26.9% for 2011. Heartland's income taxes included the net effect of federal historic rehabilitation tax credits totaling $898,000 for 2013 and $5.8 million in 2012. During 2011, Heartland's income taxes included a $404,000 refund for state taxes attributable to the 2007 and 2008 tax years. Federal low-income housing tax credits included in Heartland's effective tax rate totaled $798,000 during all three years of 2013, 2012 and 2011. Heartland's effective tax rate is also affected by the level of tax-exempt interest income which, as a percentage of pre-tax income, was 37.3% during 2013, 20.4% during 2012 and 28.8% during 2011. The tax-equivalent adjustment for this tax-exempt interest income was $9.5 million during 2013, $7.4 million during 2012 and $5.9 million during 2011.

Segment Reporting

Heartland has two reportable segments: community and other banking and retail mortgage banking. Revenues from community and other banking operations consist primarily of interest earned on loans and investment securities and fees from deposit services. Retail mortgage banking operating revenues consist of interest earned on mortgage loans held for sale, gains on sales of loans into the secondary market, the servicing of mortgage loans for various investors and loan origination fee income. See Note 21 to our consolidated financial statements for further information regarding our segment reporting.

Income before taxes for the community and other banking segment for 2013 was $50.8 million compared to $48.0 million for 2012 and $36.8 million for 2011. The increases in both periods were primarily a result of increased net interest income and a lower provision for loan and lease losses; increases in the other noninterest income categories of services charges and fees, trust fees and brokerage and insurance commissions; offset in part by increased noninterest expenses, particularly in the categories of salaries and employee benefits, occupancy, furniture and equipment and professional fees, primarily as a result of the acquisitions completed in the third and fourth quarters of 2012. The community and other banking segment also benefited from significantly higher gains on sale of securities during 2012. Net interest income in this segment was $161.5 million for 2013 compared to $147.9 million for 2012 and

$145.1 million for 2011. Provision for loan and lease losses was $9.7 million for 2013 compared to $8.2 million for 2012 and $29.4 million for 2011. Noninterest income totaled $49.8 million for 2013 compared to $50.9 million for 2012 and $44.8 million for 2011. Noninterest expense was $150.8 million for 2013 compared to $142.6 million for 2012 and $123.7 million for 2011.

The retail mortgage banking segment recorded a loss before taxes of $3.6 million for 2013 compared to income before taxes of $19.2 million for 2012 and $1.5 million for 2011. The decrease in 2013 is reflective of the change in long-term interest rates during the second and third quarters of 2013, resulting in lower loan originations, and the effect higher interest rates have on the gains on sale of loans into the secondary market. Also contributing to the decreases in income before taxes for the retail mortgage banking segment were additional expenses incurred during 2013 due to expansion efforts. Net interest income for this segment was $2.4 million for 2013 compared to $2.3 million for 2012 and $296,000 for 2011. Noninterest income totaled $39.8 million during 2013 compared to $57.7 million during 2012 and $14.8 million during 2011 reflecting primarily gains on sale of loans held for sale. Noninterest expense was $45.8 million during 2013 compared to $40.7 million during 2012 and $13.6 million during 2011.

FINANCIAL CONDITION

Total assets were $5.92 billion at December 31, 2013, an increase of $933.2 million or 19% since December 31, 2012. Included in the asset growth for 2013 were $810.8 million of assets acquired in the Morrill & Janes merger and $67.1 million in assets acquired in the Freedom acquisition. Total assets were $4.99 billion at December 31, 2012, an increase of $685.5 million or 16% since December 31, 2011. Included in the asset growth for 2012 were the $53.5 million in assets acquired from Liberty Bank, FSB, $128.0 million in assets acquired in the First Shares, Inc. transaction and $109.1 million acquired in the Heritage Bank acquisition.

Lending Activities

Heartland’s major source of income is interest on loans and leases. The table below presents the composition of Heartland’s loan and lease portfolio at the end of the years indicated, in thousands:

LOAN AND LEASE PORTFOLIO

	As of December 31,									
	2013		2012		2011		2010		2009	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Loans and leases receivable held to maturity:										
Commercial	$950,197	27.16 %	$712,308	25.22 %	$646,116	25.97 %	$559,012	23.79 %	$422,347	18.08
Commercial real estate	1,529,683	43.70	1,289,184	45.62	1,163,784	46.79	1,160,962	49.43	1,250,087	53.52
Agricultural and agricultural real estate	376,735	10.76	328,311	11.62	262,975	10.57	250,943	10.68	256,780	10.99
Residential mortgage	349,349	9.98	249,689	8.84	194,436	7.82	163,726	6.97	175,059	7.49
Consumer	294,145	8.40	245,678	8.70	220,099	8.85	214,515	9.13	231,709	9.92
Gross loans and leases receivable held to maturity	3,500,109	100.00 %	2,825,170	100.00 %	2,487,410	100.00 %	2,349,158	100.00 %	2,335,982	100.0
Unearned discount	(168)		(676)		(2,463)		(2,581)		(2,491)	
Deferred loan fees	(2,989)		(2,945)		(3,663)		(2,590)		(2,349)	
Total net loans and leases receivable held to maturity	$3,496,952		$2,821,549		$2,481,284		$2,343,987		$2,331,142	

Loans covered under loss share agreements:										
Commercial and commercial real estate	$2,314	40.24 %	$3,074	42.38 %	$6,380	47.80 %	$10,056	48.34 %	$15,068	47.29
Agricultural and agricultural real estate	543	9.45	748	10.31	1,659	12.43	2,723	13.09	8,984	28.20
Residential mortgage	2,280	39.66	2,645	36.47	4,158	31.15	5,792	27.85	3,626	11.38
Consumer	612	10.65	786	10.84	1,150	8.62	2,229	10.72	4,182	13.13
Total loans covered under loss share agreements	5,749	100.00 %	7,253	100.00 %	13,347	100.00 %	20,800	100.00 %	31,860	