HEARTLAND FINANCIAL USA INC
Form 10-K
March 16, 2011
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, 2010

Commission File Number: 0-24724

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 R

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 R

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 R 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 * 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 R 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 R

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, 2010, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $250,015,762.

As of March 15, 2011, the Registrant had issued and outstanding 16,418,228 shares of common stock, $1.00 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Proxy Statement for the 2011 Annual Meeting of Stockholders are incorporated by reference into Part III.
HEARTLAND FINANCIAL USA, INC.
Form 10-K Annual Report
Table of Contents

Part III

Part IV

Table of Contents

PART I.

ITEM 1.

BUSINESS

A. GENERAL DESCRIPTION

Heartland Financial USA, Inc. ("Heartland") 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. Headquartered in Dubuque, Iowa, Heartland has ten bank subsidiaries in the States of Iowa, Illinois, Wisconsin, New Mexico, Arizona, Montana, Colorado and Minnesota, (collectively, the "Bank Subsidiaries"). All ten Bank Subsidiaries are members of the Federal Deposit Insurance Corporation (the "FDIC"). The Bank Subsidiaries listed below operate a total of 61 banking locations:

- Dubuque Bank and Trust Company, Dubuque, Iowa, is chartered under the laws of the State of Iowa. Dubuque Bank and Trust Company has two wholly-owned subsidiaries: DB&T Insurance, Inc., a multi-line insurance agency and DB&T Community Development Corp., a partner in low-income housing and historic rehabilitation projects.
- Galena State Bank & Trust Co., Galena, Illinois, is chartered under the laws of the State of Illinois.
- First Community Bank, Keokuk, Iowa, is chartered under the laws of the State of Iowa.
- Riverside Community Bank, Rockford, Illinois, is chartered under the laws of the State of Illinois.
- 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.

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

- Citizens Finance Co. is a consumer finance company with offices in Iowa, Illinois and Wisconsin.
- Heartland Community Development Inc. is 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 six 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 and Rocky Mountain Statutory Trust I.

Heartland’s subsidiaries are wholly owned, except for Summit Bank & Trust, of which Heartland owned 87% of the capital stock on December 31, 2010, and Minnesota Bank & Trust, of which Heartland owned 80% of the capital stock on December 31, 2010.

At December 31, 2010, Heartland had total assets of $4.0 billion, total loans of $2.3 billion and total deposits of $3.0 billion. Heartland’s total capital as of December 31, 2010, was $329.1 million. Net income available to common stockholders for 2010 was $18.6 million.

On December 29, 2010, we announced our intention to combine the state banking charter of First Community Bank, a subsidiary located in Keokuk, Iowa, with Dubuque Bank and Trust Company, our flagship bank headquartered in

Dubuque, Iowa. This consolidation of charters was driven by the opportunity to realize efficiencies in operating costs, audit fees, regulatory examinations and insurance premiums. Both banks currently exceed all regulatory capital requirements and Dubuque Bank and Trust Company will continue to be “well capitalized” after the consolidation. We do not expect the consolidation to impact customer service at First Community Bank and all insured deposit accounts will continue to have the benefit of FDIC insurance coverage to the maximum extent permitted. The consolidation is planned for the second quarter of 2011.

The principal business of our Bank Subsidiaries consists of making loans to and accepting deposits from businesses and individuals. Both our loans and our deposits are generated primarily in the communities we serve through strong banking and community relationships, and management that is locally active. Our lending and investment activities are funded primarily by

Table of Contents

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. Our Bank Subsidiaries provide full service commercial and retail banking in their communities. 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, 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 and provide convenient client access to account information and electronic banking services through business and personal online banking, 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
- Extensive menu of wealth management, investment services, insurance, leasing, mortgage 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 a complete line of financial products and services, is sufficient to effectively compete in its 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 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 the operating strategy is to encourage all directors, officers and employees to maintain a strong ownership interest in Heartland. We have established ownership guidelines for executive management and have made an employee stock purchase plan available to employees since 1996. As of December 31, 2010, employees, officers, and directors owned approximately 35% of Heartland's outstanding common stock.

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.

Table of Contents

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 both FDIC facilitated acquisitions and non-assisted transactions. Although we are focused on opportunities in our current markets and near adjacent markets, we would consider acquisitions in a new market if it fits our business model and would be immediately additive to earnings. 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 philosophy.

We have focused on markets with growth potential in the Midwestern and Western regions of the United States. In August 2003, Heartland and a group of investors opened Arizona Bank & Trust, a de novo banking operation, followed with a second location in 2004 and a third location in 2005. 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. We opened a sixth location in 2007.

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

In November 2006, we opened Summit Bank & Trust, a de novo banking operation in Broomfield, Colorado. Like some of our earlier de novo banks, Heartland provided 80% of the $15.0 million initial capital and the remaining 20% was provided by a group of local investors. In 2007, Summit Bank & Trust opened two additional locations.

One of Heartland’s strategic goals is to expand its presence in the Western markets to 50% of its total assets, thereby balancing the growth in its Western markets with the stability of the Midwestern markets. As of December 31, 2010, Heartland had approximately 41% of its assets in Western markets.

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 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.

Lending Activities

General

The Bank Subsidiaries provide a range of commercial and retail lending services to businesses and individuals. These credit activities include agricultural, commercial, residential and consumer loans.

The Bank Subsidiaries market their services to qualified lending customers. Lending officers actively solicit the business of new companies entering their market areas as well as long-standing members of the Bank Subsidiaries' respective business communities. Through professional service, competitive pricing and innovative structure, the Bank Subsidiaries have been successful in attracting new lending customers. Heartland also actively pursues consumer lending opportunities. With convenient locations, advertising and customer communications, the Bank Subsidiaries have been successful in capitalizing on the credit needs of their market areas.

Commercial Loans

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.

Table of Contents

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 Community Bank, Rocky Mountain Bank and New Mexico Bank & Trust are each designated as a Preferred Lender by the U.S. Small Business Administration (SBA). These three banks, along with Riverside Community Bank, are also designated as SBA Express Lenders. Additionally, Wisconsin Community Bank has been granted USDA Certified Lender status for the USDA Rural Development Business and Industry loan program and, in combination with our other Bank Subsidiaries, was the fourth largest lender in the nation for this program during 2010. 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 some 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 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 has negatively impacted Heartland’s overall asset quality since 2008. In response, we have developed 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.

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 Community Bank’s Monroe banking center and New Mexico Bank & Trust’s Clovis 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, 2010. 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 Loans

Mortgage lending remains a focal point for the Bank Subsidiaries as each of them continues to build its 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 on the loans sold to Fannie Mae. 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 regular contact with mortgage loan customers. At December 31, 2010, total residential real estate mortgage loans serviced for others totaled $1.40 billion.

As with agricultural and commercial loans, we encourage the Bank Subsidiaries to participate in lending programs sponsored by U.S. government agencies when justified by market conditions. Veterans Administration and Federal Home Administration loans are offered at all of the Bank Subsidiaries.

Late in 2010, we announced a significant addition to our residential mortgage lending capabilities with the hiring of a mortgage banking team of professionals and executives in the Phoenix, Arizona market. Operating under the brand, National Residential Mortgage, the unit had previously operated as a profitable division of a recently-failed thrift. The unit is now offering mortgage lending services at Arizona Bank & Trust, New Mexico Bank & Trust and Summit Bank & Trust, with planned expansion into other Heartland and non-Heartland markets likely over time. Administrative and back office support for these operations will be performed within a division of our lead bank, Dubuque Bank and Trust Company.

Consumer Lending

The consumer lending departments of our Bank Subsidiaries provide a broad array of consumer loans, including motor vehicle, home improvement, home equity and small personal credit lines. Consumer loans typically have shorter terms, lower balances, higher yields and higher risks of default than one- to four-family residential mortgage loans. Consumer loan collections are dependent on the borrower’s continuing financial stability, and are therefore more likely to be affected by adverse personal circumstances.

Our consumer finance subsidiary, Citizens Finance Co., specializes in consumer lending and currently serves the consumer credit needs of approximately 8,700 customers from its offices in Iowa, Illinois and Wisconsin. Citizens Finance 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 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.

Trust and Investment Services

Dubuque Bank and Trust Company, Galena State Bank & Trust Co., Riverside Community Bank, Wisconsin Community Bank, New Mexico Bank & Trust, Arizona Bank & Trust and Minnesota Bank & Trust offer trust and investment services in their respective communities. In those markets which 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, 2010, total Heartland trust assets were $2.0 billion, the vast majority of which were assets under management. Collectively, the Bank Subsidiaries provide a full complement of trust and investment services for individuals and corporations.

Dubuque Bank and Trust Company is nationally recognized as a leading provider of socially responsible investment services, and it manages investment portfolios for religious and other non-profit organizations located throughout the United States. Dubuque Bank and Trust Company is also Heartland’s lead bank in providing daily valuation 401(k) plans and other retirement services, including Heartland’s retirement plan for its employees.

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 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.

Table of Contents

Heartland’s operations center is located directly across the street from Dubuque Bank and Trust Company’s main office. In addition to its main banking office, Dubuque Bank and Trust Company operates seven branch offices, all of which are located in Dubuque County. As a subsidiary of Dubuque Bank and Trust Company, DB&T Insurance has substantially the same market area as the parent organization.

The administrative and back office support for National Residential Mortgage, the brand name used by us for mortgage lending services at some of our Bank Subsidiaries, operates as a division of Dubuque Bank and Trust Company from an office facility in Phoenix, Arizona.

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 offices are located in Jo Daviess County, which has a population of 22,678, according to the 2010 census.

First Community Bank

First Community Bank’s main office is in Keokuk, Iowa, which is located in the southeast corner of Iowa near the borders of Iowa, Missouri and Illinois. First Community Bank operates a second office in Keokuk and another office in Carthage, Illinois. These offices 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. To increase efficiency, we intend to combine the First Community Bank charter with the Dubuque Bank and Trust Company charter during the second quarter of 2011.

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.

Wisconsin Community Bank

Wisconsin Community Bank’s main office is located in Madison, Wisconsin, in Dane County. The bank operates three branch offices in the Madison suburbs as well as one branch office in Monroe, Illinois. Dane County has a population of approximately 491,000 and the population of Madison is estimated at 223,000. The city of Monroe is approximately 50 miles southwest of Madison in Green County. Wisconsin Community Bank also has an office in the cities of Sheboygan and DePere, Wisconsin, that operate under the name of Heartland Business Bank. Sheboygan and DePere are located in the northeastern Wisconsin counties of Sheboygan and Brown, respectively.

New Mexico Bank & Trust

New Mexico Bank & Trust operates ten offices in or around Albuquerque, New Mexico, four offices in and around Clovis, New Mexico, and two offices in Santa Fe, New Mexico. Located in Bernalillo County, Albuquerque has a population of approximately 505,000. 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 approximately 32,000. Santa Fe, located in Santa Fe County, has a population of approximately 62,000.

Arizona Bank & Trust

Arizona Bank & Trust currently operates six offices in Arizona, including the main office in Phoenix, one in Mesa, one in Tempe, one in Gilbert and two in Chandler. These cities are all located in the Phoenix metropolitan area within Maricopa County. The U.S. Census Bureau estimates the population of the Phoenix metro area at approximately 4,300,000 as of 2009, an increase of 34% since 2000.

Rocky Mountain Bank

Rocky Mountain Bank operates from nine locations throughout the State of Montana. Rocky Mountain Bank's main office and

Table of Contents

a second office are 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 population of approximately 145,000 and the city has a population of approximately 100,000. The bank has one office in northeastern Montana in the city of Plentywood. Its remaining six offices are spread throughout the western corridor of Montana in the cities of Bozeman, Bigfork, Kalispell, Plains, Stevensville and Whitehall.

Summit Bank & Trust

The main facility for Summit Bank & Trust is 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 was estimated at 46,000 in 2008 by the U.S. Census Bureau. Broomfield is the sixteenth most populous city in the State of Colorado. A second location was opened in June 2007 in Thornton, just north of the Denver International Airport and a third location was added in October of 2007 in the town of Erie, Colorado, which is approximately 25 miles north of Denver.

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 estimated at 45,000 in 2006 by the U.S. Census Bureau.

Citizens Finance Co.

Citizens Finance Co. is headquartered in Dubuque, Iowa, with additional offices in Davenport, Iowa; Cedar Rapids, Iowa; Madison, Wisconsin; Appleton, Wisconsin; Loves Park, Illinois; Tinley Park, Illinois; Crystal Lake, Illinois; and Aurora, Illinois.

The following table sets forth certain information concerning the Bank Subsidiaries as of December 31, 2010:
Heartland Bank Subsidiaries
(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	Dubuque, IA	1935	8	$673,399	$809,271
Galena State Bank & Trust Co.	Galena, IL	1992	4	$137,153	$236,647
First Community Bank	Keokuk, IA	1994	3	$60,827	$93,578
Riverside Community Bank	Rockford, IL	1995	4	$162,706	$241,184
Wisconsin Community Bank	Madison, WI	1997	7	$320,711	$392,432
New Mexico Bank & Trust	Albuquerque, NM	1998	16	$513,658	$646,302
Arizona Bank & Trust	Phoenix, AZ	2003	6	$124,388	$183,279
Rocky Mountain Bank	Billings, MT	2004	9	$246,213	$347,924
Summit Bank & Trust	Broomfield, CO	2006	3	$48,020	$81,024
Minnesota Bank & Trust	Edina, MN	2008	1	$36,013	$44,278

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

Table of Contents

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, professional service and competitive interest rates.

D. EMPLOYEES

At December 31, 2010, Heartland employed 1,066 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. We offer a variety of employee benefits, and we consider our employee relations to be excellent. Predictive Index software is utilized to assist with placing potential employees in new positions and with evaluating current positions.

E. INTERNET ACCESS

Heartland maintains an Internet site 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 Web site.

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 eight 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 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”).

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”), Heartland is also subject to direct supervision by the United States Department of the Treasury (the "Treasury").

Taxation laws administered by the Internal Revenue Service and state taxing authorities and securities laws administered by the Securities and Exchange Commission (the "SEC") and state securities authorities also have an impact on the business of Heartland. The effect of these statutes, regulations and regulatory policies may be significant, and cannot be predicted with a high degree of certainty.

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

Table of Contents

FDIC-insured deposits and depositors of the Bank Subsidiaries, rather than shareholders.

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. Each of the federal agencies that regulate Heartland and its Bank Subsidiaries is required to adopt regulations under the Dodd-Frank Act. Any such 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.

Dodd-Frank Act

The Dodd-Frank Act significantly changes the regulatory framework for banks and bank holding companies, and requires significant rulemaking and numerous studies and reports over the next several years. Among other things, the Dodd-Frank Act:

- establishes the Bureau of Consumer Financial Protection (the "BCFP"), which has broad authority to regulate providers of credit, savings, payment and other consumer financial products and services;
- makes permanent the $250,000 deposit insurance limit on insured deposits, and revises the assessment base for the calculation of the FDIC insurance assessments for financial institutions;
- restricts securities trading activities and support for and investments in private funds;
- creates a new structure for resolving troubled or failed financial institutions;
- requires the federal banking agencies to adopt new capital requirements that are no less stringent than those currently in effect, and eliminates, subject to certain exceptions, the differences in calculation of capital for a holding company as opposed to a subsidiary financial institution;
- extends the limitations on insider transactions, affiliate transactions and loans to a single borrower, and enhances the regulation of consumer mortgage banking and predatory lending activities;
- requires federal banking agencies to adopt regulations relating to compensation practices of covered institutions;
- requires risk retention on mortgage originations; and
- limits the pre-emption of local laws applicable to national banks.

In addition to the Dodd-Frank Act, other legislative proposals have been made both domestically and internationally. Among other things, these proposals include additional capital and liquidity requirements and limitations on size or types of activity in which banks may engage.

Small Business Lending Fund

Enacted as part of the Small Business Jobs Act, the Small Business Lending Fund (the "SBLF") provides up to $30.0 billion in funds to encourage community banks to lend to small businesses. Under the SBLF, Treasury provides Tier 1 capital to qualifying banks and bank holding companies with assets of less than $10.0 billion by purchasing from the qualifying financial institution Tier 1-qualifying senior perpetual non-cumulative preferred stock with a liquidation preference of $1,000 per share. The dividend rate on the preferred stock will initially be a maximum of 5.00%. The dividend rate decreases as the qualifying financial institution's small business lending increases by 10% or more, and can fall as low as 1.00%, and, if small business lending does not increase in the first two years, the rate will increase to 7.00%. After 4.5 years, the rate will increase to 9.00% if the financial institution has not repaid the SBLF funding.

The SBLF is available to participants in the CPP as a method to refinance the preferred stock issued through that program. In addition to the requirements that apply to all SBLF participants, CPP participants must also meet the following requirements to refinance outstanding CPP securities:

- the financial institution must be in material compliance with all terms, conditions and covenants of any CPP agreement and financial instrument;

- the financial institution must not have missed more than one dividend payment under CPP; and
- the financial institution must pay, in immediately available funds, the amount of any unpaid dividends for the payment period prior to the SBLF closing date, plus accrued and unpaid dividends as of the date of refinancing for the payment period that includes the closing date.

The maximum amount of available SBLF funding to a qualifying financial institution is limited to 5% of risk-weighted assets for institutions up to $1.0 billion in assets. For financial institutions with more than $1.0 billion and less than $10.0 billion in assets, like Heartland, the maximum is 3% of risk-weighted assets. The application deadline is March 31, 2011. Heartland has applied for participation in the SBLF in an amount equal to the TARP funds received in 2008. If approval is received from Treasury, Heartland will have an opportunity to determine if participation in the SBLF is in its best interests before committing to the program. Participants in the SBLF may exit the program at any time, with approval from their primary regulator, by

Table of Contents

repaying Treasury in full along with any accrued dividends.

Heartland

General

Heartland, as the sole shareholder of Dubuque Bank and Trust Company, New Mexico Bank & Trust, Rocky Mountain Bank, Wisconsin Community Bank, Galena State Bank & Trust Co., Riverside Community Bank, First Community Bank and Arizona Bank & Trust and the controlling shareholder of Summit Bank & Trust and Minnesota Bank & Trust, 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 BHCA. In accordance with Federal Reserve policy, Heartland is expected to act as a source of financial 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, including securities and insurance underwriting and sales, merchant banking and any other activity that the Federal Reserve, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature, incidental to any such financial activity or complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. 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

Table of Contents

a bank holding company is not well-capitalized, under the Dodd-Frank Act 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 of December 31, 2010, Heartland had regulatory capital in excess of the Federal Reserve's minimum requirements.

Treasury Regulation-the Emergency Economic Stabilization Act of 2008 and the American Recovery and Reinvestment Tax Act of 2009

Treasury created the TARP CPP in 2008 to invest in the senior preferred stock of qualifying U.S. banks and savings associations or their holding companies. Under the CPP, qualifying financial institutions issued to Treasury senior preferred stock with a value equal to not less than 1% of risk-weighted assets and not more than the lesser of $25 billion or 3% of risk-weighted assets.

On December 19, 2008, Heartland issued and sold $81.7 million of its Fixed Rate Cumulative Perpetual Preferred Stock (the “Senior Preferred Stock”) to Treasury pursuant to the CPP. The Senior Preferred Stock, which has terms that were set by Treasury and that are relatively uniform among publicly held banks participating in the program:

- pays dividends to Treasury at a rate of 5% per year until the fifth anniversary of the investment and at 9% after that time;
- prohibits dividends on common stock unless all dividends have been paid on the Senior Preferred Stock;
- requires the consent of Treasury for any increase in the dividends paid on the common stock, or for any stock repurchases, until the third anniversary of the investment, unless the Senior Preferred Stock has been previously redeemed in its entirety or unless Treasury has transferred the Senior Preferred Stock to third parties;
- has no voting rights, other than the right to vote as a class on the issuance of any preferred stock ranking senior, any change in its terms or any merger, exchange or similar transaction that would adversely affect its rights;
- has the right to elect two directors if dividends have not been paid for six quarterly periods;
- is freely transferable and required Heartland to file a shelf registration statement covering the sale of the Senior Preferred Stock, which Heartland completed in January, 2009; and
- may be redeemed at any time with the approval of Heartland's primary regulator (the FDIC).

Heartland, like all publicly held institutions participating in the CPP, also issued to Treasury an immediately exercisable 10-year warrant to purchase shares of common stock with an aggregate market price equal to 15% of the amount of the Senior Preferred Stock: a warrant to purchase 609,687 shares for Heartland (the “Warrant”). The Warrant is exercisable at a price of $20.10 per share (the average closing price of the common stock for the 20 trading days prior to the date of Treasury's approval). The purchase agreement pursuant to which the Senior Preferred Stock and Warrant were issued (the “Purchase Agreement”) prohibits Treasury from exercising voting rights with respect to any shares of common stock acquired through exercise of the Warrant. Heartland has registered the issuance of the shares of common stock underlying the Warrant with the SEC.

Under the Purchase Agreement and regulations adopted under EESA and the American Recovery and Reinvestment Act of 2009 (the "ARRA"), compensation paid to executive officers and highly paid employees by financial institutions, such as Heartland, that have received CPP funds is subject to a number of restrictions. Among other things, these restrictions will require that, while the Senior Preferred Stock is outstanding, Heartland will be:

- prohibited from paying incentive compensation, except restricted stock that vests after the CPP funds are repaid, to its five most highly compensated employees;
- required to have its compensation committee review with its senior risk officers at least every six months (i) the incentive compensation arrangements for senior executive officers to ensure that the arrangements do not encourage senior executive officers to take unnecessary and excessive risks, (ii) all employee compensation plans to limit

unnecessary risks those plans impose, and (iii) all employee plans to eliminate features that would encourage manipulation of reported earnings, and to have the compensation committee certify annually as to the completion of that review;

- required to extend the clawback provisions to its 20 most highly compensated employees;
- prohibited from making any severance payment whatsoever, including what has traditionally been referred to as a parachute payment, to the executives named in the summary compensation table of its proxy statement or any of the five next most highly compensated employees;
- required to annually present its compensation policies to a non-binding vote by stockholders--a say-on-pay vote;
- required to adopt policies regarding excessive and luxury expenditures; and
- required to have its CEO and CFO annually certify that Heartland has complied with these requirements as part of its annual filing with the SEC (this Form 10-K).

Except with respect to the prohibition on incentive compensation to its five most highly compensated employees, Heartland does not believe these provisions have any material impact on it.

Dividend Payments

Heartland's common stock is registered with the SEC under Section 12(b) of the Exchange Act. Consequently, Heartland is subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act.

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 and First Community Bank are Iowa-chartered banks. As Iowa-chartered banks, Dubuque Bank and Trust Company and First Community Bank are 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 Community Bank is a Wisconsin-chartered bank. As a Wisconsin-chartered bank, Wisconsin Community Bank 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.

Table of Contents

Deposit Insurance

The FDIC is an independent federal agency that insures the deposits, up to prescribed statutory limits, of federally insured banks and savings institutions and safeguards the safety and soundness of the commercial banking and thrift industries. Until October 2008, the maximum deposit insurance coverage was $100,000 per beneficiary ($250,000 per participant for retirement plans) but was temporarily increased to $250,000 under EESA, and the increase was made permanent under the Dodd-Frank Act.

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 is based on this risk classification and, currently, the amount of its deposits.

The aggregate level of assessments levied by the FDIC on depositary institutions is dependent upon the reserve ratio of insurance funds available to the FDIC. Due to bank failures during 2008, the reserve ratio fell below the statutory minimum and the FDIC adopted a plan to restore the ratio to its 1.15% minimum. On February 27, 2009, the FDIC announced that it was increasing the quarterly deposit insurance assessment for most insured institutions to a range of 12 to 16 basis points (0.12% to 0.16%) per quarter for the second quarter of 2009. The FDIC also imposed a special emergency assessment of an additional 5 basis points on each FDIC-insured depository institution's assets, minus its Tier 1 capital, as of June 30, 2009, which was due and paid by Heartland on September 30, 2009. On November 12, 2009, the FDIC adopted a final rule requiring prepayment of 13 quarters of each institution's estimated FDIC premiums for the fourth quarter of 2009 and all of 2010, 2011 and 2012. Heartland prepaid the required $19.0 million in December 2009 and had a $12.9 million remaining prepaid balance on December 31, 2010. The expense related to this prepayment is expected to be recognized during 2011 and 2012 based on the calculation of actual quarterly assessments.

The Dodd-Frank Act changes how the FDIC will calculate future deposit insurance premiums and directs the FDIC to amend its regulations so that assessments will be based upon the difference between an institution's average total consolidated assets less average tangible equity during the assessment period. The minimum deposit insurance fund reserve ratio will 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 adopted a final rule on February 7, 2011, that implements these provisions of the Dodd-Frank Act.

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. The total assessments paid by Heartland during 2010 for participation in the Temporary Liquidity Guarantee Program totaled $235,000.

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 2010, the assessment rate was 0.0102% of insured 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 2010, the Bank Subsidiaries paid supervisory assessments totaling $454,000.

Capital Requirements
Under 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 of 3% for the most highly-rated banks with a minimum requirement of at least 4% for all others; and (ii) a risk-based capital requirement consisting of a minimum ratio of total capital to total risk-weighted assets of 8% and a minimum ratio of Tier 1 capital to total risk-weighted assets of 4%. 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 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, under agreements with the FDIC and state banking agencies described below under “Safety and Soundness Standards,” Summit Bank & Trust is required to maintain a ratio of Tier 1 Capital to total assets of 8% and Arizona Bank & Trust and Rocky Mountain Bank are required to maintain both a ratio of Tier 1 capital to total assets of 8% and a ratio of total risk-based capital to risk-weighted assets of 12%.

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 federal regulations, in order to be “well-capitalized” a financial institution must maintain a ratio of total capital to total risk-weighted assets of 10% or greater, a ratio of Tier 1 capital to total risk-weighted assets of 6% or greater and a ratio of Tier 1 capital to total assets of 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, 2010: (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.

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, 2010. Minnesota Bank

Table of Contents

& 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. Pursuant to agreements with the FDIC and the state banking agencies described below under “Safety and Soundness Standards,” Arizona Bank & Trust, Summit Bank & Trust and Rocky Mountain Bank may not pay any dividends without prior notice to, and consent from, the FDIC and the state banking regulator. Further, First Community Bank may not pay dividends in an amount that would reduce its capital below the amount required for the liquidation account established in connection with First Community Bank's conversion from the mutual to the stock form of ownership in 1991.

As of December 31, 2010, approximately $77.1 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.

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 shareholders of Heartland and to “related interests” of such directors, officers and principal shareholders. 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 shareholder 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.

During their regular scheduled joint examinations of the Bank Subsidiaries, the FDIC and state banking commissioners cited three of the Bank Subsidiaries for certain deficiencies, including asset quality. In January of 2009, the boards of directors of Summit Bank & Trust and Arizona Bank & Trust, and in the fall of 2009, the board of directors of Rocky Mountain Bank, entered into informal agreements with the FDIC and their respective state banking commissioners, agreeing to submit plans for improvement in the risks associated with any classified asset with a balance of more than $250,000, agreeing not to extend or renew credit to borrowers under loans that are classified, agreeing to review and ensure the sufficiency of the allowance for loan and lease losses and agreeing to submit a business plan outlining the plans to accomplish these measures as well as periodic progress reports against that plan. As noted above, these Bank Subsidiaries also agreed to maintain higher levels of regulatory capital and to refrain from paying dividends without regulatory approval. Each of these Bank Subsidiaries remains well capitalized and has complied with its agreement with its regulators.

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.

Table of Contents

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.

The Dodd-Frank Act prohibits insured depository institutions and their holding companies from engaging in proprietary trading except in limited circumstances, and prohibits them from owning equity interests in excess of three percent (3%) of a bank's Tier 1 Capital in private equity and hedge funds. The Federal Reserve released a final rule on February 9, 2011, (effective on April 1, 2011) which requires a “banking entity,” a term that is defined to include bank holding companies like Heartland, to bring its proprietary trading activities and investments into compliance with the Dodd-Frank Act restrictions no later than two years after the earlier of: (1) July 21, 2012, or (2) 12 months after the date on which interagency final rules are adopted. Pursuant to the compliance date final rule, banking entities are permitted to request an extension of this timeframe from the Federal Reserve.

These restrictions have not had, and are not currently expected to have, a material impact on the operations of the Bank Subsidiaries.

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.

G. GOVERNMENTAL MONETARY POLICY AND ECONOMIC CONDITIONS

Heartland’s earnings are affected by the policies of regulatory authorities, including the Federal Reserve. The Federal Reserve’s monetary policies have significantly affected the operating results of commercial banks in the past and are expected to continue doing so in the future. Changing economic and money market conditions prompted by the actions of monetary and fiscal authorities may cause changes in interest rates, credit availability, and deposit levels that are beyond Heartland’s control. Future policies of the Federal Reserve and other authorities cannot be predicted, nor can their effect on future earnings.

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.

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. The United States economy has undergone a dramatic downturn during the past several years, with negative effects on the business, financial condition and results of operations of financial institutions. Dramatic declines in the housing market, with falling home prices and increasing foreclosures and unemployment, have negatively impacted the credit performance of real estate related loans and resulted in significant write-downs of asset values by financial institutions, including Heartland. Although the economic downturn has moderated and 2010 reflected some recovery, certain segments of the economy continued to be depressed and further erosion of consumer confidence levels could cause renewed increases in delinquencies and default rates, which may impact our charge-offs and provision for credit losses. Renewed economic deterioration that affects household and/or corporate incomes could also result in reduced demand for credit or fee-based products and services. 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.

Recent legislation has impacted our operations, and additional legislation and rulemaking could impact us adversely.

The recent recession spawned a number of significant new laws that impact financial institutions, including the EESA, ARRA and Dodd-Frank Act. The Dodd-Frank Act is particularly far reaching, establishing the BCFP 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. Many of the provisions of the Dodd-Frank Act have extended implementation periods and delayed effective dates and will require rulemaking by various regulatory agencies, and many, including those that are implemented by the BCFP, 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.

Further, the programs established under the EESA and TARP, as well as restrictions contained in the rules implementing or related to them, could adversely affect our operations. For example, the restrictions contained in ARRA on our compensation programs could make it more difficult for us to attract and retain management. Requirements for dividends at the holding company level and restrictions on dividends paid by the Bank Subsidiaries could restrict our ability to fund expansion, and further restrictions imposed by regulation because of our participation in the TARP CPP program could place us at a competitive disadvantage relative to financial institutions that did not receive CPP funds. We face increased regulation of our business and increased costs associated with these programs. Similarly, programs established by the FDIC may have an adverse effect on us, due to the costs of participation.

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.

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.

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 and Minnesota 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

Table of Contents

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. For example, although all of our markets have been impacted to some extent by the economic downturn, the markets in Arizona, Colorado and Montana have been more severely affected than most of the markets in the Midwest, creating correspondingly greater impact on our banks that serve those areas.

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 may acquire banks and related businesses 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.

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.

We face intense competition in all phases of 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, 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.

Interest rates and other conditions 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

Table of Contents

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.

We must effectively 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 make up a significant portion of our loan portfolio.

Commercial loans were $1.72 billion (including $1.16 billion of commercial real estate loans), or approximately 73% of our total loan portfolio as of December 31, 2010. 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 $1.16 billion, or approximately 67%, of our total commercial loan portfolio as of December 31, 2010. 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 in a few of our markets have negatively affected 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.

If the problems that have occurred in the commercial real estate markets continue, particularly within our Western market areas, the value of collateral securing our commercial real estate loans may decline and we may not be able to realize the collateral value that we anticipated at the time of originating the loan, causing us to increase our provision for loan losses and adversely affect our operating results and financial condition. Declining real estate values resulting from the recent recession, particularly in our Western markets in Arizona, Colorado and Montana, caused a decline in credit performance by our commercial real estate loan customers and caused us to significantly increase our provision for loan losses during 2008, 2009 and a portion of 2010, negatively impacting our financial performance. In light of the uncertainty that exists in the economy and credit markets nationally, there can be no guarantee that we will not continue to experience deterioration in such performance.

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

Table of Contents

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. Additionally, with the ongoing economic environment and the correction in housing prices that is occurring in many of our market areas, a decrease in demand for the properties constructed by home builders and developers could result in higher delinquencies and greater charge-offs in future periods on loans made to such borrowers.

Our one- to four-family residential mortgage loans may result in lower yields and profitability.

One- to four-family residential mortgage loans comprised $163.7 million or 7% of our loan and lease portfolio at December 31, 2010, and are secured primarily 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. The effects of ongoing mortgage market challenges, combined with the ongoing correction in residential real estate market prices and reduced levels of home sales, may result in a continued decrease in mortgage loan volume and increased charge-offs if we are not able to realize the value of the property that was anticipated at the time the loan was originated.

Our consumer loans generally have a higher degree of risk of default than our other loans.

At December 31, 2010, consumer loans totaled $214.5 million or 9% 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 agricultural loans may involve a greater degree of risk than other loans, and the ability of the borrower to repay may be affected by many factors outside of the borrower’s control.

At December 31, 2010, agricultural real estate loans totaled $177.8 million or 8% 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, 2010, these loans totaled $73.1 million or 3% 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 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 adequate 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. Throughout 2008, 2009 and 2010, we were required to significantly increase our provision for loan losses because of the impact of the declining economy and real estate values on some of our borrowers, resulting in charge-offs and an increased level of nonperforming assets. At December 31, 2010, our allowance for loan losses as a percentage of total loans, exclusive of loans covered by loss share agreements, was 1.82% and as a percentage of total nonperforming loans was approximately 47%. Although we believe that the allowance for loan losses is adequate 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.

Impairment of investment securities, goodwill, other intangible assets, or deferred tax assets could require charges to earnings, which could result in a negative impact on our results of operations.

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. 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. During 2009, we recorded $12.7 million in goodwill impairment charges at Arizona Bank & Trust and Rocky Mountain Bank. An additional $1.6 million goodwill impairment charge was recorded at Rocky Mountain Bank in 2010. Although we do not presently anticipate additional impairment charges, if we conclude that additional amounts 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, 2010, we had goodwill of $25.9 million, representing approximately 8% of stockholders' equity.

Further, our balance sheet reflected approximately $28.0 million of deferred tax assets at December 31, 2010, 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.

Changes in interest rates could reduce the value of our mortgage servicing rights.

A mortgage servicing right is the right to service a mortgage loan for a fee. We acquire mortgage servicing rights when we originate mortgage loans and keep the servicing rights after we sell the loans. We carry mortgage servicing rights 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 mortgage servicing rights can decrease. Each quarter we evaluate our mortgage servicing rights 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 the carrying amount exceeds fair value.

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.

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, 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. 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.

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 certain operational risks, including, but not limited to, 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.

Table of Contents

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 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 recently caused a decline in our stock price, 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 remain volatile regardless of our operating results.

Certain Bank Subsidiaries are subject to informal written agreements with regulators and failure to comply with these agreements could result in enforcement actions against us.

Three of our Bank Subsidiaries have entered into informal written agreements with the FDIC and state regulators, which relate primarily to financial performance and credit quality. These Bank Subsidiaries have submitted three to five year business plans to their regulators and must operate within the parameters of these business plans and submit periodic reports on compliance with these plans. The agreements also require these Bank Subsidiaries to develop plans and take action to address nonperforming assets and watch-list credits. If these Bank Subsidiaries fail to comply with the terms of their respective agreements, the regulators could take enforcement action against them, including the imposition of monetary penalties or the issuance of cease and desist orders requiring corrective action.

ITEM 1B.

UNRESOLVED STAFF COMMENTS

As of December 31, 2010, Heartland had no unresolved staff comments.

Table of Contents

ITEM 2.

PROPERTIES

The following table is a listing of Heartland's principal operating facilities:

Name and Main Facility Address	Main Facility Square Footage	Main Facility Owned or Leased	Number of Locations
Heartland Financial USA, Inc. 1301 Central Avenue Dubuque, IA 52001	60,000	Owned	2
Dubuque Bank and Trust Company 1398 Central Avenue Dubuque, IA 52001	59,500	Owned	9
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
First Community Bank 320 Concert Street Keokuk, IA 52632	6,000	Owned	3
Wisconsin Community Bank 8240 Mineral Point Rd. Madison, WI 53719	19,000	Owned	7
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	6
Rocky Mountain Bank 2615 King Avenue West Billings, MT 59102	16,600	Owned	9
Summit Bank & Trust 2002 E. Coalton Road Broomfield, CO 80027	14,000	Owned	3
Minnesota Bank & Trust 7701 France Avenue South, Suite 110 Edina, MN 55435	6,100	Lease term through 2013	1
Citizens Finance Co. 1275 Main Street Dubuque, IA 52001	5,600	Owned	9

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 the facility located at 1301 Central Avenue in Dubuque, Iowa, which is leased from Dubuque Bank and Trust Company.

Table of Contents

ITEM 3.

LEGAL PROCEEDINGS

There are certain legal proceedings pending against Heartland and its subsidiaries at December 31, 2010, that are ordinary routine litigation incidental to our business. While the ultimate outcome of current legal proceedings cannot be predicted with certainty, it is the opinion of management that the resolution of these legal actions should not have a material effect on Heartland's consolidated financial position or results of operations.

ITEM 4.

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Table of Contents

EXECUTIVE OFFICERS

The names and ages of the executive officers of Heartland as of December 31, 2010, 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	61	Chairman, President and Chief Executive Officer of Heartland; Vice Chairman of Dubuque Bank and Trust Company, Wisconsin Community Bank, New Mexico Bank & Trust, Arizona Bank & Trust, Rocky Mountain Bank, Summit Bank & Trust and Minnesota Bank & Trust; Chairman of Citizens Finance Co.
John K. Schmidt	51	Director, Executive Vice President, Chief Operating Officer and Chief Financial Officer of Heartland; Vice Chairman of Dubuque Bank and Trust Company, Galena State Bank & Trust Co. and Riverside Community Bank; Director and Treasurer of Citizens Finance Co.
Kenneth J. Erickson	59	Executive Vice President, Chief Credit Officer of Heartland; Executive Vice President, Lending, of Dubuque Bank and Trust Company; Vice Chairman of Citizens Finance Co.
Douglas J. Horstmann	57	Senior Vice President, Lending, of Heartland; Director, President and Chief Executive Officer of Dubuque Bank and Trust Company; Vice Chairman of First Community Bank
Paul J. Peckosh	65	Executive Vice President, Wealth Management Group, of Heartland; Executive Vice President, Manager Wealth Management Group, of Dubuque Bank and Trust Company
Melvin E. Miller	61	Executive Vice President, Chief Investment Officer of Heartland
John J. Berg	59	Executive Vice President, Marketing and Sales of Heartland
Brian J. Fox	62	Executive Vice President, Operations 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, First Community Bank since 1994 and Riverside Community Bank since 1995. He has been a Director of Wisconsin Community Bank since 1997, New Mexico Bank & Trust since 1998, Arizona Bank & Trust since 2003, Summit Bank & Trust since 2006 and Minnesota Bank & Trust since 2008. 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.

John K. Schmidt has been a Director of Heartland since 2001. Mr. Schmidt has been Heartland's Executive Vice President and Chief Financial Officer since 1991 and Chief Operating Officer since 2004. He has been employed by Dubuque Bank and Trust Company since 1984 and became Dubuque Bank and Trust Company's Vice President, Finance in 1986, Senior Vice President and Chief Financial Officer in 1991, President and Chief Executive Officer in 1999 and Vice Chairman in 2004. Mr. Schmidt also was named Vice Chairman of Galena State Bank & Trust Co. and Riverside Community Bank in 2004. He also served as Vice Chairman and director of First Community Bank from 2004 to 2007. He is an inactive holder of the certified public accountant certification and worked at KPMG LLP in Des Moines, Iowa, prior to joining Dubuque Bank and Trust Company.

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.

Douglas J. Horstmann has served as Senior Vice President of Heartland since 1999. He was also appointed as Vice Chairman of First Community Bank in 2007. Mr. Horstmann 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. Prior to joining Dubuque Bank and Trust Company, Mr. Horstmann was an examiner for the Iowa Division of Banking.

Paul J. Peckosh was named Executive Vice President, Wealth Management Group, of Heartland in 2008. Prior to this promotion, he served as Senior Vice President of Heartland since 1999. Mr. Peckosh has been employed by Dubuque Bank and Trust Company since 1975, was appointed Assistant Vice President, Trust, in 1975, Vice President, Trust in 1980, Senior Vice President, Trust in 1991 and Executive Vice President, Trust in 2000. Mr. Peckosh is an attorney and graduated from Marquette University Law School in 1970. Mr. Peckosh announced his retirement on March 2, 2010. His retirement will be effective on April 4, 2011.

Table of Contents

Melvin E. Miller was named Executive Vice President, Chief Investment Officer, of Heartland, in 2008. Prior to this promotion, he served as Senior Vice President, Chief Investment Officer, of Heartland since 2000. He joined Dubuque Bank and Trust Company in 1984 as a part-time Investment Officer and came on board full time in 1985 as Assistant Vice President and later was promoted to Senior Vice President and Chief Investment Officer. A Chartered Financial Analyst, Mr. Miller received his MBA degree in Finance from Ball State University in 1973. Prior to joining Dubuque Bank and Trust Company, he had 12 years of college teaching experience in the areas of investments and portfolio management. He was chair of the Department of Accounting and Business at Loras College.

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. Prior to joining Heartland, Mr. Fox served as Chief Information Officer and Chief Risk Officer for First Olathe Bancshareas in Overland Park, Kansas. His previous work experience includes consulting services in Mooresville, North Carolina, and operations and technology management positions with commercial banks and mortgage operations in Charleston, West Virginia.

Table of Contents

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 1,500 stockholders of record as of March 14, 2011, and approximately 1,600 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.

Heartland Common Stock		
Calendar Quarter	High	Low
2010:		
First	$16.75	$13.37
Second	20.78	15.85
Third	17.81	13.88
Fourth	18.11	15.04
2009:		
First	$20.81	$8.51
Second	15.93	11.51
Third	16.98	12.56
Fourth	15.29	12.04

Cash dividends have been declared by Heartland quarterly during the two years ending December 31, 2010. The following table sets forth the cash dividends per share paid on Heartland's common stock for the past two years:

Calendar Quarter	2010	2009
First	$0.10	$0.10
Second	0.10	0.10
Third	0.10	0.10
Fourth	0.10	0.10

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 will be prohibited from paying any dividends on common stock unless all dividends on the Senior Preferred Stock have been paid, and under the Purchase Agreement with Treasury and so long as the Senior Preferred Stock is held by Treasury, will be prohibited until after December 19, 2011, from paying quarterly dividends, without Treasury's consent, in excess of $0.10 per share. See "Business – Supervision and Regulation – Heartland – Dividend Payments" and "Business – Supervision and Regulation - The Bank Subsidiaries – Dividend Payments" 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.

Although 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, Heartland is 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, under the terms of the Securities Purchase Agreement pursuant to which Heartland issued preferred stock to Treasury under the CPP. Shares withheld to offset tax withholding obligations that occurred upon vesting and release of restricted shares or the

Table of Contents

exercise of stock options during the fourth quarter of 2010 were 631 shares, all in the month of December.

There were no unregistered sales of equity securities made during the fourth quarter of Heartland's fiscal year 2010.

The following table and graph show a five-year comparison of cumulative total returns for Heartland, the NASDAQ Composite Index and the NASDAQ Bank Stock Index. Figures for our common stock represent inter-dealer quotations, without retail markups, markdowns or commissions and do not necessarily represent actual transactions. Heartland became listed on NASDAQ in May 2004. The table and graph were prepared at our request by SNL Financial, LC.

Cumulative Total Return Performance

	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010
Heartland Financial USA, Inc.	100.00	134.87	88.24	99.74	71.54	89.31
NASDAQ Composite	100.00	110.39	122.15	73.32	106.47	125.91
NASDAQ Bank	100.00	113.82	91.16	71.52	59.87	68.34

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN*
ASSUMES $100 INVESTED ON DECEMBER 31, 2005

*Total return assumes reinvestment of dividends

Table of Contents

ITEM 6.
SELECTED FINANCIAL DATA
For the years ended December 31, 2010, 2009, 2008, 2007, and 2006
(Dollars in thousands, except per share data)

	2010	2009	2008	2007	2006
STATEMENT OF INCOME DATA					
Interest income	$198,932	$203,293	$202,585	$215,231	$190,150
Interest expense	55,880	70,530	86,899	105,891	85,409
Net interest income	143,052	132,763	115,686	109,340	104,741
Provision for loan and lease losses	32,508	39,377	29,319	10,073	3,883
Net interest income after provision for loan and lease losses	110,544	93,386	86,367	99,267	100,858
Noninterest income	52,329	52,704	30,196	31,710	29,938
Noninterest expenses	129,239	132,520	102,239	97,606	94,943
Income taxes	9,846	7,196	3,312	9,409	11,578
Income from continuing operations	23,788	6,374	11,012	23,962	24,275
Discontinued operations:					
Income from discontinued operations (including gain on sale of $2,242 in 2007 and $20 in 2006)	—	—	—	2,756	1,758
Income taxes	—	—	—	1,085	931
Income from discontinued operations	—	—	—	1,671	827
Net income	23,788	6,374	11,012	25,633	25,102
Net income available to noncontrolling interest, net of tax	115	188	280	—	—
Net income attributable to Heartland	23,903	6,562	11,292	25,633	25,102
Preferred dividends and discount	(5,344)	(5,344)	(178)	—	—
Net income available to common stockholders	$18,559	$1,218	$11,114	$25,633	$25,102
PER COMMON SHARE DATA					
Net income – diluted	$1.13	$0.07	$0.68	$1.54	$1.50
Income from continuing operations – diluted(1)	1.13	0.07	0.68	1.44	1.45
Cash dividends	0.40	0.40	0.40	0.37	0.36
Dividend payout ratio	35.14%	532.35%	58.13%	23.6%	23.53%
Book value	$15.26	$14.38	$14.13	$14.04	$12.65
Weighted average shares outstanding-diluted	16,461,679	16,325,320	16,365,815	16,596,806	16,734,989

(1) Excludes the discontinued operations of our Broadus branch and the related gain on sale in 2007 and ULTEA and the related gain on sale in 2006.

* The selected historical consolidated financial information set forth above 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."

Table of Contents

SELECTED FINANCIAL DATA (Continued)
For the years ended December 31, 2010, 2009, 2008, 2007, and 2006
(Dollars in thousands, except per share data)

	2010	2009	2008	2007	2006
BALANCE SHEET DATA					
Investments and federal funds sold	$1,264,564	$1,175,217	$903,705	$689,949	$617,119
Loans held for sale	23,904	17,310	19,695	12,679	50,381
Total loans and leases receivable	2,364,787	2,363,002	2,405,001	2,280,167	2,147,845
Allowance for loan and lease losses	42,693	41,848	35,651	32,993	29,981
Total assets	3,999,455	4,012,991	3,630,268	3,264,126	3,058,242
Total deposits	3,034,048	3,050,389	2,640,232	2,376,299	2,311,657
Long-term obligations	362,527	451,429	437,833	263,607	224,523
Preferred equity	78,483	77,224	75,578	—	—
Common stockholders' equity	250,608	235,057	230,025	230,600	209,711
EARNINGS PERFORMANCE DATA					
Return on average total assets	0.46 %	0.03 %	0.33 %	0.81 %	0.86 %
Return on average stockholders' equity	7.51	0.51	4.84	11.88	12.86
Net interest margin ratio(1)(2)	4.12	3.99	3.89	3.95	4.17
Earnings to fixed charges:					
Excluding interest on deposits	2.43x	1.58x	1.63x	2.26x	2.61x
Including interest on deposits	1.55	1.18	1.17	1.34	1.44
ASSET QUALITY RATIOS					
Nonperforming assets to total assets	3.07 %	2.71 %	2.51 %	1.06 %	0.34 %
Nonperforming loans and leases to total loans and leases	3.87	3.35	3.24	1.40	0.39
Net loan and lease charge-offs to average loans and leases	1.31	1.38	1.15	0.30	0.11
Allowance for loan and lease losses to total loans and leases	1.82	1.80	1.48	1.45	1.40
Allowance for loan and lease losses to nonperforming loans and leases	47.12	53.56	45.73	103.66	356.11
CONSOLIDATED CAPITAL RATIOS					
Average equity to average assets	8.13 %	8.40 %	6.88 %	6.84 %	6.66 %
Average common equity to average assets	6.13	6.32	6.80	6.84	6.66
Total capital to risk-adjusted assets	16.23	15.20	14.92	12.48	11.18
Tier 1 leverage	14.06	13.53	10.68	8.01	7.74

(1) Excludes the discontinued operations of our Broadus branch and the related gain on sale in 2007 and ULTEA and the related gain on sale in 2006.
(2) Tax equivalent using a 35% tax rate.

* The selected historical consolidated financial information set forth above 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."

Table of Contents

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 except for Summit Bank & Trust, of which Heartland was an 87% owner on December 31, 2010, an 86% owner on December 31, 2009, and an 82% owner on December 31, 2008; and Minnesota Bank & Trust, of which Heartland was an 80% owner on December 31, 2010, December 31, 2009, and December 31, 2008.

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 the current 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.

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 adequacy of 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. Thus, the accuracy of this estimate could have a material impact on Heartland's earnings. The adequacy of 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. Nonperforming loans and large non-homogeneous loans are specifically reviewed for impairment and the allowance is allocated on a loan-by-loan basis as deemed necessary. Homogeneous loans and loans not specifically evaluated are grouped into pools to which a loss percentage, based on historical experience, is allocated. The adequacy 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. Specific factors considered by management in establishing the allowance included the following:

- Heartland has experienced an increase in net charge-offs and nonperforming loans during the past three years.
- During the last several years, Heartland has entered new geographical markets in which it had little or no previous lending experience.
- Heartland has continued to experience growth in more complex commercial loans as compared to relatively lower-risk residential real estate loans.

Table of Contents

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 adequate at December 31, 2010. 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 continue in its current state or deteriorate further, 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.

During the first quarter of 2010, we implemented a new methodology, including the installation of new software, for the calculation of the allowance for loan and lease losses. The implementation of this new methodology included 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 an enhanced allowance methodology, this software also has the ability to perform stress testing and migration analysis on various portfolio segments.

The table below estimates the theoretical range of the 2010 allowance outcomes and related changes in provision expense assuming either a reasonably possible deterioration in loan credit quality or a reasonably possible improvement in loan credit quality:

THEORETICAL RANGE OF ALLOWANCE FOR LOAN AND LEASE LOSSES
(Dollars in thousands)

Allowance for loan and lease losses at December 31, 2010	$42,693
Assuming deterioration in credit quality:	
Addition to provision	1,718
Resultant allowance for loan and lease losses	$44,411
Assuming improvement in credit quality:	
Reduction in provision	(1,745)
Resultant allowance for loan and lease losses	$40,948

The assumptions underlying this sensitivity analysis represent an attempt to quantify theoretical changes that could occur in the total allowance for loan and lease losses given various economic assumptions that could impact inherent loss in the current loan and lease portfolio. It further assumes that the general composition of the allowance for loans and lease losses determined through our existing process and methodology remains relatively unchanged. It does not attempt to encompass extreme and/or prolonged economic downturns, systemic contractions to specific industries, or systemic shocks to the financial services sector. The addition to provision was calculated based upon the assumption that, under an economic downturn, the qualitative portion of the calculated allowance will increase due to increase in qualitative risk factors directly affected by the economic conditions. The reduction in provision was calculated based upon the assumption that, under an economic upturn, the qualitative portion of the calculated allowance will decrease due to decrease in qualitative risk factors directly affected by the economic conditions.

Goodwill And Other Intangibles

We record all assets and liabilities acquired in purchase acquisitions, including goodwill and other 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 segment 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 ten 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.

Table of Contents

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 its 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.

We engaged a third-party valuation consultant to determine the fair value of goodwill recorded in connection with two of our Bank Subsidiaries at the end of 2009. Based on this valuation, we determined that the fair value of the goodwill associated with these two subsidiaries was less than the carrying amount previously used for this goodwill and that the goodwill was impaired. Accordingly, we recorded an impairment charge of $12.7 million in the fourth quarter of 2009 to reduce the carrying value to fair value at Arizona Bank & Trust and Rocky Mountain Bank. During the third quarter of 2010, a calculation error was discovered in the valuation performed by the independent third party consultant and resulted in the recording of an additional goodwill impairment charge totaling $1.6 million at Rocky Mountain Bank. After consideration of both quantitative and qualitative factors, we determined the amount was not material to the financial statements for 2009 and thus recorded such amount in the third quarter of 2010. A different third party consultant was engaged during the fourth quarter of 2010 to perform another valuation of the remaining goodwill recorded at Rocky Mountain Bank. Based upon the updated valuation, we determined that no further goodwill impairment charges were required.

OVERVIEW

Heartland is a diversified financial services holding company providing full-service community banking through ten banking subsidiaries with a total of 61 banking locations in Iowa, Illinois, Wisconsin, New Mexico, Arizona, Montana, Colorado and Minnesota. In addition, Heartland has separate subsidiaries in the consumer finance, insurance and investment 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, 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 salaries and employee benefits, occupancy and equipment costs, professional fees, FDIC insurance premiums and the provision for loan and lease losses. During the last two years, our operating expenses have also been significantly impacted by net losses on repossessed assets.

Net income for 2010 was $23.8 million, compared to $6.4 million in 2009, an increase of $17.4 million or 272%. Net income available to common stockholders was $18.6 million, or $1.13 per diluted common share, for 2010, compared to $1.2 million, or $0.07 per diluted common share, earned during 2009. Return on average common equity was 7.51% and return on average assets was 0.46% for 2010, compared to 0.51% and 0.03%, respectively, for 2009.

Excluding a goodwill impairment charge of $1.6 million, net income for 2010 would have been $25.4 million, net income available to common stockholders would have been $20.2 million, or $1.23 per diluted common share, return on average common equity would have been 8.17% and return on average assets would have been 0.50%. Excluding the goodwill impairment charge of $12.7 million recorded during the fourth quarter of 2009, net income for 2009 would have been $19.0 million, net income available to common stockholders would have been $13.9 million, or $0.85 per diluted common share, return on average common equity would have been 5.76% and return on average assets would have been 0.36%. The goodwill impairment charges, which are non-cash charges that have no impact on operations, liquidity or capital, were due to the adverse economic conditions in our Arizona and Montana markets. Exclusive of the goodwill impairment charges, net income for 2010 increased $6.4 million or 34% over 2009.

Earnings for 2010 in comparison to 2009 were positively affected by increased net interest income, which increased $10.3 million or 8% over the prior year. Net interest margin, expressed as a percentage of average earning assets, was 4.12% during 2010 compared to 3.99% during 2009. Also positively affecting net income for 2010 was a $6.9 million or 17% reduction in provision for loan losses, which was $32.5 million in 2010 compared to $39.4 million in 2009. Noninterest income remained relatively flat at $52.3 million during 2010 compared to $52.7 million in 2009. The categories of noninterest income experiencing increases during 2010 as compared to 2009 were service charges and fees, which increased $1.4 million or 11%, trust fees, which increased $1.4 million or 18%, and gains on sale of loans, which increased $2.0 million or 33%. The effect of these positive factors was offset somewhat by decreases in loan servicing income, which decreased $2.4 million or 25%, and gains on sales of securities, which was $6.8 million in 2010 compared to $8.6 million in 2009. Total noninterest expense, exclusive of goodwill impairment charges, increased $7.7 million or 6%. The most significant contributors to this increase were salaries and employee benefits, which increased $2.9 million or 5%, professional fees, which increased $1.3 million or 14%, and net losses on repossessed assets, which totaled $15.3 million in 2010 compared to $10.8 million in 2009. The effect of these increases was partially mitigated by a $1.1 million or 17% reduction in FDIC insurance assessments.

Net income for 2009 was $6.4 million, compared to $11.0 million recorded during 2008. Net income available to common stockholders was $1.2 million, or $0.07 per diluted common share, for 2009, compared to $11.1 million, or $0.68 per diluted common share, earned during 2008. Return on average common equity was 0.51% and return on average assets was 0.03% for 2009, compared to 4.84% and 0.33%, respectively, for 2008. Exclusive of the $12.7 million goodwill impairment charge recorded in 2009, net income increased $8.0 million or 73% in 2009 as compared to 2008.

On July 2, 2009, Heartland acquired all deposits of The Elizabeth State Bank in Elizabeth, Illinois, through its subsidiary Galena State Bank & Trust Co. based in Galena, Illinois in a whole bank loss sharing transaction facilitated by the FDIC. The Elizabeth State Bank had loans of $42.7 million and deposits of $49.3 million. Galena State Bank & Trust Co. paid a premium of 1.0% to acquire all of the deposits of the failed bank. In addition to assuming all of the deposits of the failed bank, Galena State Bank & Trust Co. purchased $53.6 million of assets. The acquired loans and other real estate owned are covered by two loss share agreements between the FDIC and Galena State Bank & Trust Co., which affords Galena State Bank & Trust Co. significant loss protection. Galena State Bank & Trust Co. received a $2.5 million discount on the assets acquired. The expected reimbursements under the loss share agreements were recorded as an indemnification asset at the estimated fair value of $4.4 million at the acquisition date. The estimated fair value of the loans acquired was $37.8 million and the estimated fair value of the deposits assumed was $49.5 million. In addition, a core deposit intangible of $200,000 was recorded. An acquisition gain totaling $1.3 million resulted from the acquisition and is included as a component of noninterest income on the statement of income for 2009.

Earnings for 2009 were positively affected by increased net interest income, which increased $17.1 million or 15% over the prior year. Net interest margin, expressed as a percentage of average earning assets, was 3.99% during 2009 compared to 3.89% during 2008. Also positively affecting net income for 2009, was the $22.5 million or 75% increase in noninterest income, which was $52.7 million during 2009 compared to $30.2 million during 2008. The categories experiencing the largest increases for the comparative period were securities gains, which increased $7.1 million or 467%, loan servicing income, which increased $5.1 million or 110%, and gains on sale of loans, which increased $4.5

million or 278%. The growth in these areas was partially offset by an increase in the loan loss provision, which was $39.4 million during 2009 compared to $29.3 million during 2008. Also negatively affecting earnings during 2009 was a $30.3 million or 30% increase in noninterest expense. Exclusive of the $12.7 million goodwill impairment charge, noninterest expense totaled $119.8 million during 2009, an increase of $17.6 million or 17%. The noninterest expense categories contributing to the increase during the periods under comparison were employee salaries and benefits, which were $60.5 million during 2009 compared to $56.8 million during 2008, FDIC assessments, which were $6.6 million during 2009 compared to $1.4 million during 2008, and net losses on repossessed assets, which were $10.8 million during 2009 compared to $827,000 during 2008.

At December 31, 2010, total assets had experienced a slight decrease of $13.5 million or less than 1% since December 31, 2009. Securities represented 32% of total assets at December 31, 2010, compared to 29% of total assets at December 31, 2009. Total loans and leases receivable, exclusive of those covered by loss share agreements, were $2.34 billion at December 31, 2010, compared to $2.33 billion at year-end 2009, an increase of $12.8 million or 1%. The loan category experiencing the majority of the growth during 2010 was commercial and commercial real estate loans, which totaled $1.72 billion at December

Table of Contents

31, 2010, an increase of $48.9 million or 3% since year-end 2009. This growth occurred at Dubuque Bank and Trust Company, Wisconsin Community Bank, New Mexico Bank & Trust and Minnesota Bank & Trust. Total deposits were $3.03 billion at December 31, 2010, compared to $3.05 billion at December 31, 2009, a decrease of $16.3 million or 1%. The composition of Heartland's deposits improved during 2010, as demand deposits increased $119.9 million or 26%. Savings deposits grew $4.6 million or less than 1% since December 31, 2009. Time deposits, exclusive of brokered deposits, experienced a decrease of $136.4 million or 14% during 2010. At December 31, 2010, brokered time deposits totaled $37.3 million or 1% of total deposits compared to $41.8 million or 1% of total deposits at December 31, 2009.

At December 31, 2009, total assets had increased $382.7 million or 11% since year-end 2008. Securities represented 29% of total assets at December 31, 2009, compared to 25% at December 31, 2008. Total loans and leases receivable, exclusive of those covered by the FDIC loss share agreements, were $2.33 billion at December 31, 2009, compared to $2.41 billion at year-end 2008, a decrease of $73.9 million or 3%. The only loan category to experience growth during 2009 was agricultural and agricultural real estate loans, which also experienced a slight decrease during the fourth quarter of 2009. Nearly all of this growth occurred at Dubuque Bank and Trust Company. Total deposits grew to $3.05 billion at December 31, 2009, an increase of $410.2 million or 16% since year-end 2008. The Elizabeth State Bank acquisition accounted for $49.5 million of this growth. Growth in demand and savings deposits is attributable to an increased emphasis on non-maturity core deposit products over higher-cost certificates of deposit. Additionally, commercial and retail customers continued to build cash reserves. Demand deposits increased $77.6 million or 20% since year-end 2008 with $6.9 million coming from The Elizabeth State Bank acquisition. Savings deposit balances experienced an increase of $426.0 million or 38% since year-end 2008 with $21.0 million coming from The Elizabeth State Bank acquisition. Time deposits, exclusive of brokered deposits, experienced a decrease of $83.8 million or 8% since year-end 2008 despite the $21.6 million assumed in The Elizabeth State Bank acquisition. Brokered time deposits decreased from $51.5 million or 2% of total deposits at year-end 2008, to $41.8 million or 1% of total deposits at year-end 2009. Deposit growth, exclusive of The Elizabeth State Bank acquisition, was $106.0 million during the fourth quarter of 2009, $67.4 million during the third quarter of 2009, $38.8 million during the second quarter of 2009 and $148.5 million during the first quarter of 2009.

Table of Contents

NON-GAAP FINANCIAL MEASURES

This report contains financial information determined by methods other than in accordance with U.S. generally accepted accounting principles, often referred to as GAAP. We have disclosed in this Annual Report on Form 10-K certain non-GAAP financial measures to provide meaningful supplemental information regarding our operational performance and to enhance readers' overall understanding of its operating financial performance. We believe that the impact of a goodwill impairment charge to earnings impairs the ability of the reader to evaluate trends in results of operations without information that reports results of operations without the charge. These non-GAAP financial measures are presented for supplemental information purposes only and should not be considered a substitute for financial information presented in accordance with GAAP. The following schedule presents performance ratios in accordance with GAAP and a reconciliation of the non-GAAP financial measurements to the GAAP financial measurements. For the non-GAAP financial measurements, net income, exclusive of goodwill impairment charge is defined as net income as presented in accordance with GAAP less any goodwill impairment charge recorded during the period.

	For the years ended December 31,	
	2010	2009
GAAP net income	$23,788	$6,374
Goodwill impairment charge	1,639	12,659
GAAP net income, exclusive of goodwill impairment charge	$25,427	$19,033
Net income available to common stockholders	$18,559	$1,218
Goodwill impairment charge	1,639	12,659
Net income available to common stockholders, exclusive of goodwill impairment charge	$20,198	$13,877
GAAP earnings per common share-diluted	$1.13	$0.07
Earnings per common share-diluted, exclusive of goodwill impairment charge	$1.23	$0.85
GAAP return on average assets	0.46 %	0.03 %
Return on average assets, exclusive of goodwill impairment charge	0.50 %	0.36 %
GAAP return on average equity	7.51 %	0.51 %
Return on average equity, exclusive of goodwill impairment charge	8.17 %	5.76 %
GAAP return on average tangible equity	8.53 %	0.62 %
Return on average tangible equity, exclusive of goodwill impairment charge	9.29 %	7.02 %
GAAP efficiency ratio[1]	66.79 %	73.07 %
Efficiency ratio, exclusive of goodwill impairment charge[1]	65.95 %	66.09 %

(1) Noninterest expense divided by the sum of net interest income and noninterest income less security gains.

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 4.12% during 2010 compared to 3.99% during 2009 and 3.89% during 2008. Success at growing net interest margin has been a direct result of continued price discipline, the effect of which would have been more significant had it not been for the amount of foregone interest on Heartland's nonperforming loans, which had balances of $90.5 million or 3.87% of total loans and leases at December 31, 2010, $78.1 million or 3.35% of total loans and leases at December 31, 2009, and $78.0 million or 3.24% of total loans and leases at December 31, 2008.

Table of Contents

Net interest income on a tax-equivalent basis increased $10.7 million or 8% during 2010 and $17.7 million or 15% during 2009. These increases reflect Heartland's success in optimizing the composition of its interest bearing liabilities by de-emphasizing higher cost time deposits, which decreased to 38% of total average interest bearing deposits during 2010 compared to 47% during 2009 and 55% during 2008. Also a contributing factor was the growth in average noninterest bearing deposits as a percentage of total average liabilities, which was 14% in 2010, 13% in 2009 and 12% in 2008. This factor is also represented by the change in the percentage of average interest bearing liabilities to total average earning assets, which was 87% in 2010, 88% in 2009 and 89% in 2008. More rapidly declining rates paid on interest bearing liabilities also contributed to the increased net interest income in 2010 and 2009, as the rate paid on average interest bearing liabilities decreased by 55 basis points in 2010 and 84 basis points in 2009, compared to a decrease in the rate earned on average earning assets of 37 basis points in 2010 and 67 basis points in 2009.

On a tax-equivalent basis, interest income decreased $3.9 million or 2% to $203.9 million during 2010 compared to $207.8 million during 2009. The positive effect of a $157.7 million or 5% growth in average earning assets during 2010 compared to 2009 on interest income, was more than offset by the impact of a decrease in the average interest rate earned on these assets. 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 66% during 2010 compared to 69% during 2009. On a tax-equivalent basis, interest income increased $1.3 million or 1% to $207.8 million during 2009 compared to $206.5 million during 2008. Growth in average earning assets during 2009 was $360.7 million or 12% over 2008. The percentage of average loans to total average earning assets was 69% during 2009 compared to 75% during 2008.

Interest expense for 2010 was $55.9 million compared to $70.5 million during 2009, a decrease of $14.6 million or 21%. During 2009, interest expense decreased $16.4 million or 19% from $86.9 million paid during 2008. Interest rates paid on our deposits and borrowings decreased significantly during 2010 and 2009. Despite increases in average interest bearing liabilities of 4% in 2010 and 10% in 2009, the average interest rates paid on our deposits and borrowings declined 55 basis points in 2010 and 84 basis points in 2009. The opportunity for continued downward repricing of maturing certificates of deposit has begun to diminish. For the next twelve months, the amount of certificates of deposit maturing is $445.7 million, or 50% of total certificates of deposit, at a weighted average rate of 1.77%. Additionally, we believe that the rates currently paid on our non-maturity deposits are effectively approaching a floor and that we will have less flexibility to pay lower rates on these deposits in the future.

We attempt to manage our balance sheet to minimize the effect that a change in interest rates has on its 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. Management supports a pricing discipline in which the focus is less on price and more on the unique value provided to business and retail clients. Approximately 40% of our commercial and agricultural loan portfolios consist of floating rate loans that reprice immediately upon a change in the national prime interest rate. Since a large portion of these floating rate loans have interest rate floors that are currently in effect, an upward movement in the national prime interest rate would not have an immediate positive affect 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 table below sets forth 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. 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 are included in each respective loan category. Interest income is measured on a tax equivalent basis using a 35% tax rate.

Table of Contents

ANALYSIS OF AVERAGE BALANCES, TAX EQUIVALENT YIELDS AND RATES[1]
(Dollars in thousands)

	For the years ended Decmeber 31,								
	2010			2009			2008		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate	Average Balance	Interest	Rate
EARNING ASSETS									
Securities:									
Taxable	$956,976	$34,507	3.61%	$873,276	$39,782	4.56%	$616,525	$31,232	5.07%
Nontaxable[1]	264,307	16,408	6.21	186,716	12,307	6.59	151,828	9,813	6.46
Total securities	1,221,283	50,915	4.17	1,059,992	52,089	4.91	768,353	41,045	5.34
Interest bearing deposits	3,541	14	0.40	2,943	27	0.92	706	18	2.55
Federal funds sold	667	1	0.15	835	2	0.24	15,494	299	1.93
Loans and leases:									
Commercial and commercial real estate[1]	1,727,548	101,720	5.89	1,696,794	101,854	6.00	1,645,264	108,651	6.60
Residential real estate	203,596	10,663	5.24	219,303	12,596	5.74	223,334	14,169	6.34
Agricultural and agricultural real estate[1]	258,943	15,966	6.17	259,700	16,633	6.40	238,328	16,933	7.10
Consumer	224,288	20,052	8.94	232,475	20,325	8.74	212,430	20,004	9.42
Direct financing leases, net	1,572	92	5.85	3,927	213	5.42	7,489	445	5.94
Fees on loans	—	4,452	—	—	4,085	—	—	4,914	—
Less: allowance for loan and lease losses	(45,748)	—	—	(37,964)	—	—	(34,048)	—	—
Net loans and leases	2,370,199	152,945	6.45	2,374,235	155,706	6.56	2,292,797	165,116	7.20
Total earning assets	3,595,690	$203,875	5.67%	3,438,005	$207,824	6.04%	3,077,350	$206,478	6.71%
NONEARNING ASSETS									
Total nonearning assets	434,692			374,738			301,580		
TOTAL ASSETS	$4,030,382			$3,812,743			$3,378,930		
INTEREST BEARING LIABILITIES									
Interest bearing deposits:									
Savings	$1,557,658	$13,677	0.88%	$1,282,212	$18,407	1.44%	$938,701	$18,176	1.94%
Time, $100,000 and over	296,325	7,534	2.54	373,159	11,202	3.00	336,926	13,422	3.98
Other time deposits	649,892	17,061	2.63	754,814	23,135	3.06	807,617	32,506	4.02
Short-term borrowings	200,389	1,160	0.58	143,239	733	0.51	233,856	4,571	1.95

Other borrowings	423,125	16,448	3.89	464,816	17,053	3.67	417,462	18,224	4.37
Total interest bearing liabilities	3,127,389	55,880	1.79	3,018,240	70,530	2.34	2,734,562	86,899	3.18
NONINTEREST BEARING LIABILITIES									
Noninterest bearing deposits	536,053			437,468			372,496		
Accrued interest and other liabilities	39,363			36,700			39,351		
Total noninterest bearing liabilities	575,416			474,168			411,847		
STOCKHOLDERS' EQUITY	327,577			320,335			232,521		
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$4,030,382			$3,812,743			$3,378,930		
Net interest income(1)		$147,995			$137,294			$119,579	
Net interest spread			3.88%			3.70%			3.53%
Net interest income to total earning assets(1)			4.12%			3.99%			3.89%
Interest bearing liabilities to earning assets	86.98%			87.79%			88.86%		

(1) Tax equivalent basis is calculated using an effective tax rate of 35%.

Table of Contents

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. 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 subtracting the current year average balance multiplied by the prior year rate from the current year average balance multiplied by the current year rate.

ANALYSIS OF CHANGES IN NET INTEREST INCOME
(Dollars in thousands)

	For the years ended December 31,					
	2010 Compared to 2009			2009 Compared to 2008		
	Change Due to			Change Due to		
	Volume	Rate	Net	Volume	Rate	Net
EARNING ASSETS / INTEREST INCOME						
Investment securities:						
Taxable	$3,813	$(9,088)	$(5,275)	$13,007	$(4,457)	$8,550
Tax-exempt	5,114	(1,013)	4,101	2,255	239	2,494
Interest bearing deposits	5	(18)	(13)	57	(48)	9
Federal funds sold	—	(1)	(1)	(283)	(14)	(297)
Loans and leases	(265)	(2,496)	(2,761)	5,865	(15,275)	(9,410)
TOTAL EARNING ASSETS	8,667	(12,616)	(3,949)	20,901	(19,555)	1,346
LIABILITIES / INTEREST EXPENSE						
Interest bearing deposits:						
Savings	3,954	(8,684)	(4,730)	6,651	(6,420)	231
Time, $100,000 and over	(2,307)	(1,361)	(3,668)	1,443	(3,663)	(2,220)
Other time deposits	(3,216)	(2,858)	(6,074)	(2,125)	(7,246)	(9,371)
Short-term borrowings	292	135	427	(1,771)	(2,067)	(3,838)
Other borrowings	(1,530)	925	(605)	2,067	(3,238)	(1,171)
TOTAL INTEREST BEARING LIABILITIES	(2,807)	(11,843)	(14,650)	6,265	(22,634)	(16,369)
NET INTEREST INCOME	$11,474	$(773)	$10,701	$14,636	$3,079	$17,715

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 adequate allowance for loan and lease losses. The adequacy of the allowance for loan and lease losses is determined by management 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, substandard credits and doubtful credits. For additional details on the specific factors considered, refer to the critical accounting policies and allowance for loan and lease losses sections of this report. We believe the allowance for loan and lease losses as of December 31, 2010, 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.

The allowance for loan and lease losses at December 31, 2010, was 1.82% of loans and leases and 47.12% of nonperforming loans compared to 1.80% of loans and leases and 53.56% of nonperforming loans at December 31, 2009. The provision for loan losses totaled $32.5 million for 2010 compared to $39.4 million for 2009. Additions to the allowance for loan and lease losses continued during 2010 due to a variety of factors including the continuation of depressed economic conditions, primarily in our Western markets of Arizona and Montana, that have resulted in increased delinquencies, reductions in the appraised values of collateral and downgrades in internal risk ratings of loans, including particularly the loans in those

Table of Contents

geographies.
The allowance for loan and lease losses at December 31, 2009, was 1.80% of loans and leases and 53.56% of nonperforming loans, compared to 1.48% of loans and leases and 45.73% of nonperforming loans at December 31, 2008. The total provision for loan losses for 2009 was $39.4 million compared to $29.3 million for 2008. Additions to the allowance for loan and lease losses during 2009 were driven by a variety of factors including deterioration of economic conditions, downgrades in internal risk ratings, reductions in appraised values and higher levels of charge-offs, primarily in Heartland's Western markets of Arizona, Montana and Colorado.

Noninterest Income

The table below shows our noninterest income for the years indicated:
NONINTEREST INCOME
(Dollars in thousands)

	For the years ended December 31,			% Change	
	2010	2009	2008	2010/ 2009	2009/ 2008
Service charges and fees, net	$13,900	$12,541	$11,654	11 %	8 %
Loan servicing income	7,232	9,666	4,600	(25)	110
Trust fees	9,206	7,773	7,906	18	(2)
Brokerage and insurance commissions	3,184	3,117	3,719	2	(16)
Securities gains, net	6,834	8,648	1,525	(21)	467
Gain (loss) on trading account securities	(91)	211	(998)	(143)	(121)
Impairment loss on equity securities	—	(40)	(5,151)	(100)	(99)
Gains on sale of loans	8,088	6,084	1,610	33	278
Income (loss) on bank-owned life insurance	1,466	1,002	(1,184)	46	(185)
Gain on acquisition	—	1,296	—	(100)	—
Gain on sale of merchant services	—	—	5,200	—	(100)
Other noninterest income	2,510	2,406	1,315	4	83
Total noninterest income	$52,329	$52,704	$30,196	(1)%	75 %

Noninterest income was $52.3 million during 2010 compared to $52.7 million during 2009, a decrease of $375,000 or 1%. Positively affecting noninterest income during 2010 were increases in service charges and fees, trust fees, gains on sale of loans and income on bank-owned life insurance. A portion of these increases were offset by decreases in loan servicing income and securities gains. Additionally, noninterest income during 2009 included a $1.3 million gain on acquisition. During 2009, noninterest income increased $22.5 million or 75% compared to 2008. The categories experiencing the largest increases were loan servicing income, securities gains and gains on sale of loans. Also positively affecting total noninterest income during 2009 was the $1.3 million gain on acquisition and $1.1 million in payments due from the FDIC under loss share agreements associated with The Elizabeth State Bank acquisition that was recorded in the other noninterest income category.
During 2010, service charges and fees increased $1.4 million or 11%. Service charges on checking and savings accounts recorded during 2010 were $2.7 million compared to $2.3 million during 2009, an increase of $443 thousand or 19%. These fees were affected by increased service charges on commercial checking accounts as the earnings credit rate applied to the balances maintained in these accounts continued at historically low levels and the resultant earnings credit was not sufficient to cover activity charges on these accounts. Overdraft fees recorded during 2010 were $6.1 million compared to $5.9 million during 2009, an increase of $135,000 or 2%. Revisions to Regulation E became effective on August 1, 2010, and the impact on our overdraft fees was minimal during the last two quarters of 2010 as our Bank Subsidiaries were able to add 7,000 accounts to their overdraft protection service. Interchange revenue from activity on bank debit cards, along with surcharges on ATM activity, resulted in service charges and fees of $4.4 million during 2010 compared to $3.6 million during 2009, an increase of $836 thousand or 23%. During 2009,

service charges and fees increased $887,000 or 8% compared to 2008. Service charges on checking and savings accounts were $2.3 million during 2009 compared to $1.7 million during 2008, an increase of $618,000 or 37%, primarily as a result of the low earnings credit rate on commercial checking accounts. Overdraft fees recorded during 2009 were $5.9 million compared to $6.0 million during 2008, a decrease of $102,000 or 2%.

Interchange revenue from activity on bank debit cards, along with surcharges on ATM activity, resulted in deposit service charges and fees of $3.6 million during 2009 compared to $2.9 million during 2008, an increase of $687,000 or 24%.

Loan servicing income decreased $2.4 million or 25% for 2010 as compared to 2009. Two components of loan servicing income, mortgage servicing rights and amortization of mortgage servicing rights, are dependent upon the level of loans we originate and sell into the secondary market, which in turn is highly influenced by market interest rates for home mortgage loans. Mortgage servicing rights income was $5.8 million in 2010 compared to $8.6 million in 2009 and amortization of mortgage servicing rights was $4.1 million in 2010 compared to $3.6 million in 2009. Long-term mortgage loan rates fell to all-time lows during the third and fourth quarters of 2010 and resulted in increased residential mortgage loan refinancing activity. Although the low mortgage rates during the last two quarters of 2010 positively impacted mortgage servicing rights income and amortization of mortgage servicing rights, the prolonged low interest rate environment during the first two quarters of 2009, compared to more normalized rates in the first two quarters of 2010, more heavily influenced the full year results for loan servicing income. Also included in loan servicing income are the fees collected for the servicing of mortgage loans for others, which is 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 was $3.1 million in 2010 compared to $2.4 million in 2009. The portfolio of mortgage loans we serviced for others totaled $1.40 billion at December 31, 2010, compared to $1.15 billion at December 31, 2009. Loan servicing income increased $5.1 million or 110% during 2009. This increase was largely due to an increase in service fees collected on the mortgage loans we sold into the secondary market while retaining servicing. The portfolio of mortgage loans we serviced for others totaled $1.15 billion at December 31, 2009, compared to $712.9 million at December 31, 2008, generating mortgage loan servicing fees of $2.4 million for 2009 and $1.7 million for 2008. Mortgage servicing rights income totaled $8.6 million during 2009 compared to $2.5 million during 2008. Amortization of mortgage servicing rights was $3.6 million in 2009 compared to $1.8 million during 2008. Note 8 to the consolidated financial statements contains a discussion about our mortgage servicing rights. We intend to continue to emphasize residential mortgage loan origination and expanded this line of business with the addition of National Residential Mortgage during the fourth quarter of 2010. Recent legislative changes have caused non-bank competitors to get out of this business and Heartland management believes this creates a significant opportunity for expansion of its residential mortgage loan origination activities.

Trust fees increased $1.4 million or 18% during 2010 and decreased $133,000 or 2% during 2009. A large portion of trust fees are based upon the market value of the trust assets under management, which was $2.04 billion at year-end 2010, $1.70 billion at year-end 2009 and $1.40 billion at year-end 2008. Those values fluctuate throughout the year as market conditions improve or decline. During 2010, market conditions had stabilized in comparison to 2009. The total number of trust accounts was 2,084 at December 31, 2010, compared to 2,033 at December 31, 2009, and 2,097 at December 31, 2008.

Brokerage and insurance commissions increased $67,000 or 2% during 2010 compared to a decrease of $602,000 or 16% during 2009. The decrease during 2009 occurred in the brokerage area as clients were uncertain about the condition of the financial markets and unwilling to make investments that could result in further losses in their portfolios. The decline at Heartland was consistent with the national average decrease of 16-20% other providers experienced during 2009.

Securities gains totaled $6.8 million during 2010, $8.6 million during 2009 and $1.5 million during 2008. Securities designed to outperform in a declining rate environment were sold during 2010 and 2009 and replaced with securities that are expected to outperform as rates rise.

The equity securities trading portfolio recorded losses of $91,000 during 2010 compared to gains of $211,000 during 2009 and losses of $998,000 during 2008. The gains and losses recorded on this portfolio were generally reflective of the overall activity in the stock market. The losses recorded during 2008 included $270,000 recorded for further declines in the market value of Fannie Mae preferred securities that had been transferred into the trading portfolio in September 2008.

We recorded no impairment losses on securities deemed to be other than temporarily impaired during 2010 compared to $40,000 during 2009 and $5.2 million during 2008. Nearly all of the loss in 2008 was attributable to our investment in perpetual preferred securities issued by Fannie Mae, which was included in securities available for sale at a cost of $5.1 million. At September 30, 2008, these securities were written down to their trading value of $436,000 and transferred to the trading portfolio. We do not hold any common or any other equity securities issued by Fannie Mae or Freddie Mac.

Gains on sale of loans totaled $8.1 million during 2010, $6.1 million during 2009 and $1.6 million during 2008. These gains increased during 2010 compared to 2009 as long-term mortgage loan rates fell to all-time lows during the last half of 2010 and resulted in increased refinancing activity on 15- and 30-year, fixed-rate mortgage loans which we normally elect to sell into the secondary market and retain the servicing. Similarly, during the first half of 2009, long-term mortgage loan rates fell

Table of Contents

below 5.00% and resulted in significantly increased refinancing activity. During 2010, we originated $694.3 million in new and refinanced mortgage loans to 3,982 borrowers compared to $825.2 million to 4,560 borrowers in 2009 and $328.4 million to 1,830 borrowers in 2008. Even though the 2010 volume of these types of loans was below the 2009 volume, the gains on sale were higher in 2010 as the loan officers were more effective in their pricing on these loans.

The change in cash surrender value on bank-owned life insurance resulted in income of $1.5 million during 2010 compared to income of $1.0 million during 2009 and a loss of $1.2 million during 2008. A large portion of our bank-owned life insurance is held in a separate account product that experienced significant market value declines during the last half of 2008, but recovered in 2009 and 2010.

Other noninterest income increased $104,000 or 4% during 2010 compared to an increase of $1.1 million or 83% during 2009. Included in the 2009 noninterest income was $1.1 million in payments due from the FDIC under loss share agreements associated with The Elizabeth State Bank acquisition.

Noninterest Expense

The table below shows our noninterest expense for the years indicated:
NONINTEREST EXPENSE
(Dollars in thousands)

	For the years ended December 31,			% Change	
	2010	2009	2008	2010/ 2009	2009/ 2008
Salaries and employee benefits	$63,391	$60,465	$56,752	5 %	7 %
Occupancy	9,121	8,992	9,019	1	—
Furniture and equipment	6,104	6,574	6,968	(7)	(6)
Professional fees	10,446	9,127	9,876	14	(8)
FDIC insurance assessments	5,441	6,578	1,446	(17)	355
Advertising	3,830	3,337	3,762	15	(11)
Goodwill impairment charge	1,639	12,659	—	(87)	—
Intangible assets amortization	591	866	943	(32)	(8)
Net loss on repossessed assets	15,264	10,847	827	41	1,212
Other noninterest expenses	13,412	13,075	12,646	3	3
Total noninterest expense	$129,239	$132,520	$102,239	(2)%	30 %
Efficiency ratio(1)	66.79 %	73.07 %	68.78 %		

(1) Noninterest expense divided by the sum of net interest income and noninterest income less security gains.

For 2010, noninterest expense decreased $3.3 million or 2% when compared to 2009. Goodwill impairment charges totaled $1.6 million during 2010 and $12.7 million during 2009. Exclusive of these goodwill impairment charges, noninterest expense increased $7.7 million or 6% in 2010. The primary contributors to this increase were increases in salaries and employee benefits, professional fees and net losses on repossessed assets. The effect of these increases was mitigated by a decrease in FDIC insurance assessments. For 2009, noninterest expense increased $30.3 million or 30% when compared to 2008. Exclusive of the $12.7 million goodwill impairment charge, noninterest expense increased $17.6 million or 17%. The noninterest expense categories contributing to the increase during 2009 were employee salaries and benefits, FDIC assessments and net losses on repossessed assets.
The largest component of noninterest expense, salaries and employee benefits, grew by $2.9 million or 5% during 2010 and $3.7 million or 7% during 2009. Total average full-time equivalent employees were 1,027 during 2010 compared to 1,024 during 2009 and 1,006 during 2008. The increase in 2009 was primarily due to the opening of Minnesota Bank & Trust in April 2008 and additional staffing at New Mexico Bank & Trust to grow its customer

base, at Heartland's operations center to provide support services to the Bank Subsidiaries and at Galena State Bank & Trust Co. as a result of The Elizabeth State Bank acquisition. The addition of twenty-six employees at National Residential Mortgage took our total full-time equivalent employees to 1,066 at December 31, 2010.

Table of Contents

Professional fees increased $1.3 million or 14% during 2010 compared to a decrease of $749,000 or 8% during 2009. Legal fees related to collection efforts on nonperforming loans were a larger portion of the professional fees paid during both 2010 and 2008.

FDIC insurance assessments totaled $5.4 million during 2010 compared to $6.6 million during 2009 and $1.4 million during 2008, a decrease of $1.1 million or 17% for 2010 and an increase of $5.1 million or 355% for 2009. The significant increase in 2009 was primarily attributable to the FDIC insurance assessment rate change from a range of 10 to 14 basis points to a range of 12 to 16 basis points beginning in the second quarter. Also included in the FDIC assessments recorded during 2009 was $1.7 million for the emergency special assessment.

Advertising expense was $3.8 million during 2010 compared to $3.3 million during 2009 and $3.8 million during 2008. During 2010, we engaged a third party service provider to redesign the websites for our ten bank subsidiaries.

Heartland’s goodwill, which is related to acquisitions in prior years, is evaluated for impairment on an annual basis or when events or circumstances suggest impairment may have occurred. Due to the adverse economic conditions in our Arizona and Montana markets, we engaged an independent third party valuation expert to value the goodwill of those banks at the end of 2009. As a result of these valuations, we recorded a goodwill impairment charge of $5.2 million at Arizona Bank & Trust and $7.5 million at Rocky Mountain Bank in 2009. After the impairment charge was recorded, goodwill totaled $27.5 million or less than 1% of total assets at December 31, 2009. An additional goodwill impairment charge of $1.6 million was recorded at Rocky Mountain Bank during the third quarter of 2010. This amount represented the correction of a calculation error discovered during the third quarter of 2010 related to the impairment calculation in the valuation performed in 2009. After consideration of both quantitative and qualitative factors, we determined the amount was not material to the financial statements for 2009 and thus recorded such amount in the third quarter of 2010.

Net losses on repossessed assets totaled $15.3 million during 2010 compared to $10.8 million during 2009 and $827,000 during 2008. A majority of the losses in both years resulted from valuation adjustments due to continued reductions in real estate values, particularly in our Phoenix, Arizona and Bozeman, Montana markets.

Income Taxes

Heartland's effective tax rate was 29.2% for 2010 compared to 52.3% for 2009. Excluding the non-deductible goodwill impairment charges, our effective tax rate was 27.8% for 2010 and 27.2% for 2009. The effective tax rate during 2010 included $548,000 in federal low-income housing tax credits compared to $218,000 in these same credits during both 2009 and 2008. The additional credits in 2010 were associated with Dubuque Bank and Trust Company’s ownership interest in a new low-income housing project for seniors located in Dubuque, Iowa. The effective tax rate is affected by the level of tax-exempt interest income which, as a percentage of pre-tax income exclusive of the non-deductible goodwill impairment charges, was 26.0% during 2010 compared to 32.1% during 2009. The tax-equivalent adjustment for this tax-exempt interest income was $4.9 million during 2010 compared to $4.5 million during 2009.
Heartland's effective tax rate was 52.3% for 2009 compared to 22.7% for 2008. Excluding the non-deductible goodwill impairment charge, Heartland’s effective tax rate was 27.2% for 2009 compared to 22.7% for 2008. The effective tax rate during 2009 did not include any federal rehabilitation tax credits while $570,000 in federal rehabilitation tax credits associated with Dubuque Bank and Trust Company’s ownership interests in limited liability companies that own certified historic structures were included in 2008. The effective tax rate is also affected by the level of tax-exempt interest income which, as a percentage of pre-tax income exclusive of the non-deductible goodwill impairment charge, was 32.1% during 2009 compared to 50.5% during 2008. The tax-equivalent adjustment for this tax-exempt interest income was $4.5 million during 2009 compared to $3.9 million during 2008.

FINANCIAL CONDITION

At December 31, 2010, total assets had decreased $13.5 million or less than 1% since year-end 2009. Securities represented 32% of total assets at December 31, 2010, compared to 29% at December 31, 2009. Additional securities were purchased during 2010 as deposit growth outpaced loan growth.

Table of Contents

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:

LOAN AND LEASE PORTFOLIO
(Dollars in thousands)

	As of December 31,									
	2010		2009		2008		2007		2006	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Loans and leases receivable held to maturity:										
Commercial	$558,031	23.75 %	$420,021	17.98 %	$434,444	18.03 %	400,788	17.55 %	$354,663	16.48
Commercial real estate	1,160,962	49.43	1,250,087	53.52	1,283,627	53.27	1,231,809	53.93	1,129,075	52.47
Residential real estate	163,726	6.97	175,059	7.49	203,921	8.46	217,044	9.50	225,343	10.47
Agricultural and agricultural real estate	250,943	10.68	256,780	10.99	247,664	10.28	225,663	9.88	233,748	10.86
Consumer	214,515	9.13	231,709	9.92	234,061	9.72	199,518	8.74	194,652	9.05
Lease financing, net	981	0.04	2,326	0.10	5,829	0.24	9,158	0.40	14,359	0.67
Gross loans and leases receivable held to maturity	2,349,158	100.00 %	2,335,982	100.00 %	2,409,546	100.00 %	2,283,980	100.00 %	2,151,840	100.0
Unearned discount	(2,581)		(2,491)		(2,443)		(2,107)		(1,875)	
Deferred loan fees	(2,590)		(2,349)		(2,102)		(1,706)		(2,120)	
Total net loans and leases receivable held to maturity	2,343,987		2,331,142		2,405,001		2,280,167		2,147,845	
Loans covered under loss share agreements:										
Commercial and	$10,056	48.34 %	$15,068	47.29 %	$—	— %	$—	— %	$—	—

commercial real estate										
Residential mortgage	5,792	27.85	8,984	28.20	—	—	—	—	—	—
Agricultural and agricultural real estate	2,723	13.09	3,626	11.38	—	—	—	—	—	—
Consumer	2,229	10.72	4,182	13.13	—	—	—	—	—	—
Total loans covered under loss share agreements	20,800	100.00%	31,860	100.00%	—	—%	—	—%	—	—
Allowance for loan and lease losses	(42,693)		(41,848)		(35,651)		(32,993)		(29,981)	
Loans and leases receivable, net	$2,322,094		$2,321,154		$2,369,350		$2,247,174		$2,117,864	

Table of Contents

The table below sets forth the remaining maturities by loan and lease category, including loans held for sale and loans covered by loss share agreements, and excluding unearned discount and deferred loan fees, as of December 31, 2010:
MATURITY AND RATE SENSITIVITY OF LOANS AND LEASES(1)
(Dollars in thousands)

		Over 1 Year Through 5 Years		Over 5 Years		
	One Year or Less	Fixed Rate	Floating Rate	Fixed Rate	Floating Rate	Total
Commercial	$276,286	$77,210	$58,549	$94,359	$53,389	$559,793
Commercial real estate	455,369	432,352	148,820	28,042	104,673	1,169,256
Residential real estate	53,493	33,047	18,623	46,439	41,820	193,422
Agricultural and agricultural real estate	125,507	64,980	31,402	10,705	21,072	253,666
Consumer	51,432	62,017	8,012	12,884	82,399	216,744
Lease financing, net	495	450	—	36	—	981
Total	$962,582	$670,056	$265,406	$192,465	$303,353	$2,393,862

(1) Maturities based upon contractual dates

Total loans and leases, exclusive of those covered by loss share agreements, were $2.34 billion at December 31, 2010, compared to $2.33 billion at year-end 2009, an increase of $12.8 million or 1 percent. Total loans and leases, exclusive of those covered by loss share agreements, decreased $17.6 million during the fourth quarter of 2010 compared to a decrease of $24.2 million during the third quarter of 2010, an increase of $16.5 million during the second quarter of 2010 and an increase of $38.1 million during the first quarter of 2010. The loan category experiencing the majority of the growth during 2010 was commercial and commercial real estate loans. During 2009, total loans and leases, exclusive of those covered by the FDIC loss share agreements, experienced a decrease of $73.9 million or 3%. The only loan category to experience growth during 2009 was agricultural and agricultural real estate loans, which also experienced a slight decrease during the fourth quarter of 2009. Total loans and leases, exclusive of The Elizabeth State Bank acquisition, decreased $36.7 million during the fourth quarter of 2009, decreased $7.2 million during the third quarter of 2009, increased $18.6 million during the second quarter of 2009 and decreased $48.6 million during the first quarter of 2009.

The commercial and commercial real estate loan category continues to be the primary focus for all the Heartland subsidiary banks. These loans comprised 73% of the loan portfolio at year-end 2010, 72% at year-end 2009 and 71% at year-end 2008. These loans increased $48.9 million or 3% during 2010 compared to a decrease of $48.0 million or 3% during 2009. Most of the 2010 growth occurred at Dubuque Bank and Trust Company, Wisconsin Community Bank, New Mexico Bank & Trust and Minnesota Bank & Trust.

Residential mortgage loans experienced a decrease of $11.3 million or 6% during 2010 and $28.9 million or 14% during 2009. Management anticipates that growth in our residential mortgage loan portfolio will be slower in low interest rate environments when consumers are more apt to choose 15- and 30-year fixed-rate mortgage loans which are usually sold into the secondary market. Servicing is retained on a portion of these loans so that the Bank Subsidiaries have an opportunity to continue providing their customers the excellent service they expect.

Agricultural and agricultural real estate loans outstanding decreased $5.8 million or 2% during 2010 compared to an increase of $9.1 million or 4% during 2009. Nearly all of the growth in 2009 occurred at Dubuque Bank and Trust Company. Of the $250.9 million in agricultural loans, over 70% were originated at our Midwestern banks. The agricultural loan portfolio is well diversified between grains, dairy, hogs and cattle, with approximately 32% being in grain production.

Consumer loans decreased $17.2 million or 7% during 2010 and $2.4 million or 1% during 2009. Consumer loans at Citizens Finance Co. comprised 24% of our total consumer loan portfolio at December 31, 2010, 21% at December 31, 2009, and 20% as of December 31, 2008. Expansion of Citizens Finance Co. was put on hold until December of 2010, when its ninth office was opened in Aurora, Illinois.

Although the risk of nonpayment for any reason exists with respect to all loans, specific risks are associated with each type of loan. The primary risks associated with commercial and agricultural loans are the quality of the borrower's management and the impact of national and regional economic factors. Additionally, risks associated with commercial and agricultural real

Table of Contents

estate loans include fluctuating property values and concentrations of loans in a specific type of real estate. Repayment on loans to individuals, including those on residential real estate, are dependent on the borrower’s continuing financial stability as well as the value of the collateral underlying these credits, and thus are more likely to be affected by adverse personal circumstances and deteriorating economic conditions. These risks are described in more detail in Item 1A. “Risk Factors” of this Form 10-K. We monitor loan concentrations and do not believe we have excessive concentrations in any specific industry.

Our strategy with respect to the management of these types of risks, whether loan demand is weak or strong, is to encourage the Bank Subsidiaries to follow tested and prudent loan policies and underwriting practices which include: (i) granting loans on a sound and collectible basis; (ii) ensuring that primary and secondary sources of repayment are adequate in relation to the amount of the loan; (iii) administering loan policies through a board of directors; (iv) developing and maintaining adequate diversification of the loan portfolio as a whole and of the loans within each loan category; and (v) ensuring that each loan is properly documented and, if appropriate, guaranteed by government agencies and that insurance coverage is adequate.

Loans and leases secured by real estate, either fully or partially, totaled $1.7 billion or 71% of total loans and leases at December 31, 2010, and $1.8 billion or 78% of total loans and leases at December 31, 2009. Approximately 60% of the non-farm, nonresidential loans are owner occupied. The largest categories within our real estate secured loans are listed below:

LOANS SECURED BY REAL ESTATE

(Dollars in thousands)	As of December 31,	
	2010	2009
Residential real estate, excluding residential construction and residential lot loans	$389,790	$427,276
Industrial, manufacturing, business and commercial	186,558	235,929
Agriculture	201,750	197,885
Land development and lots	152,658	176,995
Retail	168,916	161,008
Office	124,041	130,479
Hotel, resort and hospitality	97,442	101,182
Warehousing	65,196	72,639
Food and beverage	68,550	61,982
Multi-family	62,886	49,884
Residential construction	42,564	46,940
All other	137,216	142,891
Total loans secured by real estate	$1,697,567	$1,805,090

Table of Contents

The table below sets forth the amounts of nonperforming loans and leases and other nonperforming assets on the dates indicated:

NONPERFORMING ASSETS
(Dollars in thousands)

	As of December 31,				
	2010	2009	2008	2007	2006
Not covered under loss share agreements:					
Nonaccrual loans and leases	$90,512	$78,118	$76,953	$30,694	$8,104
Loans and leases contractually past due 90 days or more	85	17	1,005	1,134	315
Total nonperforming loans and leases	90,597	78,135	77,958	31,828	8,419
Other real estate	31,731	30,205	11,750	2,195	1,575
Other repossessed assets	302	501	1,484	438	349
Total nonperforming assets not covered under loss share agreements	$122,630	$108,841	$91,192	$34,461	$10,343
Covered under loss share agreements:					
Nonaccrual loans and leases	$4,901	$4,170	$—	$—	$—
Loans and leases contractually past due 90 days or more	—	—	—	—	—
Total nonperforming loans and leases	4,901	4,170	—	—	—
Other real estate	271	363	—	—	—
Other repossessed assets	—	—	—	—	—
Total nonperforming assets covered under loss share agreements	$5,172	$4,533	$—	$—	$—
Restructured loans(1)	$23,719	$46,656	$—	$—	$—
Nonperforming loans and leases not covered under loss share agreements to total loans and leases receivable	3.87 %	3.35 %	3.24 %	1.40 %	0.39 %
Nonperforming assets not covered under loss share agreements to total loans and leases receivable plus repossessed property	5.16 %	4.61 %	3.77 %	1.51 %	0.48 %
Nonperforming assets not covered under loss share agreements to total assets	3.07 %	2.71 %	2.51 %	1.06 %	0.34 %

(1) Represents accruing restructured loans performing according to their restructured terms.

We had $36.4 million of restructured loans at December 31, 2010, of which $12.7 million was classified as nonaccrual and $23.7 million was accruing interest according to the restructured terms. At December 31, 2009, we had $62.6 million of restructured loans, of which $15.9 million was classified as nonaccrual and $46.7 million was accruing interest according to the restructured terms.

We regularly monitor and continue to develop systems to oversee the quality of our loan portfolio. Under our internal loan review program, loan review officers are responsible for reviewing existing loans and leases, testing loan ratings assigned by loan officers, identifying potential problem loans and leases and monitoring the adequacy of the allowance for loan and lease losses at the Bank Subsidiaries. An integral part of our loan review program is a loan rating system, under which a rating is assigned to each loan and lease within the portfolio based on the borrower's financial position, repayment ability, collateral position and repayment history.

Nonperforming loans and leases, exclusive of those covered under the loss sharing agreements, were $90.6 million or 3.87% of total loans and leases receivable at December 31, 2010, compared to $78.1 million or 3.35% of total loans and leases receivable at December 31, 2009, and $78.0 million or 3.24% at December 31, 2008. Approximately 62%, or $56.0 million, of our nonperforming loans are to 25 borrowers, with $17.9 million originated by Rocky Mountain Bank, $11.8 million originated by Summit Bank & Trust, $8.9 million originated by Wisconsin Community Bank, $8.8 million originated by New Mexico Bank & Trust, $5.2 million originated by Arizona Bank & Trust, $1.8 million originated by Galena State Bank and Trust Company and $1.6 million originated by Riverside Community Bank. At December 31, 2009, approximately 64%, or $50.1 million, of our nonperforming loans were to twenty borrowers, with $15.0 million originated by Rocky Mountain Bank, $13.7

million originated by Summit Bank & Trust, $7.5 million originated by Wisconsin Community Bank, $6.5 million originated by Arizona Bank & Trust, $2.9 million originated by New Mexico Bank & Trust, $2.9 million originated by Riverside Community Bank and $1.6 million originated by Dubuque Bank and Trust. The portion of our nonperforming loans covered by government guarantees was $3.7 million at December 31, 2010, and $3.3 million at December 31, 2009.

The industry breakdown for nonperforming loans at December 31, 2010, as identified using the North American Industry Classification System (NAICS) was $13.1 million to lessors of real estate, $11.6 million for lot and land development, $6.6 million for other activities related to real estate and $3.8 million for construction and development. The remaining $20.9 million was distributed among 9 other industries. At December 31, 2009, the industry breakdown for nonperforming loans was $16.7 million for lots and land development, $6.5 million for real estate financing provider, $6.0 million for construction and development of commercial real estate, $5.8 million for transportation and $4.9 million to lessors of real estate. The remaining $15.1 million was distributed among seven other industries.

Delinquencies in each of the loan portfolios continues to be well managed and no significant adverse trends have been identified. Loans delinquent between 30 and 90 days as a percent of total loans were 0.67% at December 31, 2010, compared to 1.65% at September 30, 2010, 0.61% at June 30, 2010, 1.22% at March 31, 2010, and 1.22% at December 31, 2009. The increase in the third quarter of 2010 was attributed to six credits, half of which returned to current status during the fourth quarter.

Other real estate owned, exclusive of assets covered under loss sharing agreements, was $31.7 million at December 31, 2010, compared to $30.2 million at December 31, 2009. Liquidation strategies have been identified for all the assets held in other real estate owned. Management continues with its plans to market these properties through an orderly liquidation process instead of under a quick liquidation process that would likely result in discounts greater than the projected carrying costs. As a result of continued collection activities, it is likely that other real estate owned will increase during the first half of 2011.

In certain circumstances, we may modify the terms of a loan to maximize the collection of amounts due. In most cases, the modification is either a reduction in interest rate, conversion to interest only payments, extension of the maturity date or a reduction in the principal balance. Generally, the borrower is experiencing financial difficulties or is expected to experience difficulties in the near-term, so concessionary modification is granted to the borrower that would otherwise not be considered. Restructured loans accrue interest as long as the borrower complies with the revised terms and conditions and has demonstrated repayment performance at a level commensurate with the modified terms over several payment cycles. Although, many of our loan restructurings occur on a case-by-case basis in connection with ongoing loan collection processes, we have also participated in certain restructuring programs for residential real estate borrowers. In general, certain residential real estate borrowers facing an interest rate reset that are current in their repayment status, are allowed to retain the lower of their existing interest rate or the market interest rate as of their interest reset date. In addition, during 2009, our Bank Subsidiaries began participating in the U.S. Department of the Treasury Home Affordable Modification Program (“HAMP”) for loans in its servicing portfolio. HAMP gives qualifying homeowners an opportunity to refinance into more affordable monthly payments, with the U.S. Department of the Treasury compensating us for a portion of the reduction in monthly amounts due from borrowers participating in this program. We also utilize a similar mortgage loan restructuring program for certain borrowers within our portfolio loans.

The Bank Subsidiaries have not been active in the origination of subprime loans. Consistent with our community banking model, which includes meeting the legitimate credit needs within the communities served, the Bank Subsidiaries may make loans to borrowers possessing subprime characteristics if there are mitigating factors present that reduce the potential default risk of the loan.

At December 31, 2010, $94.9 million or 58% of the consumer loans originated by the Bank Subsidiaries were in home equity lines of credit (“HELOC’s”) compared to $104.4 million or 56% at December 31, 2009. Under our policy guidelines for the underwriting of these lines of credit, the customer may receive advances of up to 90% of the value of the property securing the line, provided the customer qualifies for Tier I classification, our internal ranking for customers considered to possess a high credit quality profile. Additionally, to qualify for advances up to 90% of the value of the property securing the line, the first mortgage must be held by Heartland and the customer must escrow for both taxes and insurance. Otherwise, HELOC’s are established at an 80% loan to value.

Allowance For Loan And Lease Losses

The process we use to determine the adequacy of the allowance for loan and lease losses is considered a critical accounting practice for Heartland. The allowance for loan and lease losses represents management’s estimate of identified and unidentified probable losses in the existing loan portfolio. For additional details on the specific factors considered, refer to the critical

Table of Contents

accounting policies section of this report.

The allowance for loan and lease losses at December 31, 2010, was 1.82% of loans and leases and 47.12% of nonperforming loans compared to 1.80% of loans and leases and 53.56% of nonperforming loans at December 31, 2009, and 1.48% of loans and leases and 45.73% of nonperforming loans at December 31, 2008. The provision for loan losses totaled $32.5 million for 2010 compared to $39.4 million for 2009 and $29.3 million for 2008. Additions to the allowance for loan and lease losses during 2010 were due to a variety of factors including the continuation of depressed economic conditions, primarily in our Western markets of Arizona and Montana, that resulted in increased delinquencies, reductions in the appraised values of collateral and downgrades in internal risk ratings of loans, including particularly the loans in those geographies. Additions to the allowance for loan and lease losses during 2009 were driven by similar factors including deterioration of economic conditions, downgrades in internal risk ratings, reductions in appraised values and higher levels of charge-offs, primarily in our Western markets of Arizona, Montana and Colorado. The allowance for loan and lease losses related to total impaired loans was $12.2 million at December 31, 2010, $13.0 million at December 31, 2009, and $4.4 million at December 31, 2008.

The amount of net charge-offs not covered by loss share agreements recorded by us was $30.9 million during 2010 compared to $31.8 million during 2009. As a percentage of average loans and leases, net charge-offs were 1.31% during 2010 and 1.38% during 2009. A large portion of the net charge-offs during both years was related to commercial real estate development loans and residential lot loans. We recognize charge-offs on certain collateral dependent loans by writing down the loan balance to an estimated net realizable value based on the anticipated disposition value. Citizens Finance Co., our consumer finance subsidiary, experienced net charge-offs of $1.6 million during 2010 and $1.9 million during 2009. Net losses as a percentage of average loans, net of unearned, at Citizens were 3.35% for 2010 compared to 4.27% for 2009 and 4.83% for 2008. Loans with payments past due for more than thirty days at Citizens were 4.39% of gross loans at year-end 2010 compared to 5.41% of gross loans at year-end 2009 and 6.69% of gross loans at year-end 2008. Although we may periodically experience a charge-off of more significance on an individual credit, we feel our credit culture remains solid.

Table of Contents

The first table below summarizes activity in the allowance for loan and lease losses for the years indicated, including amounts of loans and leases charged off, amounts of recoveries, additions to the allowance charged to income, additions related to acquisitions and the ratio of net charge-offs to average loans and leases outstanding. The second table below shows our allocation of the allowance for loan and lease losses by types of loans and leases and the amount of unallocated reserves.

ANALYSIS OF ALLOWANCE FOR LOAN AND LEASE LOSSES
(Dollars in thousands)

	As of December 31,				
	2010	2009	2008	2007	2006
Allowance at beginning of year	$41,848	$35,651	$32,993	$29,981	$27,791
Charge-offs:					
Commercial and commercial real estate	27,191	26,883	22,487	5,226	1,494
Residential real estate	1,641	1,869	1,010	237	227
Agricultural and agricultural real estate	301	496	33	—	148
Consumer	4,917	4,712	4,217	3,101	2,120
Lease financing	—	1,005	—	—	—
Total charge-offs	34,050	34,965	27,747	8,564	3,989
Recoveries:					
Commercial and commercial real estate	1,585	1,073	226	983	1,031
Residential real estate	19	79	18	4	95
Agricultural and agricultural real estate	152	32	177	—	62
Consumer	631	601	665	654	545
Lease financing	—	—	—	—	—
Total recoveries	2,387	1,785	1,086	1,641	1,733
Net charge-offs(1)(2)	31,663	33,180	26,661	6,923	2,256
Provision for loan and lease losses from continuing operations	32,508	39,377	29,319	10,073	3,883
Provision for loan and lease losses from discontinued operations	—	—	—	—	(5)
Additions related to acquisitions	—	—	—	—	591
Reduction related to discontinued operations	—	—	—	(138)	(23)
Allowance at end of year	$42,693	$41,848	$35,651	$32,993	$29,981
Net charge-offs to average loans and leases	1.31%	1.38%	1.15%	0.30%	0.11%

(1) Includes net charge-offs at Citizens Finance Co. of $1,605 for 2010, $1,942 for 2009, $2,012 for 2008, $1,646 for 2007 and $1,215 for 2006.
(2) Includes net charge-offs on loans covered under loss share agreements of $798 for 2010 and $1,344 for 2009.

Table of Contents

ALLOCATION OF ALLOWANCE FOR LOAN AND LEASE LOSSES
(Dollars in thousands)

	As of December 31, 2010			2009			2008			2007			2006		
	Amount	Loan Category to Gross Loans & Leases Receivable		Amount	Loan Category to Gross Loans & Leases Receivable		Amount	Loan Category to Gross Loans & Leases Receivable		Amount	Loan Category to Gross Loans & Leases Receivable		Amount	Loan Category to Gross Loans & Leases Receivable	
Commercial and commercial real estate[1]	$30,841	73.18	%	$33,585	71.50	%	$23,133	71.30	%	$22,564	71.48	%	$18,612	68.95	%
Residential real estate	2,381	6.97		1,691	7.49		2,007	8.46		2,345	9.50		1,688	10.47	
Agricultural and agricultural real estate	2,147	10.68		2,852	10.99		2,013	10.28		1,868	9.88		2,075	10.86	
Consumer	6,315	9.13		3,566	9.92		3,322	9.72		2,954	8.74		3,008	9.05	
Lease financing	9	0.04		17	0.10		97	0.24		128	0.40		192	0.67	
Unallocated	1,000			137			5,079			3,134			4,406		
Total allowance for loan and lease losses	$42,693			$41,848			$35,651			$32,993			$29,981		

(1) For 2010, the amount allocated to commercial was $10,525 and the amount allocated to commercial real estate was $20,316.

Securities

The composition of our securities portfolio is managed to maximize the return on the portfolio while considering the impact it has on our asset/liability position and liquidity needs. Securities represented 32% of total assets at December 31, 2010, and 29% of total assets at December 31, 2009. Total available for sale securities as of December 31, 2010, were $1.20 billion, an increase of $69.2 million or 6% from year-end 2009. Total available for sale securities as of December 31, 2009, were $1.14 billion, an increase of $263.8 million or 30% from year-end 2008. Additional securities were purchased during both years as loan growth slowed.

The composition of the securities portfolio shifted from an emphasis in mortgage-backed securities to U.S. government corporations and agencies during both 2010 and 2009 as the spread on mortgage-backed securities narrowed in comparison to government agency securities. The percentage of mortgage-backed securities was 48% at year-end 2010 compared to 53% at year-end 2009 and 56% at year-end 2008. Nearly 80% of Heartland’s mortgage-backed securities were issuances of government-sponsored enterprises on December 31, 2010.

The table below presents the composition of the securities portfolio, by major category:
SECURITIES PORTFOLIO COMPOSITION

(Dollars in thousands)

	As of December 31, 2010		2009		2008	
	Amount	% of Portfolio	Amount	% of Portfolio	Amount	% of Portfolio
U.S. government corporations and agencies	$320,007	25.30 %	$279,441	23.78 %	$195,356	21.62 %
Mortgage-backed securities	609,865	48.23	623,949	53.09	509,501	56.38
Obligations of states and political subdivisions	294,259	23.27	238,893	20.33	163,597	18.10
Other securities	40,433	3.20	32,934	2.80	35,251	3.90
Total	$1,264,564	100.00 %	$1,175,217	100.00 %	$903,705	100.00 %

Table of Contents

At December 31, 2010, we had $25.2 million of equity securities, including capital stock in the various Federal Home Loan Banks of which the Bank Subsidiaries are members and all of which were classified as available for sale. The tables below present the maturities of the debt securities in the securities portfolio at December 31, 2010, by major category and classification as available for sale or held to maturity:

SECURITIES AVAILABLE FOR SALE PORTFOLIO MATURITIES
(Dollars in thousands)

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. government corporations and agencies	$54,874	1.05 %	$250,293	1.07 %	$14,840	2.71 %	$—	— %	$320,007	1.81 %
Mortgage-backed securities	121,044	4.73	394,774	3.58	11,339	6.71	72,883	4.78	600,040	4.02
Obligations of states and political subdivisions(1)	6,255	6.36	51,514	5.61	118,834	5.47	67,860	6.36	244,463	5.77
Corporate debt securities	—	—	—	—	—	—	14,974	1.15	14,974	1.15
Total	$182,173	3.68 %	$696,581	2.83 %	$145,013	5.28 %	$155,717	5.12 %	$1,179,484	3.75 %

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

SECURITIES HELD TO MATURITY PORTFOLIO MATURITIES
(Dollars in thousands)

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Mortgage-backed securities	$—	— %	$7,987	8.53 %	$1,838	6.80 %	$—	— %	$9,825	7.87 %
Obligations of states and political subdivisions(1)	—	—	—	—	1,287	8.28	48,509	5.51	49,796	5.58
Total	$—	— %	$7,987	8.53 %	$3,125	7.41 %	$48,509	5.51 %	$59,621	5.96 %

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

Although there remains a net unrealized aggregate gain on the debt securities held in our available for sale portfolio, some of those securities had market values below their amortized cost basis at December 31, 2010. Because the majority of the decline in market value is attributable to changes in interest rates and not credit quality, and because we have the ability and intent to hold those investments until a recovery of fair value, which may be maturity, we did not consider those investments to be other-than-temporarily impaired at December 31, 2010. See Note 4 to our consolidated financial statements for further discussion regarding unrealized losses on our securities portfolio.

Table of Contents

Deposits

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

	For the years ended December 31,								
	2010			2009			2008		
	Average Deposits	Percent of Deposits	Average Interest Rate	Average Deposits	Percent of Deposits	Average Interest Rate	Average Deposits	Percent of Deposits	Average Interest Rate
Demand deposits	$536,053	17.63 %	— %	$437,468	15.36 %	— %	$372,496	15.17 %	— %
Savings	1,557,658	51.24	0.88	1,282,212	45.03	1.44	938,701	38.22	1.94
Time deposits less than $100,000	649,892	21.38	2.63	754,814	26.51	3.06	807,617	32.89	4.02
Time deposits of $100,000 or more	296,325	9.75	2.54	373,159	13.10	3.00	336,926	13.72	3.98
Total deposits	$3,039,928	100.00 %		$2,847,653	100.00 %		$2,455,740	100.00 %	

Total average deposits experienced an increase of $192.3 million or 7% during 2010 and $391.9 million or 16% during 2009. Exclusive of brokered deposits, total average deposits increased $199.7 million or 7% during 2010 and $423.3 million or 18% during 2009. The Elizabeth State Bank acquisition included $49.5 million in deposits, which accounted for $24.8 million of the growth in average deposits for 2009 as these deposits were only with Heartland for half of the year. For 2010, all of the Bank Subsidiaries except for Rocky Mountain Bank and First Community Bank experienced growth in nonbrokered deposits in 2010. All the Bank Subsidiaries experienced growth in nonbrokered deposits during 2009. During both years, this growth was weighted more heavily in our Midwestern markets, which were responsible for 53% of the growth during 2010 and 58% of the growth during 2009. The addition of new banking locations in both the West and Midwest have contributed to the growth in deposits, as well as the increased focus on attracting new deposit customers in all of the markets served by the Bank Subsidiaries.

Growth in demand and savings deposits is attributable to an increased emphasis on non-maturity core deposit products over higher-cost certificates of deposit. Average demand deposits as a percentage of total average deposits increased to 18% during 2010 compared to 15% in both 2009 and 2008. Average savings deposits increased to 51% of total average deposits during 2010 compared to 45% during 2009 and 38% during 2008. Average certificates of deposit decreased to 31% of total average deposits during 2010 compared to 40% in 2009 and 47% in 2008. Additionally, commercial and retail customers have continued to build cash reserves.

Average demand deposits increased $98.6 million or 23% during 2010 and $65.0 million or 17% during 2009. We will continue to focus efforts on growing demand deposit account balances with internally-developed, companywide acquisition programs. The percentage of our total average demand deposit balances attributable to branch banking offices in our Western markets was 57% in 2010 compared to 59% in 2009 and 56% in 2008.

Average savings deposit balances increased by $275.4 million or 21% during 2010 and $343.5 million or 37% during 2009. The percentage of our total average savings deposit balances attributable to branch banking offices in our Western markets was 39% in 2010 and 2009 compared to 40% in 2008.

Average time deposits, excluding brokered time deposits, decreased $174.4 million or 16% during 2010 and increased $14.8 million or 1% during 2009. The decrease in time deposits during 2010 and the slower growth in time deposits during 2009 was attributable to an increased emphasis on growing our customer base in non-maturity deposit products instead of higher-cost certificates of deposit. The Bank Subsidiaries priced time deposit products competitively to retain existing relationship-based deposit customers, but not to retain certificate of deposit only customers or to attract new customers. Additionally, due to the low interest rates, many certificate of deposit customers have elected to place their maturing balances in checking or savings accounts while waiting for interest rates to improve. The percentage of our total average time deposit balances attributable to branch banking offices in our Western markets was 35% during 2010 compared to 38% during 2009 and 35% during 2008.

Average brokered time deposits as a percentage of total average deposits were 1% during 2010 compared to 2% during 2009 and 3% during 2008. The reliance on brokered time deposits has decreased during more recent years as the Bank Subsidiaries

Table of Contents

were able to grow deposits in their own markets at comparable or lower interest rates.

The following table sets forth the amount and maturities of time deposits of $100,000 or more at December 31, 2010:
TIME DEPOSITS $100,000 AND OVER
(Dollars in thousands)

	December 31, 2010
3 months or less	$55,557
Over 3 months through 6 months	29,038
Over 6 months through 12 months	60,194
Over 12 months	130,147
	$274,936

Borrowed Funds

Short-term borrowings generally include federal funds purchased, treasury tax and loan note options, securities sold under agreement to repurchase, short-term Federal Home Loan Bank ("FHLB") advances and discount window borrowings from the Federal Reserve Bank. These funding alternatives are utilized in varying degrees depending on their pricing and availability. As of December 31, 2010, the amount of short-term borrowings was $235.9 million compared to $162.4 million at year-end 2009, an increase of $73.5 million or 45%, primarily due to activity in retail repurchase agreements. All of the Bank Subsidiaries provide retail repurchase agreements to their customers as a cash management tool, sweeping excess funds from demand deposit accounts into these agreements. This source of funding does not increase the reserve requirements of the Bank Subsidiaries, nor does it create an expense relating to FDIC premiums on deposits. Although the aggregate balance of these retail repurchase agreements is subject to variation, the account relationships represented by these balances are principally local. These balances were $212.7 million at December 31, 2010, compared to $145.6 million at year-end 2009, an increase of $67.1 million or 46%. At year-end 2009, short-term borrowings were $162.4 million compared to $210.2 million at year-end 2008, a decrease of $47.8 million or 23%. This decrease was primarily attributable to fed funds purchased balances which were $4.3 million at December 31, 2009, in comparison with $34.7 million at December 31, 2008.

Also included in short-term borrowings is the revolving credit line we established with an unaffiliated bank on September 28, 2009, primarily to provide working capital to Heartland. This credit line, which was renewed for another year on September 28, 2010, may also be used to fund the operations of Heartland Community Development Inc., a wholly-owned subsidiary of Heartland, the primary purpose of which is to hold and manage certain nonperforming loans and assets to allow the liquidation of those assets at a time that is more economically advantageous. Under this unsecured revolving credit line, we may borrow up to $15.0 million at any one time. At December 31, 2010 and 2009, $5.0 million was outstanding on this revolving credit line. On November 12, 2010, we established a $5.0 million revolving credit line with a second unaffiliated bank, primarily to provide an additional source of working capital to Heartland. At December 31, 2010, this revolving credit line had not been utilized. During 2008, short-term borrowings included a $60.0 million revolving credit line Heartland had with third-party banks, primarily to provide working capital to Heartland and Citizens Finance Co. On December 19, 2008, Heartland received $81.7 million through participation in the CPP. In an effort to prudently manage its funding costs until the Bank Subsidiaries were in need of additional capital to meet loan demands or an acquisition of a financial institution in an existing market was identified, Heartland used $34.0 million of the CPP funds received to extinguish the debt on its credit line and terminate the credit agreement.

Table of Contents

The following table reflects information regarding our short-term borrowings as of December 31, 2010, 2009 and 2008:

SHORT-TERM BORROWINGS
(Dollars in thousands)

	As of or for the years ended December 31,		
	2010	2009	2008
Balance at end of period	$235,864	$162,349	$210,184
Maximum month-end amount outstanding	235,864	205,747	367,991
Average month-end amount outstanding	198,382	140,289	230,680
Weighted average interest rate at year-end	0.48 %	0.58 %	0.68 %
Weighted average interest rate for the year	0.58 %	0.51 %	1.95 %

Other borrowings include all debt arrangements we have entered into with original maturities that extend beyond one year. These borrowings were $362.5 million at December 31, 2010, compared to $451.4 million at December 31, 2009, a decrease of $88.9 million or 20%. Other borrowings include wholesale repurchase agreements which totaled $85.0 million at December 31, 2010, and $135.0 million at December 31, 2009. The balances outstanding on trust preferred capital securities issued by Heartland are also included in other borrowings. A schedule of our trust preferred offerings outstanding as of December 31, 2010, is as follows:

TRUST PREFERRED OFFERINGS
(Dollars in thousands)

Amount Issued	Issuance Date	Interest Rate	Interest Rate as of 12/31/10 (1)	Maturity Date	Callable Date
$5,000	08/07/2000	10.60%	10.60 %	09/07/2030	03/07/2011
20,000	10/10/2003	8.25%	8.25 %	10/10/2033	03/31/2011
25,000	03/17/2004	2.75% over Libor	3.05 % (2)	03/17/2034	03/17/2011
20,000	01/31/2006	1.33% over Libor	1.62 % (3)	04/07/2036	04/07/2011
20,000	06/21/2007	6.75%	6.75 %	09/15/2037	06/15/2012
20,000	06/26/2007	1.48% over Libor	1.78 % (4)	09/01/2037	09/01/2012
$110,000					

(1) Effective weighted average interest rate as of December 31, 2010, was 6.13% due to interest rate swap transactions on the variable rate securities as discussed in Note 12 to Heartland's consolidated financial statements.
(2) Effective interest rate as of December 31, 2010, was 5.33% due to an interest rate swap transaction as discussed in Note 12 to Heartland's consolidated financial statements.
(3) Effective interest rate as of December 31, 2010, was 4.69% due to an interest rate swap transaction as discussed in Note 12 to Heartland's consolidated financial statements.
(4) Effective interest rate as of December 31, 2010, was 4.70% due to an interest rate swap transaction as discussed in Note 12 to Heartland's consolidated financial statements.

Also in other borrowings are borrowings of the Bank Subsidiaries from the regional Federal Home Loan Banks. All of the Bank Subsidiaries, except for our most recent de novo bank, Minnesota Bank & Trust, own stock in the Federal Home Loan Bank of Chicago, Dallas, Des Moines, Seattle, San Francisco or Topeka, enabling them to borrow funds from their respective FHLB for short- or long-term purposes under a variety of programs. FHLB borrowings at December 31, 2010, totaled $135.7 million compared to $199.1 million at December 31, 2009, and $199.5 million at December 31, 2008. Total FHLB borrowings at December 31, 2010, had an average rate of 3.29 percent and an average maturity of 3.56 years. For additional information regarding these borrowings see Note 11 to our consolidated financial statements.

On December 3, 2010, we completed a private debt offering of our senior notes. The notes were sold in a private placement to various accredited investors. A total of $24.5 million was issued in five private transactions beginning on October 25, 2010, and ending on December 3, 2010. The senior notes are unsecured, bear interest at 5% per annum payable quarterly and mature on December 1, 2015. An additional $3.0 million of our senior notes was issued to one additional accredited investor on March 11, 2011.

Table of Contents

CAPITAL RESOURCES

Heartland's risk-based capital ratios, which take into account the different credit risks among banks' assets, met all capital adequacy requirements over the past three years. Tier 1 and total risk-based capital ratios were 14.06% and 16.23%, respectively, on December 31, 2010, compared to 13.53% and 15.20%, respectively, on December 31, 2009, and 13.26% and 14.91%, respectively, on December 31, 2008. At December 31, 2010, our leverage ratio, the ratio of Tier 1 capital to total average assets, was 9.92% compared to 9.64% and 10.68% at December 31, 2009 and 2008, respectively. Heartland and our Bank Subsidiaries have been, and will continue to be, managed to meet the well-capitalized requirements under the regulatory framework for prompt corrective action. To be categorized as well capitalized under the regulatory framework, bank holding companies and banks must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios of 10%, 6% and 5%, respectively. The most recent notification from the FDIC categorized us and each of our Bank Subsidiaries as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed each institution's category.

Heartland's capital ratios are detailed in the table below:

RISK-BASED CAPITAL RATIOS[1]

(Dollars in thousands)

	As of and for the year ended December 31,					
	2010		2009		2008	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Capital Ratios:						
Tier 1 capital	$403,357	14.06 %	$380,334	13.53 %	$368,101	13.26 %
Tier 1 capital minimum requirement	114,760	4.00 %	112,471	4.00 %	111,017	4.00 %
Excess	$288,597	10.06 %	$267,863	9.53 %	$257,084	9.26 %
Total capital	$465,666	16.23 %	$427,523	15.20 %	$413,913	14.91 %
Total capital minimum requirement	229,521	8.00 %	224,943	8.00 %	222,035	8.00 %
Excess	$236,145	8.23 %	$202,580	7.20 %	$191,878	6.91 %
Total risk-adjusted assets	$2,869,010		$2,811,782		$2,775,436	

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

LEVERAGE RATIOS[1]

(Dollars in thousands)

	As of and for the year ended December 31,					
	2010		2009		2008	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Capital Ratios:						
Tier 1 capital	$403,357	9.92 %	$380,334	9.64 %	$368,101	10.68 %
Tier 1 capital minimum requirement[2]	162,580	4.00 %	157,830	4.00 %	137,917	4.00 %
Excess	$240,777	5.92 %	$222,504	5.64 %	$230,184	6.68 %
Average adjusted assets	$4,064,508		$3,945,757		$3,447,927	

(1) The leverage ratio is defined as the ratio of Tier 1 capital to average total assets.

(2) We have established a minimum target leverage ratio of 4.00%. Based on Federal Reserve guidelines, a bank holding company generally is required to maintain a leverage ratio of 3.00% plus an additional cushion of at least 100 basis points.

Commitments for capital expenditures are an important factor in evaluating capital adequacy. During 2010 and 2009, we invested capital of $10.0 million and $26.0 million, respectively, into Heartland Community Development Inc., a wholly-owned subsidiary of Heartland. The primary purpose of Heartland Community Development Inc. is to hold and manage certain nonperforming loans and assets to allow the liquidation of such assets at a time that is more economically advantageous. Heartland Community Development Inc. purchased other real estate with a fair value of $7.0 million and $26.0 million from certain of our Bank Subsidiaries during 2010 and 2009, respectively. In addition, Heartland Community Development Inc. purchased loans with a fair value of $3.7 million from one of our Bank Subsidiaries during 2010.

Summit Bank & Trust, our ninth bank, began operations on November 1, 2006, in the Denver, Colorado suburban community of Broomfield. our initial investment in this de novo was $12.0 million, or 80%, of the $15.0 million initial capital. All minority stockholders entered into a stock transfer agreement that imposes certain restrictions on the sale, transfer or other disposition of their shares in Summit Bank & Trust and requires us to repurchase the shares from investors five years from the date of opening. The stock will be valued by an independent third party appraiser with the required purchase by us at the appraised value, not to exceed 18x earnings, or a minimum return of 7.66% on the original investment amount, whichever is greater. We pay the 7.66% minimum return to the minority stockholders annually. The obligation to repay the original investment is payable in cash or Heartland common stock or a combination of cash and common stock at the option of the minority stockholders. The remainder of the obligation to the minority stockholders is payable in cash or Heartland common stock or a combination of cash and common stock at our option.

Minnesota Bank & Trust, Heartland's tenth bank, began operations on April 15, 2008, in Edina, Minnesota, located in the Minneapolis, Minnesota, metropolitan area. Our initial investment in this de novo was $13.2 million, or 80%, of the $16.5 million initial capital. All minority stockholders entered into a stock transfer agreement that imposes certain restrictions on the sale, transfer or other disposition of their shares in Minnesota Bank & Trust and allows, but does not require, us to repurchase the shares from investors.

On December 19, 2008, we received $81.7 million through participation in the CPP. Funds received were allocated to debt reduction (including $34.0 million used to extinguish debt on our credit line), capital maintenance at our Bank Subsidiaries and short-term investments. We continue to honor the intent of the CPP by seeking high quality lending opportunities and the potential acquisition of banks in our existing markets, such as The Elizabeth State Bank acquisition completed during the third quarter of 2009.

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

LIQUIDITY

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

Investing activities used cash of $159.1 million during 2010 compared to $219.8 million during 2009 and $402.2 million during 2008. The proceeds from securities sales, paydowns and maturities were $654.3 million during 2010 compared to $437.0 million during 2009 and $300.8 million during 2008. Purchases of securities used cash of $738.6 million during 2010 compared to $683.4 million during 2009 and $531.3 million during 2008. The net increase in loans and leases used cash of $75.6 million in 2010 while the net decrease in loans and leases generated $8.2 million of cash during 2009. The net increase in loans and leases used cash of $164.5 million during 2008.

Financing activities used cash of $41.2 million in 2010 and provided cash of $311.0 million during 2009 and $365.3 million during 2008. A net decrease in deposit accounts used cash of $16.3 million in 2010 whereas an increase in deposit accounts generated $360.5 million of cash during 2009 compared to $263.9 million during 2008. Activity in short-term borrowings provided cash of $73.5 million in 2010 and used cash of $53.7 million during 2009 and $144.0 million during 2008. Cash proceeds from other borrowings were $25.1 million during 2010 as compared to $55.6 million during 2009 and $222.1 million during 2008. Repayments on other borrowings used cash of $114.0 million during 2010 as compared to $42.0 million during 2009 and $47.8 million during 2008. Proceeds from the issuance of preferred stock associated with participation in the CPP totaled $81.7 million during 2008. The preferred shares require cumulative dividends at a rate of 5% per year for the first five years, and at a rate of 9% per year after the fifth year and rank senior to the common stock. The preferred shares may be redeemed at any time pending approval from the banking regulatory authorities.

Table of Contents

Total cash provided by operating activities was $80.4 million in 2010 compared to $39.9 million during 2009 and $41.4 million during 2008. Cash used for the payment of income taxes was $13.7 million during 2010 compared to $7.3 million during 2009 and $9.4 million during 2008.

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

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

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank Subsidiaries evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank Subsidiaries upon extension of credit, is based upon management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties. Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank Subsidiaries to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The following table summarizes our significant contractual obligations and other commitments as of December 31, 2010:

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS
(Dollars in thousands)

		Payments Due By Period			
	Total	Less than One Year	One to Three Years	Three to Five Years	More than Five Years
Contractual obligations:					
Time certificates of deposit	$894,461	$445,677	$246,605	$157,388	$44,791
Long-term debt obligations	362,527	61,533	47,545	137,216	116,233
Operating lease obligations	4,935	680	967	570	2,718
Purchase obligations	3,413	2,033	1,380	—	—
Other long-term liabilities	2,863	109	304	304	2,146
Total contractual obligations	$1,268,199	$510,032	$296,801	$295,478	$165,888
Other commitments:					
Lines of credit	$623,165	$526,816	$51,791	$23,725	$20,833
Standby letters of credit	48,728	38,992	9,402	157	177
Total other commitments	$671,893	$565,808	$61,193	$23,882	$21,010

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

At the parent company level, routine funding requirements consist primarily of dividends paid to stockholders, including Treasury under the CPP, debt service on our revolving credit arrangements and our trust preferred securities issuances, and payments for acquisitions. The parent company obtains the funding to meet these obligations from dividends collected from the Bank Subsidiaries and the issuance of debt securities. At December 31, 2010, Heartland's revolving credit agreements with two

Table of Contents

unaffiliated banks provided a maximum borrowing capacity of $20.0 million, of which $5.0 million had been borrowed. One of these credit agreements contains specific financial covenants which are listed in Note 10 to the consolidated financial statements. At December 31, 2010, Heartland was in compliance with these covenants.

The ability of Heartland to pay dividends to its stockholders is partially dependent upon dividends paid by its subsidiaries. The Bank Subsidiaries are subject to certain statutory and regulatory restrictions on the amount they may pay in dividends. To maintain acceptable capital ratios in the Heartland banks, certain portions of their retained earnings are not available for the payment of dividends. Retained earnings that could be available for the payment of dividends to Heartland under the regulatory capital requirements to remain well-capitalized totaled approximately $77.1 million as of December 31, 2010.

EFFECTS OF INFLATION

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

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

Table of Contents

ITEM 7A.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We continually develop and apply strategies to mitigate market risk. Exposure to market risk is reviewed on a regular basis by the asset/liability committees at the Bank Subsidiaries and, on a consolidated basis, by our executive management and board of directors. Darling Consulting Group, Inc. has been engaged to provide asset/liability management position assessment and strategy formulation services to Heartland and the Bank Subsidiaries. At least quarterly, a detailed review of the balance sheet risk profile is performed for us and each of our Bank Subsidiaries. Included in these reviews are interest rate sensitivity analyses, which simulate changes in net interest income in response to various interest rate scenarios. This analysis considers current portfolio rates, existing maturities, repricing opportunities and market interest rates, in addition to prepayments and growth under different interest rate assumptions. Selected strategies are modeled prior to implementation to determine their effect on our interest rate risk profile and net interest income. Although we have entered into derivative financial instruments to mitigate the exposure of our net interest income to a change in the rate environment, we do not believe that our primary market risk exposures have changed significantly in 2010 when compared to 2009.

The core interest rate risk analysis utilized by Heartland examines the balance sheet under increasing and decreasing interest scenarios that are neither too modest nor too extreme. All rate changes are ramped over a 12-month horizon based upon a parallel shift in the yield curve and then maintained at those levels over the remainder of the simulation horizon. Using this approach, management is able to see the effect that both a gradual change of rates (year 1) and a rate shock (year 2 and beyond) could have on our net interest income. Starting balances in the model reflect actual balances on the “as of” date, adjusted for material and significant transactions. Pro-forma balances remain static. This enables interest rate risk embedded within the existing balance sheet structure to be isolated from the interest rate risk often caused by growth in assets and liabilities. Due to the low interest rate environment, the simulations under a decreasing interest rate scenario were prepared using a 100 basis point shift in rates during 2010 and 2009 instead of the 200 basis point shift typically used. The most recent reviews at December 31, 2010 and 2009, provided the following results:

	2010 Net Interest Income (in thousands)	% Change From Base		2009 Net Interest Income (in thousands)	% Change From Base	
Year 1						
Down 100 Basis Points	$136,979	0.14	%	$134,074	0.05	%
Base	$136,786			$134,002		
Up 200 Basis Points	$134,078	(1.98	)%	$130,832	(2.37	)%
Year 2						
Down 100 Basis Points	$130,300	(4.74	)%	$127,041	(5.19	)%
Base	$134,115	(1.95	)%	$130,973	(2.26	)%
Up 200 Basis Points	$136,107	(0.50	)%	$131,626	(1.77	)%

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

We enter into financial instruments with off balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. These

Table of Contents

instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates and may require collateral from the borrower. Standby letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party up to a stated amount and with specified terms and conditions. These commitments to extend credit and standby letters of credit are not recorded on the balance sheet until the instrument is exercised.

We hold a securities trading portfolio that would also be subject to elements of market risk. These securities are carried on the balance sheet at fair value. As of December 31, 2010, these securities had a carrying value of $244,000 or less than 0.01% of total assets compared to $695,000 or 0.02% of total assets at year-end 2009.

Table of Contents

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

	Notes	December 31, 2010	December 31, 2009
ASSETS			
Cash and due from banks	3	$58,960	$177,619
Federal funds sold and other short-term investments		3,612	4,791
Cash and cash equivalents		62,572	182,410
Securities:	4		
Trading, at fair value		244	695
Available for sale, at fair value (cost of $1,188,807 for 2010 and $1,125,665 for 2009)		1,204,699	1,135,468
Held to maturity-at cost (fair value of $58,610 for 2010 and $37,477 for 2009)		59,621	39,054
Loans held for sale		23,904	17,310
Loans and leases receivable:	5		
Held to maturity		2,343,987	2,331,142
Loans covered by loss share agreement	2, 5	20,800	31,860
Allowance for loan and lease losses	6	(42,693)	(41,848)
Loans and leases receivable, net		2,322,094	2,321,154
Premises, furniture and equipment, net	7	121,012	118,835
Other real estate, net		32,002	30,568
Goodwill	8	25,909	27,548
Other intangible assets, net	8	13,466	12,380
Cash surrender value on life insurance		62,508	55,516
FDIC indemnification asset	2	2,294	5,532
Other assets		69,130	66,521
TOTAL ASSETS		$3,999,455	$4,012,991
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES:			
Deposits:	9		
Demand		$580,589	$460,645
Savings		1,558,998	1,554,358
Time		894,461	1,035,386
Total deposits		3,034,048	3,050,389
Short-term borrowings	10	235,864	162,349
Other borrowings	11	362,527	451,429
Accrued expenses and other liabilities		35,232	33,767
TOTAL LIABILITIES		3,667,671	3,697,934
STOCKHOLDERS' EQUITY:	16, 17, 18		
Preferred stock (par value $1 per share; authorized, 102,302 shares; none issued or outstanding)		—	—
Series A Junior Participating preferred stock (par value $1 per share; authorized, 16,000 shares; none issued or outstanding)		—	—
Series B Fixed Rate Cumulative Perpetual Preferred Stock (par value $1,000 per share; authorized 81,698 shares; issued 81,698 shares)		78,483	77,224
Common stock (par value $1 per share; authorized, 25,000,000 shares at December 31, 2010 and December 31, 2009; issued 16,611,671 shares)		16,612	16,612

Capital surplus	44,628	44,284
Retained earnings	184,525	172,487
Accumulated other comprehensive income	8,517	7,107
Treasury stock at cost (186,616 shares at December 31, 2010 and 265,309 shares at December 31, 2009)	(3,674)	(5,433)
TOTAL STOCKHOLDERS' EQUITY	329,091	312,281
Noncontrolling interest	2,693	2,776
TOTAL EQUITY	331,784	315,057
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$3,999,455	$4,012,991

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

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

	Notes	For the Years Ended December 31, 2010	2009	2008
INTEREST INCOME:				
Interest and fees on loans and leases	5	$151,794	$154,887	$164,349
Interest on securities:				
Taxable		34,507	39,782	31,231
Nontaxable		12,616	8,595	6,688
Interest on federal funds sold		1	2	299
Interest on interest bearing deposits in other financial institutions		14		