HEARTLAND FINANCIAL USA INC
Form 10-K
March 11, 2016

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, 2015

Commission File Number: 001-15393

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

Delaware	42-1405748
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer identification number)
1398 Central Avenue, Dubuque, Iowa 52001	(563) 589-2100
(Address of principal executive offices) (Zip Code)	(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Each Exchange on Which Registered
Common Stock $1.00 par value	The NASDAQ Global Select Market
Preferred Share Purchase Rights	

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

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

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

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

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

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

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

Large accelerated filer ¨ Accelerated filer þ Non-accelerated filer ¨ Smaller reporting company ¨

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant (assuming, for purposes of this calculation only, that the Registrant's directors, executive officers and greater than 10% shareholders are affiliates of the Registrant), based on the last sales price quoted on the NASDAQ Global Select Market on June 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $662,067,563.

As of March 9, 2016, the Registrant had issued and outstanding 24,519,815 shares of common stock, $1.00 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2016 Annual Meeting of Stockholders are incorporated by reference into Part III.

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

SAFE HARBOR STATEMENT

This Annual Report on Form 10-K (including information incorporated by reference) contains, and future oral and written statements of Heartland Financial USA, Inc. and its management may contain, forward-looking statements, within the meaning of such term in the Private Securities Litigation Reform Act of 1995, with respect to the financial condition, results of operations, plans, objectives, future performance and business of Heartland. Forward-looking statements, which may be based upon beliefs, expectations and assumptions of Heartland's management and on information currently available to management, are generally identifiable by the use of words such as "believe", "expect", "anticipate", "plan", "intend", "estimate", "may", "will", "would", "could", "should" or other similar expressions. Additionally, all statements in this Annual Report on Form 10-K, 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 are detailed in the “Risk Factors” section included under Item 1A. of Part I of this Annual Report on Form 10-K. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

ITEM 1. BUSINESS

A. GENERAL DESCRIPTION

Heartland Financial USA, Inc. (individually referred to herein as "Parent Company" and collectively with all of its subsidiaries and affiliates referred to herein as "Heartland," "we," "us," or "our") is a multi-bank holding company registered under the Bank Holding Company Act of 1956, as amended (the "BHCA"), that was originally formed in the state of Iowa in 1981 and reincorporated in the State of Delaware in 1993. Heartland's headquarters are located at 1398 Central Avenue, Dubuque, Iowa. Our website address is www.htlf.com. You can access, free of charge, our filings with the Securities and Exchange Commission (the "SEC"), including our Annual Report on Form 10-K, our quarterly reports on Form 10-Q, current reports on Form 8-K and any other amendments to those reports, at our website under the Investor Relations tab, or at the SEC website at www.sec.gov. Proxy materials for our upcoming 2016 Annual Shareholders Meeting to be held on May 19, 2016, will be available electronically via a link on our website at www.htlf.com.

At December 31, 2015, Heartland had total assets of $7.69 billion, total loans of $5.00 billion and total deposits of $6.41 billion. Heartland’s total capital as of December 31, 2015, was $663.2 million. Net income available to common stockholders for 2015 was $59.2 million.

Heartland conducts a community banking business through independently chartered community banks (collectively, the "Bank Subsidiaries") operating in the states of Iowa, Illinois, Wisconsin, New Mexico, Arizona, Montana, Colorado, Minnesota, Kansas, Missouri, Texas and California. All Bank Subsidiaries are members of the Federal Deposit Insurance Corporation (the "FDIC"). Listed below are our current ten Bank Subsidiaries, which operate a total of 108 banking locations serving approximately 210,000 business and consumer households:

- Dubuque Bank and Trust Company, Dubuque, Iowa, is chartered under the laws of the state of Iowa.
- Illinois Bank & Trust, Rockford, Illinois (formerly known as Riverside Community Bank and includes the operations of the former Galena State Bank & Trust Co., which was merged into Illinois Bank & Trust on

January 23, 2015), is chartered under the laws of the state of Illinois.

- Wisconsin Bank & Trust, 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.
- Centennial Bank and Trust (formerly known as Summit Bank & Trust), Denver, Colorado, is chartered under the laws of the state of Colorado.
- Minnesota Bank & Trust, Edina, Minnesota, is chartered under the laws of the state of Minnesota.
- Morrill & Janes Bank and Trust Company, Merriam, Kansas, is chartered under the laws of the state of Kansas.
- Premier Valley Bank, Fresno, California, is chartered under the laws of the state of California.

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

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

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

- Citizens Finance Parent Co., a consumer finance company with two wholly-owned subsidiaries:
  Citizens Finance Co., a consumer finance company with offices in Iowa and Wisconsin.
  Citizens Finance of Illinois Co., a consumer finance company with offices in Illinois.
- Heartland Community Development Inc., a property management company with the primary purpose of holding and managing certain nonperforming assets acquired from the Bank Subsidiaries.
- Heartland Financial USA, Inc. Insurance Services, a multi-line insurance agency with the primary purpose of providing online insurance products to consumers and small business clients in Bank Subsidiary markets.

In addition, as of December 31, 2015, Heartland had trust preferred securities issued through special purpose trust subsidiaries formed for the purpose of offering cumulative capital securities, including Heartland Financial Statutory Trust IV, Heartland Financial Statutory Trust V, Heartland Financial Statutory Trust VI, Heartland Financial Statutory Trust VII, Morrill Statutory Trust I, Morrill Statutory Trust II, Sheboygan Statutory Trust I and CBNM Capital Trust I.

All of Heartland's subsidiaries were wholly owned as of December 31, 2015.

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

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

Business Model and Operating Philosophy

Heartland's operating philosophy is to maximize the benefits of a community banking model by:

1. Creating strong community ties through local bank delivery of products and services.

- 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 banking services to increase revenue.

- Full range of commercial products, including government guaranteed lending, treasury management services and private client services
- Convenient and competitive retail products and services, including consumer finance
- Residential mortgage origination
- Providing added client value through consultative relationship building

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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
- Centralized support for other professional services, including human resources, marketing, legal, compliance, finance, administration, internal audit, investment management, customer support and facilities

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

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

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

Acquisition and Expansion Strategy

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

In recent years, we have focused on markets with growth potential in the Midwestern and Western regions of the United States with a strategic goal to expand our presence in Western markets to 50% of total assets. Our strategy is to balance the growth in our Western markets with the stability of our Midwestern markets. As of December 31, 2015, Heartland had approximately 43% of its assets in Western markets.

Through acquisition and organic growth, our goal is to reach $1 billion in assets in each state where Heartland operates. To that end, as of December 31, 2015, Dubuque Bank and Trust Company, New Mexico Bank & Trust, and Wisconsin Bank & Trust have assets over $1 billion.

In the fourth quarter of 2015, we announced the acquisition of CIC Bancshares, Inc., the parent company of Centennial Bank, a Colorado bank headquartered in Denver, Colorado with assets of approximately $749.0 million,

outstanding loans of approximately $582.0 million and deposits of approximately $656.0 million as of December 31, 2015. The CIC Bancshares, Inc. acquisition was completed on February 5, 2016, with the systems integration planned for the second quarter of 2016. Upon closing, Centennial Bank merged into Summit Bank & Trust with the resulting institution operating as Centennial Bank and Trust.

As noted in the table below, Heartland completed four acquisitions in 2015, including Community Bank & Trust (Sheboygan, Wisconsin), Community Bank (Santa Fe, New Mexico), First Scottsdale Bank, N.A., (Scottsdale, Arizona) and Premier Valley Bank (Fresno, California). These acquisitions, in the aggregate, increased Heartland's total assets by approximately $1.51 billion, total loans outstanding by approximately $939.0 million and total deposits by approximately $1.27 billion.

The following table provides information about the implementation of Heartland's expansion strategy:

Year	Name	De Novo	Acquisition	Merged Into
1988	Citizens Finance Co.		X	N/A
1989	Key City Bank		X	Dubuque Bank and Trust Company
1991	Farley State Bank		X	Dubuque Bank and Trust Company
1992	Galena State Bank & Trust Co.		X	Illinois Bank & Trust (2015)
1994	First Community Bank		X	Dubuque Bank and Trust Company (2011)
1995	Riverside Community Bank[1]	X		N/A
1997	Cottage Grove State Bank[2]		X	N/A
1998	New Mexico Bank & Trust	X		N/A
1999	Bank One Monroe (branch)		X	Wisconsin Bank & Trust
2000	First National Bank of Clovis		X	New Mexico Bank & Trust
2003	Arizona Bank & Trust	X		N/A
2004	Rocky Mountain Bank		X	N/A
2006	Summit Bank & Trust[3]	X		N/A
2006	Bank of the Southwest		X	Arizona Bank & Trust
2008	Minnesota Bank & Trust	X		N/A
2009	Elizabeth State Bank		X	Galena State Bank & Trust Co.
2012	Liberty Bank, FSB (three branches)		X	Dubuque Bank and Trust Company
2012	First National Bank Platteville		X	Wisconsin Bank & Trust
2012	Heritage Bank, N.A.		X	Arizona Bank & Trust
2013	Morrill & Janes Bank and Trust Company		X	N/A
2013	Freedom Bank		X	Illinois Bank & Trust (2014)
2015	Community Bank & Trust (Sheboygan)		X	Wisconsin Bank & Trust
2015	Community Bank (Santa Fe)		X	New Mexico Bank & Trust
2015	First Scottsdale Bank, N.A.		X	Arizona Bank & Trust
2015	Premier Valley Bank		X	N/A

(1) Riverside Community Bank changed its name to Illinois Bank & Trust in 2014.
(2) Cottage Grove State Bank was renamed Wisconsin Community Bank upon acquisition and subsequently changed its name to Wisconsin Bank & Trust.
(3) As a result of our acquisition of CIC Bancshares, Inc. and the merger of Centennial Bank into Summit Bank & Trust on February 5, 2016, the name was changed from Summit Bank & Trust to Centennial Bank and Trust on such date.

Primary Business Lines

General

The Bank Subsidiaries provide a wide range of commercial and consumer banking services to businesses, including public sector and non-profit entities, and to individuals. These activities include credit and deposit products along with treasury management, investment management, trust, retirement plans, and brokerage and investment services.

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

Commercial Banking

The Bank Subsidiaries have a strong commercial loan base generated primarily through contacts and relationships in the communities they serve. The current portfolios of the Bank Subsidiaries reflect the businesses in those communities and include a wide range of business loans, including lines of credit for working capital and operational purposes and term loans for the acquisition of equipment and real estate. Although most loans are made on a secured basis, loans may be made on an unsecured basis where warranted by the overall financial condition of the borrower. Terms of commercial business loans generally range from one to five years.

Commercial bankers at the Bank Subsidiaries provide a relationship management approach to deliver a consistent set of values in an organized and efficient manner both for the client and the bank. Bankers are trained and experienced in providing consultative solutions to clients to assist them in accomplishing their objectives. The services used to accompany this approach are targeted to be at the highest level in the industry and can be customized to fit the objectives of the client.

Closely integrated with our loan programs is a significant emphasis on treasury management services that enhance our business clients' ability to monitor, accumulate and disburse funds efficiently. Treasury management has five basic functions: collection; disbursement; management of cash; information reporting; and fraud detection and prevention. Our treasury services include online banking and bill payment, automated clearing house ("ACH") services, wire transfer, zero balance accounts, transaction reporting, lock box services, remote deposit capture, accounts receivable solutions, commercial purchasing cards, merchant credit card services, investment sweep accounts, reconciliation services, foreign exchange and several fraud prevention services, including check and electronic positive pay, and virus/malware protection service.

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 the Bank Subsidiaries. The table below shows the certifications granted to the Bank Subsidiaries from the United States Small Business Administration ("SBA") and United States Department of Agriculture (the "USDA") Rural Development Business and Industry loan program.

Bank Subsidiary	SBA Express Lender	SBA Preferred Lender	SBA Certified Lender	SBA Export Express	USDA Certified Lender
Dubuque Bank and Trust Company	X				
Illinois Bank & Trust	X				
Wisconsin Bank & Trust	X	X	X	X	X
New Mexico Bank & Trust	X	X			
Arizona Bank & Trust	X				
Rocky Mountain Bank	X	X			
Centennial Bank and Trust(1)	X				
Minnesota Bank & Trust	X				
Morrill & Janes Bank and Trust Company	X	X	X	X	
Premier Valley Bank	X	X	X	X	

(1) As a result of our acquisition of CIC Bancshares, Inc. and the merger of Centennial Bank into Summit Bank & Trust on February 5, 2016, the name was changed from Summit Bank & Trust on such date.

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 estimated fair market value and require personal guarantees in most instances. The primary repayment risks of commercial loans and leases are that the cash flow of the borrowers may be unpredictable, and the collateral securing these loans may fluctuate in value.

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

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

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

The economic downturn that negatively impacted our overall asset quality between 2008 and 2011 resulted in the formation of an internal Special Assets group to focus on resolving problem assets. 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 Subsidiary on a monthly basis.

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

Agricultural Loans
Agricultural loans are emphasized by those Bank Subsidiaries with operations in and around rural areas, including Dubuque Bank and Trust Company, Rocky Mountain Bank, Wisconsin Bank & Trust's Monroe and Platteville banking centers, New Mexico Bank & Trust’s Clovis banking offices and the Morrill & Janes Bank & Trust Company's northeast Kansas banking offices. Dubuque Bank and Trust Company is one of the largest agricultural lenders in the State of Iowa. Agricultural loans constituted approximately 9% of our total loan portfolio at December 31, 2015. Dubuque Bank and Trust Company, Wisconsin Bank & Trust and Morrill & Janes Bank and Trust Company are designated as Preferred Lenders by the USDA Farm Service Agency (the "FSA"). In making agricultural loans, we have policies designating a primary lending area for each Bank Subsidiary, in which a majority of its agricultural operating and real estate loans are made. Under this policy, loans in a secondary market area must be secured by real estate.

Agricultural loans, many of which are secured by crops, machinery and real estate, are provided to finance capital improvements and farm operations as well as acquisitions of livestock and machinery. Agricultural loans present unique credit risks relating to adverse weather conditions, loss of livestock due to disease or other factors, declines in market prices for agricultural products and the impact of government regulations. The ultimate repayment of agricultural loans is dependent upon the profitable operation or management of the agricultural entity.

In underwriting agricultural loans, the lending officers of the 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 FSA, to help agricultural customers obtain credit enhancement products such as loan guarantees or interest assistance.

Residential Real Estate Mortgage Lending
Mortgage lending remains a focal point for Heartland as we continue to strengthen our residential real estate lending business. As long-term interest rates have remained at low levels during the past several years, many customers have elected mortgage loans that are fixed rate with fifteen- year or thirty-year maturities. We generally sell these loans into the secondary market and retain servicing rights. We believe that mortgage servicing on loans sold in the secondary market provides a relatively steady source of fee income compared to fees generated solely from mortgage origination operations. Moreover, the retention of servicing provides an opportunity to maintain ongoing contact with borrowers and to cross-sell a wide variety of additional services such as checking, savings, consumer loans, wealth management and investment products. At December 31, 2015, residential real estate mortgage loans serviced, primarily for government sponsored entities ("GSEs"), totaled $4.06 billion.

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

Our mortgage unit provides residential mortgage lending services at all Bank Subsidiaries. Operating under the brand, "National Residential Mortgage," our mortgage unit serves non-Heartland markets in California, Nevada, and Idaho. Administrative and back office support for these operations is performed by "Heartland Mortgage," a division of our lead bank, Dubuque Bank and Trust Company.

Dubuque Bank and Trust Company has been a Ginnie Mae ("GNMA") issuer since 2012 for the GNMA I and II single-family mortgage-backed securities program. As a GNMA issuer, Dubuque Bank and Trust Company is allowed to pool and securitize FHA loans, VA loans, and Department of Agriculture's Rural Development loans, which provides an avenue for increasing growth in our portfolio of loans serviced for others.

Retail Banking
A wide variety of retail banking services are delivered through our 108 banking centers. Services include checking, savings, money market accounts, certificates of deposit, IRAs and HSAs. Brokerage services, including fixed rate annuity products are also provided in many locations. Consumer lending services of the Bank Subsidiaries include a broad array of consumer loans, including motor vehicle, home improvement, home equity lines of credit ("HELOC"), fixed rate home equity and personal lines of credit. Consumer loans typically have shorter terms, lower balances, higher yields and higher risks of default than one- to four-family residential mortgage loans. Consumer loan collections are dependent on the borrower’s continuing financial stability, and are therefore more likely to be affected by adverse personal circumstances.

Consumer Finance
Our consumer finance subsidiary, Citizens Finance Parent Co., specializes in consumer lending and currently serves the consumer credit needs of nearly 13,000 customers from 14 locations in Iowa, Illinois and Wisconsin. Citizens Finance Parent Co., through its subsidiaries Citizens Finance Co. and Citizens Finance of Illinois 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' loans compared to consumer loans originated by the Bank Subsidiaries. Correspondingly, returns on these loans are higher than those at the Bank Subsidiaries.

Wealth Management and Retirement Plan Services
Dubuque Bank and Trust Company, Illinois Bank & Trust, Wisconsin Bank & Trust, New Mexico Bank & Trust, Arizona Bank & Trust, Minnesota Bank & Trust and Morrill & Janes Bank and Trust Company offer trust and investment services in their respective communities. In the Heartland markets that do not yet warrant a full trust department, the sales and administration of trust and investment services is performed by Dubuque Bank and Trust Company personnel. As of December 31, 2015, total trust assets under management were $1.92 billion. Collectively, the Bank Subsidiaries provide a full complement of trust, investment and financial planning services for individuals and corporations. Heartland also specializes in Retirement Plan Services, offering business clients customized 401(k), 403(b) and Profit Sharing plans.

Heartland has contracted with LPL Financial Institution Services, a division of LPL Financial, to operate independent securities brokerage 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, Inc. and Heartland Financial USA, Inc. Insurance Services.

B. MARKET AREAS

Heartland is a geographically diversified company with a Midwestern and Western franchise, which balances the risk of regional economic fluctuations. In general, we view our Midwest markets as stable with slower growth prospects and the West as offering greater opportunities for growth accompanied by the potential of wider economic swings. We focus on markets with growth potential in the Midwestern and Western regions of the United States with a strategic goal to expand our presence in Western markets to 50% of total assets. We strive to balance the growth in our Western markets with the stability of our Midwestern markets. As of December 31, 2015, Heartland had approximately 43% of its assets in Western markets. The following table sets forth certain information about the offices and total deposits of each of the Bank Subsidiaries as of December 31, 2015 (dollars in thousands):

Charter State	Bank Name	Banking Locations	Market Areas Served	Total Bank Deposits
IA	Dubuque Bank and Trust Company	9	Dubuque MSA	$1,209,074
		2	Lee County, IA	
		1	Hancock County, IL	
IL	Illinois Bank & Trust	2	Galena	$631,010
		2	Jo Daviess County	
		4	Rockford MSA	
		2	Whiteside County	
		1	Mercer County	
WI	Wisconsin Bank & Trust	4	Madison MSA	$974,001
		1	Green Bay MSA	
		7	Sheboygan MSA	
		1	Calumet County	
		2	Milwaukee County	
		2	Grant County	
		1	Green County	
NM	New Mexico Bank & Trust	9	Albuquerque MSA	$1,085,052
		2	Santa Fe MSA	
		3	Clovis MSA	
		2	Rio Arriba County	
		1	Los Alamos County	
AZ	Arizona Bank & Trust	8	Phoenix MSA	$500,490
MT	Rocky Mountain Bank	3	Billings MSA	$417,426
		2	Flathead County	
		1	Gallatin County	
		1	Ravalli County	
		1	Jefferson County	
		1	Sanders County	
		1	Sheridan County	
CO	Centennial Bank and Trust(1)	3	Denver MSA	$128,759
MN	Minnesota Bank & Trust	1	Minneapolis/St. Paul MSA	$194,373
KS	Morrill & Janes Bank and Trust Company	4	Kansas City MSA	$713,589
		1	Nemaha County	
		2	Brown County	
		1	Atchison County	
		1	Dallas, TX MSA	
CA	Premier Valley Bank	1	Fresno MSA	$647,022
		1	Madera County	
		1	Mariposa County	
		1	San Luis Obispo County	
		1	Toulumne County	

(1) As a result of our acquisition of CIC Bancshares, Inc. and the merger of Centennial Bank into Summit Bank & Trust on February 5, 2016, the name was changed from Summit Bank & Trust on such date. Centennial Bank and Trust currently has 17 banking locations.

In addition, the following Bank Subsidiaries operate residential mortgage loan production offices, separate from their banking locations, in the market areas listed below, as of December 31, 2015:

Dubuque Bank and Trust Company
- Sacramento, CA
- Davenport, IA
- Reno, NV

Illinois Bank & Trust
- Crystal Lake, IL

Wisconsin Bank & Trust
- Madison, WI
- Milwaukee, WI

New Mexico Bank & Trust
- Albuquerque, NM

Centennial Bank and Trust [(1)]
- Denver, CO
- Steamboat Springs, CO

Rocky Mountain Bank
- Boise, ID
- Bozeman, MT
- Great Falls, MT
- Helena, MT
- Missoula, MT
- Whitefish, MT

Residential mortgage loan operation facilities are also located in Scottsdale, Arizona; Greenwood Village, Colorado; and Dubuque, Iowa.

(1) As a result of our acquisition of CIC Bancshares, Inc. and the merger of Centennial Bank into Summit Bank & Trust on February 5, 2016, the name was changed from Summit Bank & Trust on such date.

Heartland's consumer finance company, Citizens Finance Parent Co., operates two subsidiary companies in the following locations:

Citizens Finance Co.
- Cedar Rapids, IA
- Davenport, IA
- Des Moines, IA
- Dubuque, IA
- Appleton, WI
- Madison, WI
- Milwaukee, WI

Citizens Finance of Illinois Co.
- Aurora, IL
- Crystal Lake, IL
- Elgin, IL
- Loves Park, IL
- Peoria, IL
- Springfield, IL
- Tinley Park, IL

C. COMPETITION

We encounter competition in all areas of our business. To compete effectively, develop our market share, 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, convenience and technology.

The market areas of the 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. As a result of the enactment of the Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") in 2010, substantial changes to the regulation of bank holding companies and their subsidiaries have occurred and will continue to occur as the Dodd-Frank Act is fully implemented. The Gramm-Leach-Bliley Act and the Dodd-Frank Act have significantly changed the competitive environment in which we operate. The financial services industry is also likely to become more competitive as technological advances enable more companies to provide financial services. These technological advances may diminish the importance of depository institutions and other financial intermediaries in the transfer of funds between parties.

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

D. EMPLOYEES

At December 31, 2015, Heartland employed 1,799 full-time equivalent employees. We place a high priority on staff development, which involves extensive training in a variety of areas, including customer service and sales 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.

E. INTERNET ACCESS

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

F. SUPERVISION AND REGULATION

General

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

As a bank holding company with subsidiary banks chartered under the laws of ten 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 California Department of Business Oversight, Division of Financial Institutions (the "California Division"); the Colorado Department of Regulatory Agencies, Division of Banking (the "Colorado Division"); the Illinois Department of Financial and Professional Regulation (the "Illinois DFPR"); the Iowa Superintendent of Banking (the "Iowa Superintendent"); the State Bank Commissioner of Kansas Division of Banking (the "Kansas Division"); the Minnesota Department of Commerce: Division of Financial Institutions (the "Minnesota Division"); the Montana Division of Banking and Financial Institutions (the "Montana Division"); the New Mexico Financial Institutions Division (the "New Mexico FID"); and the Division of Banking of the Wisconsin Department of Financial Institutions (the "Wisconsin DFI").

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

As a participant in the Small Business Lending Fund (the "SBLF") established by the Small Business Jobs Act of 2010, Heartland is also subject to direct supervision by the United States Department of the Treasury (the "U.S. Treasury").

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

The following is a summary of material elements of the regulatory framework that applies to Heartland and its subsidiaries. It does not describe all of the statutes, regulations and regulatory policies that apply to us, nor does it disclose all of the requirements of the statutes, regulations and regulatory policies requirements that are described. Any change in regulations or regulatory policies including further changes required by the Dodd-Frank Act, or further change in applicable law, may have a material effect on the business of Heartland and its subsidiaries.

Heartland

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

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

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

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

Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities. As of the date of this Annual Report on Form 10-K, 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 institution or its holding company without prior notice to the appropriate federal bank regulator or any other company from 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 exist at 10% ownership levels for public companies, such as Heartland, and under certain other circumstances. Each of the Bank Subsidiaries is generally subject to similar restrictions on changes in control under the law of the state granting its charter.

Capital Requirements

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

In general, the regulations of the Federal Reserve and the FDIC as the primary regulator of state banks, separate capital into two components, Tier 1 or "Core" capital and Tier 2 or "Supplementary" capital, and test these capital components based on their ratio to assets and to "risk weighted assets." Beginning January 1, 2015, when the Basel III regulations became applicable to Heartland,

a third category of capital, "Common Equity Tier 1 capital," has been added. It is tested against risk weighted assets. Tier 1 capital generally consists of (a) common stockholders' equity, qualifying noncumulative preferred stock, and to the extent they do not exceed 25% of total Tier 1 capital, qualifying cumulative perpetual preferred stock and trust preferred securities, and (b) among other things, goodwill and specified intangible assets, credit enhancing strips and investments in unconsolidated subsidiaries. Tier 2 capital includes, to the extent not in excess of Tier 1 capital, the allowance for loan and lease losses, other qualifying perpetual preferred stock, certain hybrid capital instruments, qualifying term subordinated debt and unrealized gains on equity securities. Risk weighted assets include the sum of specific assets of an institution multiplied by risk weightings for each asset class.

Until the implementation of the Basel III requirements, the Federal Reserve's capital guidelines applicable to bank holding companies, like the regulations applicable to subsidiary banks, required holding companies with less than $10 billion of assets to comply with three capital ratios: (i) a leverage requirement consisting of a minimum ratio of Tier 1 capital to total assets (the "Leverage Ratio") of 3.0% for the most highly-rated banks with a minimum requirement of at least 4.0% for all others; (ii) a risk-based capital requirement consisting of a minimum ratio of Tier 1 capital to total risk-weighted assets (the "Tier1 Capital Ratio") of 4.0% and (iii) a risk-based capital requirement consisting of a minimum ratio of total capital to total risk-weighted assets (the "Total Capital Ratio") of 8.0%. The Basel III regulations, which became effective for Heartland and the Bank Subsidiaries on January 1, 2015, (1) increased the minimum Leverage Ratio to 4.0% for all banks, (2) increased the Tier 1 Capital Ratio to 6.0% on January 1, 2015 and will increase the Tier 1 Capital Ratio to 8.5% on January 1, 2019, and (3) created a new requirement to maintain a ratio of Common Equity Tier 1 capital ("Common Equity Tier 1 Capital Ratio") to risk-weighted assets of 4.5% as of January 1, 2015, gradually increasing to 7.0% on January 1, 2019. The Basel III Rules require inclusion in Common Equity Tier 1 Capital of the effects of other comprehensive income adjustments, such as gains and losses on securities held to maturity, that are currently excluded from the definition of Tier1 capital, but allow institutions, such as Heartland, to make a one-time election not to include those effects. Heartland and its subsidiary banks elected not to include the effects of other comprehensive income in Common Equity Tier 1 Capital. Further, under the Basel III rules, if an institution grows beyond $15 billion in assets and makes an acquisition, its ability to include trust preferred securities in Tier 1 capital is phased out. However, the trust preferred securities issued by Heartland, as a holding company with less than $15 billion in assets, is grandfathered as Tier 1 capital by the Dodd-Frank Act.

Further, federal law and regulations provide various incentives for financial institutions to maintain regulatory capital at levels in excess of minimum regulatory requirements. For example, a financial institution generally must be "well-capitalized" to engage in acquisitions, and well-capitalized institutions may qualify for exemptions from prior notice or application requirements otherwise applicable to certain types of activities and may qualify for expedited processing of other required notices or applications. Additionally, one of the criteria that determines a bank holding company's eligibility to operate as a financial holding company is a requirement that both the holding company and all of its financial institution subsidiaries be "well-capitalized." Under current federal regulations, in order to be "well-capitalized" a financial institution must maintain a Total Capital Ratio of 10.0% or greater, a Tier 1 Capital Ratio of 6.0% or greater and a Leverage Ratio of 5.0% or greater. In order to be "well-capitalized" under the new Basel III Rules, a bank or bank holding company will be required to have a Total Capital Ratio of 10.0% or greater, a Tier 1 Capital Ratio of 8.0% or greater, a Leverage Ratio of 5.0% or greater, and a Common Equity Tier 1 Capital Ratio of 6.5% or greater. As of December 31, 2015, Heartland had regulatory capital in excess of the Federal Reserve's minimum requirements.

Treasury Regulation
Bank holding companies that received financing from the SBLF are subject to direct regulation by the U.S. Treasury. Heartland applied for and received SBLF funding on September 15, 2011, issuing 81,698 shares of its Senior Non-Cumulative Perpetual Preferred Stock, Series C (the "Series C Preferred Stock"), to the U.S. Treasury. The Series C Preferred Stock initially required quarterly dividends payable to the U.S. Treasury equal to 5.00% of the liquidation value of the Preferred Stock. The dividend rate payable under the Series C Preferred Stock was subject to reduction

during the second to tenth quarters after issuance (through December 31, 2013, for Heartland) based upon increases in Heartland's qualified small business lending ("QSBL") over a baseline amount. Based upon increases in its QSBL through September 30, 2013, the dividend rate payable by Heartland was fixed in the first quarter of 2014 at 1.00% through March 15, 2016, but will increase to 9.00% if the SBLF funding has not been redeemed by March 16, 2016. Heartland has received all necessary regulatory approvals from the U.S. Treasury and the Federal Reserve to redeem the Series C Preferred Stock.

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

Dividend Payments

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

The Bank Subsidiaries

General

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

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

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

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

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.

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.

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.

Centennial Bank and Trust is a Colorado-chartered bank. As a Colorado-chartered bank, Centennial Bank and Trust is subject to the examination, supervision, reporting and enforcement requirements of the Colorado Division, the

chartering authority for Colorado banks.

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

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

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

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

As FDIC-insured institutions, the Bank Subsidiaries are required to pay deposit insurance premium assessments to the FDIC using a risk-based assessment system based upon average total consolidated assets minus tangible equity of the insured bank.

The Dodd-Frank Act directed that the minimum deposit insurance fund reserve ratio would increase from 1.15% to 1.35% by September 30, 2020, and the cost of the increase will be borne by depository institutions with assets of $10 billion or more. The Dodd-Frank Act also provides the FDIC with discretion to determine whether to pay rebates to insured depository institutions when its deposit insurance reserves exceed certain thresholds. Previously, the FDIC was required to give rebates to depository institutions equal to the excess once the reserve ratio exceeded 1.50%, and was required to rebate 50% of the excess over 1.35% but not more than 1.50% of insured deposits. In October 2015, the FDIC proposed rules implementing the reserve ratio requirements of the Dodd-Frank Act. Under the proposed rules, banks with assets of less than $10 billion would receive assessment credits for the portion of their assessments that contribute to the increase in the reserve ratio from 1.15% to 1.35%, and these credits would reduce the regular assessments of these banks by up to 2 basis points annually when their reserve ratio is at or above 1.40%.

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. Since December 31, 2013, the assessment rate was 0.01450% of total deposits. These assessments will continue until the Financing Corporation bonds mature in 2019.

Supervisory Assessments
Each of the Bank Subsidiaries is required to pay supervisory assessments to its respective state banking regulator to fund the operations of that agency. In general, the amount of the assessment is calculated on the basis of each institution's total assets. During 2015, the Bank Subsidiaries paid supervisory assessments totaling $902,000.

Capital Requirements
Like Heartland, under current federal regulations, each Bank Subsidiary is required to maintain the minimum Leverage Ratio, Tier1 Capital Ratio and Total Capital Ratio described under the caption "Heartland-Capital Requirements" above, and effective January 1, 2015, was required to comply with the enhanced capital requirements under the Basel III regulations, as well as the new Common Equity Tier 1 Capital Ratio. The capital requirements described above are minimum requirements and higher capital levels may be required if warranted by the particular circumstances or risk profiles of individual institutions. For example, federal regulators regularly require new institutions to maintain higher capital ratios during the first few years after their formation, and may require additional capital 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.

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, 2015: (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 the caption "Safety and Soundness Standards," complied with the directive.

Liability of Commonly Controlled Institutions

Under federal law, institutions insured by the FDIC may be liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with the default of commonly controlled FDIC-insured depository institutions or any assistance provided

by the FDIC to commonly controlled FDIC-insured depository institutions in danger of default. Because Heartland controls each of the Bank Subsidiaries, the Bank Subsidiaries are commonly controlled for purposes of these provisions of federal law.

Anti-Money Laundering

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

Dividend Payments

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

The payment of dividends by any financial institution is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, each of the Bank Subsidiaries exceeded its minimum capital requirements under applicable guidelines as of December 31, 2015.

As of December 31, 2015, approximately $112.5 million was available in retained earnings at the Bank Subsidiaries for payment of dividends to Heartland under the regulatory capital requirements to remain well-capitalized. Notwithstanding the availability of funds for dividends, however, the FDIC may prohibit the payment of any dividends by the Bank Subsidiaries.

Transactions with Affiliates

The Federal Reserve regulates transactions between Heartland and its subsidiaries. Generally, the Federal Reserve Act and Regulation W, as amended by the Dodd-Frank Act, limit lending and other "covered transactions" between the Bank Subsidiaries and their affiliates. The aggregate amount of covered transactions a Bank Subsidiary may enter into with an affiliate may not exceed 10% of the capital stock and surplus of the Bank Subsidiary. The aggregate amount of covered transactions with all affiliates may not exceed 20% of the capital stock and surplus of the Bank Subsidiary.

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

Insider Transactions

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

Subsidiaries maintain correspondent relationships.

Safety and Soundness Standards

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

deems appropriate under the circumstances. Noncompliance with the standards established by the safety and soundness guidelines may also constitute grounds for other enforcement action by the federal banking regulators, including cease and desist orders and civil money penalty assessments.

Branching Authority

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

Federal law permits state and national banks to merge with banks in other states subject to: (i) regulatory approval; (ii) federal and state deposit concentration limits; and (iii) state law limitations requiring the merging bank to have been in existence for a minimum period of time (not to exceed five years) prior to the merger.

State Bank Investments and Activities

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

Incentive Compensation Policies and Restrictions

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

In addition, in March 2011, the federal banking agencies, along with the Federal Housing Finance Agency, and the Securities and Exchange Commission, released a proposed rule intended to ensure that regulated financial institutions design their incentive compensation arrangements to account for risk. Specifically, the proposed rule would require compensation practices for Heartland to be consistent with the principles described above. In addition, financial institutions with $1 billion or more in assets would be required to have policies and procedures to ensure compliance with the rule and would be required to submit annual reports to their primary federal regulator. The comment period has closed and a final rule has not yet been published; however, Heartland believes it is in compliance with the rule as currently proposed.

The Volcker Rule and Proprietary Trading

In December 2013, federal banking regulators jointly issued a final rule to implement Section 13 of the BHCA (adopted as part 619 of the Dodd-Frank Act), which prohibits banking entities (including Heartland and the Bank Subsidiaries) from engaging in proprietary trading of securities, derivatives and certain other financial instruments for the entity's own account, and prohibits certain interests in, or relationships with, a hedge fund or private equity fund. It also imposes rules regarding compliance programs. Commonly referred to as the "Volcker Rule," the final rule as originally adopted was effective on April 1, 2014 and would have required banking entities to conform their activities to its requirements by July 21, 2015. However, based upon announcements of the Federal Reserve Board in December 2014, certain key elements that require sale of investment in private equity and hedge funds will not be effective until July 21, 2017. Heartland does not believe that it engages in any significant amount of proprietary trading, as defined in the Volcker Rule, and believes that any impact of the Volcker Rule would be minimal. Heartland has reviewed its

investment portfolio to determine if any investments meet the Volcker Rule's definition of covered funds. Based on the review, Heartland believes that any impact related to investments considered to be covered funds would not have a significant effect on its financial condition or results of operations.

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 $1.3 million plus 10% of the aggregate amount of total transaction accounts in excess of $55.2 million. These reserve requirements are subject to annual adjustment by the Federal Reserve. The Bank Subsidiaries are in compliance with the foregoing requirements.

Community Reinvestment Act Requirements

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

Consumer Protection

In July 2015, the Department of Defense issued a final rule amending regulations that implement the Military Lending Act. The Military Lending Act, among other things, imposes disclosure requirements and an interest rate cap for covered credit products (generally those offered to service members or their immediate family). The amended regulations, among other things, significantly expand the scope of the Military Lending Act to all credit products covered by the Truth in Lending Act ("TILA") and provide a safe harbor from compliance only when information from the Department of Defense database or from a nationwide consumer reporting agency is used to verify borrower status and indicates that the Military Lending Act does not apply. The amended regulations will increase the costs of compliance, both in terms of verifying borrower status and complying with all applicable requirements, if the Military Lending Act does apply.

The CFPB has been publishing complaints submitted by consumers regarding consumer financial products and services in a publicly-accessible online portal. In June 2015, the CFPB also began publishing complaint narratives from consumers that opted to have their narratives made public. The publication of complaint narratives could affect the Bank Subsidiaries in the following ways: (i) complaint data might be used by the CFPB to make decisions regarding regulatory, enforcement or examination issues; and (ii) the publication of such narratives may have a negative effect on the reputation of those institutions that are the subject of complaints.

The CFPB has issued proposed rules or is considering proposing rules with respect to a number of areas that could ultimately impact Heartland and the Bank Subsidiaries. In November 2014, the CFPB issued a proposed rule to regulate prepaid products which would, among other things, impose disclosure requirements, consumer liability limits and restrictions regarding prepaid products with overdraft services or credit features. However, at present, it does not seem likely the rule would cover bank products offered by the Bank Subsidiaries. In March 2015, the CFPB issued proposed rules regarding payday lending that would apply to payday loans, deposit advance products and certain other credit products. These proposed rules, among other things, would impose ability to repay determination requirements and rollover/reborrowing restrictions with respect to covered credit products. The CFPB has also announced it is considering proposing rules with respect to arbitration (which could ban or restrict consumer financial companies from using arbitration clauses in consumer agreements), overdraft services and debt collection. Until final rules are issued, it is not entirely clear whether and how these rules will ultimately impact Heartland and the Bank Subsidiaries.

Mortgage Operations

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

Regulation C requires lenders to report certain information regarding home loans. In October 2015, the CFPB issued a final rule amending Regulation C which, among other things, revises tests for determining what financial institutions and credit transactions are covered under HMDA and imposes reporting requirements for new data points identified in the Dodd-Frank Act or identified by the CPFB as necessary to carry out the purposes of HMDA. The final rule requires more detailed information from lenders and requires lenders to deliver certain information about mortgage loan underwriting and pricing.

Ability-to-Repay and Qualified Mortgage Rule

Effective on January 10, 2014, Regulation Z was amended to require mortgage lenders to make a reasonable and good faith determination based on verified and documented information that a consumer applying for a mortgage loan has a reasonable ability to repay the loan according to its terms. Mortgage lenders are required to determine consumers' ability to repay in one of two ways. The first alternative requires the mortgage lender to consider the following eight underwriting factors when making the credit decision: (1) current or reasonably expected income or assets; (2) current employment status; (3) the monthly payment on the covered transaction; (4) the monthly payment on any simultaneous loan; (5) the monthly payment for mortgage-related

obligations; (6) current debt obligations, alimony, and child support; (7) the monthly debt-to-income ratio or residual income; and (8) credit history. Alternatively, the mortgage lender can originate "qualified mortgages," which are entitled to a presumption that the creditor making the loan satisfied the ability-to-repay requirements. In general, a "qualified mortgage" is a mortgage loan without negative amortization, interest-only payments, balloon payments, or terms exceeding 30 years. In addition, to be a qualified mortgage, the points and fees paid by a consumer cannot exceed 3% of the total loan amount. Qualified mortgages that are "higher-priced" (e.g., subprime loans) have a rebuttable presumption of compliance with the ability-to-repay rules, while qualified mortgages that are not "higher-priced" (e.g., prime loans) are given a safe harbor of compliance. Heartland primarily originates compliant qualified mortgages.

Risk Retention and Qualified Residential Mortgage Rule
In October 2014, the FDIC, the Federal Reserve and four other federal regulatory agencies issued a final rule to implement amendments to the Securities Exchange Act of 1934, as amended, that impose risk retention requirements on asset-backed securities. The final rule generally requires a sponsor of an asset-backed securitization to retain not less than 5% of the credit risk of the underlying asset. Certain securitizations that are comprised of "qualified residential mortgages" are exempt from the risk retention requirements, with qualified residential mortgage defined to be consistent with the definition of qualified mortgages. The final rule for residential securitizations was effective December 24, 2015, and rules for all other categories of covered asset-based securitizations will be effective December 24, 2016. The requirements and impact of the final rules are still being assessed, but particularly since the Bank Subsidiaries primarily originate qualified residential mortgages, the operations of the Bank Subsidiaries will likely not be materially impacted by the final rule.

Data Security
In January 2015, new legislative proposals and administration efforts regarding privacy and cybersecurity were announced which, among other things, propose a national data breach notification standard. Legislation regarding data security with respect to security breach notifications and sharing cybersecurity threat information has also been proposed. In 2015, the Federal Financial Institutions Examination Council developed the Cybersecurity Assessment Tool to help institutions identify their risks and determine their preparedness for cybersecurity threats. New laws or guidance with respect to data security could impact card issuers and increase compliance costs related to credit card or debit card products. However, it is currently uncertain what (if any) impact these developments will have on the Bank Subsidiaries.

Increased Supervision for Bank Holding Companies with Consolidated Assets of $10 Billion or More
Heartland currently has total consolidated assets of approximately $7.69 billion. If Heartland’s assets increase and exceed $10 billion, Heartland will become subject to direct regulation by the CFPB, increased insurance assessments required to maintain the minimum deposit insurance fund and more accelerated implementation of increased capital requirements.

Under the Durbin Amendment of the Dodd-Frank Act, which applies to banks and bank holding companies with $10 billion or more in assets, the Federal Reserve was required to establish a cap on the interchange fees that merchants pay banks for electronic clearing of debit transactions. The final rules of the Durbin Amendment were effective October 1, 2011, and, among other things, established standards for assessing whether debit card interchange fees received by debit card issuers were reasonable and proportional to the costs incurred by issuers and established maximum permissible interchange fees.

On October 12, 2012, the Federal Reserve adopted a final rule that requires publicly traded U.S. bank holding companies with total consolidated assets of $10 billion or more to establish enterprise-wide risk committees and to conduct annual company-run stress tests using data as of September 30 of each year and scenarios provided by the Federal Reserve. Bank holding companies with stress tests that indicate undue risk may be required to maintain an

additional capital buffer and could cause the Federal Reserve to impose restrictions on proposed payments of dividends or stock repurchases. The capital conservation buffer requirements were phased in beginning in January 2016 and will be fully implemented by January 2019.

ITEM 1A. RISK FACTORS

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

Credit Risks

Our business and financial results are significantly affected by general business and economic conditions.
Our business activities and earnings are affected by general business conditions in the United States and particularly in the states in which our Bank Subsidiaries operate. Factors such as the volatility of interest rates, home prices and real estate values,

unemployment, credit defaults, increased bankruptcies, decreased consumer spending and household income, volatility in the securities markets, and the cost and availability of capital have negatively impacted our business in the past and may adversely impact us in the future. Economic deterioration that affects household and/or corporate incomes could result in renewed credit deterioration and reduced demand for credit or fee-based products and services, negatively impacting our performance. In addition, changes in securities market conditions and monetary fluctuations could adversely affect the availability and terms of funding necessary to meet our liquidity needs.

We could suffer material credit losses if we do not appropriately manage our credit risk.
There are many risks inherent in making any loan, including risks of 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, periodic independent reviews of outstanding loans by our loan review department and appropriate training of our credit administration staff. However, changes in the economy can cause the assumptions that we made at the time of loan origination to change and can cause borrowers to be unable to make payments on their loans. In addition, 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 our loan approval and monitoring procedures will reduce these credit risks.

We depend on the accuracy and completeness of information about our customers and counterparties.
In deciding whether to extend credit or enter into other transactions, we may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could cause us to make uncollectible loans or enter into other unfavorable transactions, which could have a material adverse effect on our financial condition and results of operations.

Commercial loans, which involve greater complexities to underwrite and administer, make up a significant portion of our loan portfolio.
Heartland's commercial loans were $3.61 billion (including $2.33 billion of commercial real estate loans), or approximately 72% of our total loan portfolio as of December 31, 2015. Our commercial loans, which tend to be larger and more complex credits than loans to individuals, 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 customer's business and market conditions.

Our loan portfolio has a large concentration of commercial real estate loans, a segment that can be subject to volatile cash flows and collateral values.
Commercial real estate lending is a large portion of our commercial loan portfolio. These loans were $2.33 billion, or approximately 65%, of our total commercial loan portfolio as of December 31, 2015. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Adverse developments affecting real estate values could negatively affect some of our commercial real estate loans, and other 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 Heartland or the borrower could negatively impact the future cash flow and market values of the affected properties.

The construction, land acquisition and development loans that are part of our commercial real estate loans present project completion risks, as well as the risks applicable to other commercial real estate loans.
Our commercial real estate loan portfolio includes commercial construction loans, including land acquisition and development loans, which involve additional risks because funds are advanced based upon estimates of costs and the estimated value of the completed project. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation on real property, it is 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. If our appraisal of the value of the completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project.

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

Our agricultural loans are often dependent upon the health of the agricultural industry in the location of the borrower, and the ability of the borrower to repay may be affected by many factors outside of the borrower’s control.
At December 31, 2015, agricultural real estate loans totaled $241.3 million or 5% 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 a negative effect on our agricultural real estate loan portfolio.

We also originate agricultural operating loans. At December 31, 2015, these loans totaled $230.5 million or 5% of our total loan and lease portfolio. As with agricultural real estate loans, the repayment of operating loans is dependent on the successful operation or management of the farm property. Likewise, agricultural operating loans involve a greater degree of risk than lending on residential properties, particularly in the case of loans that are unsecured or secured by rapidly depreciating assets such as farm equipment or assets such as livestock or crops. The primary livestock in our market areas include dairy cows, hogs and feeder cattle. In these cases, any repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage to or depreciation in the value of livestock.

We hold one- to four-family first-lien residential mortgage loans in our loan portfolio that may not meet the strict definition of a qualified mortgage.
The residential mortgage loans that we hold in our loan portfolio are primarily to borrowers we believe to be credit worthy based on internal standards and guidelines. Repayment is dependent upon the borrower's ability to repay the loan and the underlying value of the collateral. If we have overestimated or improperly calculated the abilities of the borrowers to repay those loans, default rates could be high, and we could face more legal process and costs in order to enforce collection of the loan obligations. If the value of the collateral is incorrect, we could face higher losses on the loans.

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

At December 31, 2015, consumer loans totaled $386.9 million or approximately 8% of our total loan and lease portfolio. Our consumer loan portfolio is comprised of home equity loans and other personal loans and lines of credit originated by our banks and loans originated by our consumer finance subsidiaries. Our consumer finance subsidiaries typically lend to borrowers with past credit problems or limited credit histories. These consumer loans typically have shorter terms and lower balances with higher yields as compared to one- to four-family first-lien residential mortgage loans, but generally carry higher risks of default. Consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on these loans.

Our allowance for loan losses may prove to be insufficient to absorb losses in our loan portfolio.

We establish our allowance for loan losses in consultation with management of the Bank Subsidiaries and maintain it at a level considered appropriate by management to absorb probable loan losses that are inherent in the portfolio. The amount of future loan losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be

beyond our control, and such losses may exceed current estimates. In each year from 2008 through 2011, we were required to record provisions for loan losses in excess of our pre-2008 historical experience because of the recession and declines in real estate values, which resulted in charge-offs and an increased level of nonperforming assets. Despite recent stabilization in economic and market conditions, there remains a risk of continued asset and economic deterioration. At December 31, 2015, our allowance for loan losses as a percentage of total loans was .97% and as a percentage of total nonperforming loans was approximately 123%. Although we believe that the allowance for loan losses is appropriate to absorb probable losses on any existing loans that may become uncollectible, we cannot predict loan losses with certainty, and we cannot provide assurance that our allowance for loan losses will prove sufficient to cover actual loan losses in the future. Further significant provisions, or charge-offs against our allowance that result in provisions, could have a significant negative impact on our profitability. Loan losses in excess of our reserves may adversely affect our business, financial condition and results of operations.

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

Liquidity and Interest Rate Risks

Liquidity is essential to our businesses.
We require liquidity to meet our deposit and debt obligations as they come due. Access to liquidity could be impaired by an inability to access the capital markets or unforeseen outflows of deposits. Our ability to meet current financial obligations is a function of our balance sheet structure, ability to liquidate assets and access to alternative sources of funds. Our access to deposits can be impacted by the liquidity needs of our customers as a substantial portion of our deposit liabilities are on demand, while a substantial portion of our assets are loans that cannot be sold in the same timeframe or are securities that may not be readily saleable if there is disruption in capital markets. If we become unable to obtain funds when needed, it could have a material adverse effect on our business, financial condition and results of operations.

Changes in interest rates and other conditions could negatively impact our results of operations.
Our profitability is in part a function of the spread between the interest rates earned on investments and loans and the interest rates paid on deposits and other interest-bearing liabilities. Like most banking institutions, our net interest spread and margin will be affected by general economic conditions and other factors, including fiscal and monetary policies of the federal government that influence market interest rates, and our ability to respond to changes in such rates. At any given time, our assets and liabilities may be 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 using specific criteria and assumptions. A summary of this process, along with the results of our net interest income simulations, is presented under the caption "Quantitative and Qualitative Disclosures About Market Risk" included under Item 7A of Part II of this Annual Report on 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. Also, our interest rate risk modeling techniques and assumptions may not fully predict or capture the impact of actual interest rate changes on our financial condition and results of operations.

Our liability portfolio, including deposits, may subject us to additional liquidity risk and pricing risk from concentrations.

We strive to maintain a diverse liability portfolio, and we manage portfolio diversification through our asset/liability committee process. However, even with our efforts to maintain diversification, we occasionally accept larger deposit customers, and our typical deposit customers might occasionally carry larger balances. Unanticipated, significant changes in these large balances could affect our liquidity risk and pricing risk, particularly within the portfolio of a Bank Subsidiary, where the effects of the concentration would be greater than for Heartland as a whole. Our inability to manage deposit concentration risk could have a material adverse effect on our business, financial condition and results of operations.

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

We earn revenue from fees we receive for originating mortgage loans and for servicing mortgage loans conducted through our Heartland Mortgage and National Residential Mortgage unit. Our overall mortgage banking revenue is highly dependent upon the volume of loans we originate and sell in the secondary market. Mortgage loan production levels are sensitive to changes in economic conditions and activity, strengths or weaknesses in the housing market and interest rate fluctuations. Generally, any sustained

period of decreased economic activity or higher interest rates could adversely affect mortgage originations and, consequently, reduce our income from mortgage lending activities.

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

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

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

Our growth may require us to raise additional capital in the future, but that capital may not be available when it is needed.
We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate that our existing capital resources will satisfy our capital requirements for the foreseeable

future. However, we may at some point need to raise additional capital to support continued growth, both internally and through acquisitions. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside of our control, and on our financial performance. Accordingly, we cannot assure you that we will be able to raise additional capital if needed on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired.

We rely on dividends from our subsidiaries for most of our revenue and are subject to restrictions on payment of dividends.

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

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

Reduction in the value, or impairment of our investment securities, can impact our earnings and common stockholders' equity.
We maintained a balance of $1.88 billion, or 24% of our assets, in investment securities at December 31, 2015. Changes in market interest rates can affect the value of these investment securities, with increasing interest rates generally resulting in a reduction of value. Although the reduction in value from temporary increases in market rates does not affect our income until the security is sold, it does result in an unrealized loss recorded in other comprehensive income that can reduce our common stockholders’ equity. Further, we must periodically test our investment securities for other-than-temporary impairment in value. In assessing whether the impairment of investment securities is other-than-temporary, we consider the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability to retain our investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value in the near term.

Operational Risks

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

Interruption in or breaches of our network security, including the occurrence of a cyber incident or a deficiency in our cybersecurity, may result in a loss of customer business or damage to our brand image and 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 business is dependent on our ability to process and monitor large numbers of daily transactions in compliance with legal, regulatory and internal standards and specifications. In addition, a significant portion of our operations relies heavily on the secure processing, storage and transmission of personal and confidential information, such as the personal information of our customers and clients.

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 protect our computer systems, 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. The occurrence of any failure, interruption, or security breach of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny or expose us to civil litigation, any of which could have a material adverse effect on our financial condition and results of operations.

The potential for business interruption exists throughout our organization.

Integral to our performance is the continued efficacy of our technical systems, operational infrastructure, relationships with third parties and the vast array of associates and key executives in our day-to-day and ongoing operations. Failure by any or all of these resources subjects us to risks that may vary in size, scale and scope. These risks include, but are not limited to, operational or technical failures, ineffectiveness or exposure due to interruption in third party support, as well as the loss of key individuals or failure on the part of key individuals to perform properly. These risks are heightened during necessary data system changes or conversions and system integrations of newly acquired entities. Although management has established policies and procedures to address such failures, the occurrence of any such event could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

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

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

New lines of business, products and services are essential to our ability to compete but may subject us to additional risks.
We continually implement new lines of business and offer new products and services within existing lines of business to offer our customers a competitive array of products and services. There can be substantial risks and uncertainties associated with these efforts, particularly in instances where the markets for such products and services are still developing. In developing and marketing new lines of business and/or new products or services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved, and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, financial condition and results of operations.

Our internal controls may be ineffective.
Management regularly reviews and updates our internal controls, disclosure controls and procedures and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the controls are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, financial condition and results of operation.

We have recorded goodwill as a result of acquisitions that can significantly affect our earnings if it becomes impaired.
Under current accounting standards, goodwill is not amortized but, instead, is subject to impairment tests on at least an annual basis or more frequently if an event occurs or circumstances change that reduce the fair value of a reporting unit below its carrying amount. Although we do not anticipate impairment charges, if we conclude that some portion of our goodwill may be impaired, a non-cash charge for the amount of such impairment would be recorded against earnings. A goodwill impairment charge could be caused by a decline in our stock price or occurrence of a triggering event that compounds the negative results in an unfavorable quarter. At December 31, 2015, we had goodwill of $97.9 million, representing approximately 15% of stockholders' equity.

We have substantial deferred tax assets that could require a valuation allowance and a charge against earnings if we conclude that the tax benefits represented by the assets are unlikely to be realized.
Our balance sheet reflected approximately $46.9 million of deferred tax assets at December 31, 2015, 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 creation of a substantial valuation allowance could have a significant negative impact on our reported results in the period in which it is recorded. The impact of the impairment of Heartland's deferred tax assets could have a material adverse effect on our business, results of operations and financial condition.

Strategic and External Risks

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

The soundness of other financial institutions could adversely affect our liquidity and operations.
Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different counterparties, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by Heartland or the Bank Subsidiaries or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due us. There is no assurance that any such losses would not materially and adversely affect our results of operations.

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

- potential exposure to unknown or contingent liabilities of the 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;
- inability to realize the expected revenue increases, costs savings, market presence and/or other anticipated benefits;
- potential diversion of our management's time and attention; and
- the possible loss of key employees and customers of the banks and businesses we acquire.

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

We may continue to expand our residential real estate mortgage loan production capability by adding personnel and capacity in our Heartland Mortgage and National Residential Mortgage unit, and may add residential loan production offices with new personnel in geographies in markets which we are less familiar. If we inaccurately monitor credit risk in these markets, or retain personnel for National Residential Mortgage who do not accurately report and monitor credit risk, our operations could be negatively affected.

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

Legal, Compliance and Reputational Risks

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

We will become subject to additional regulatory requirements if our total assets exceed $10 billion, which could have an adverse effect on our financial condition or results of operations.
Various federal banking laws and regulations, including rules adopted by the Federal Reserve pursuant to the requirements of the Dodd-Frank Act, impose heightened requirements on certain large banks and bank holding companies. Most of these rules apply primarily to bank holding companies with at least $50 billion in total consolidated assets, but certain rules also apply to banks and bank holding companies with at least $10 billion in total consolidated assets.

Following the fourth consecutive quarter (and any applicable phase-in period) where our or any of the Bank Subsidiaries' total average consolidated assets equals or exceeds $10 billion, we or the Bank Subsidiaries, as applicable, will, among other requirements:

- be required to perform annual stress tests;
-

be required to establish a dedicated risk committee of our board of directors responsible for overseeing our enterprise-risk management policies, commensurate with our capital structure, risk profile, complexity, size and other risk-related factors, and including as a member at least one risk management expert;

- calculate our FDIC deposits assessment base using a performance score and loss-severity score system; and
- be subject to more frequent regulatory examinations; and
- may be subject to examination for compliance with federal consumer protection laws, primarily by the CFPB.

While we do not currently have $10 billion or more in total consolidated assets, we have begun analyzing these requirements to ensure we are prepared to comply with the rules when and if they become applicable. It is reasonable to assume that our total assets will exceed $10 billion in the future, based on our historic organic growth rates and our potential to grow through acquisitions.

Other changes in the laws, regulations and policies governing financial services companies could alter our business environment and adversely affect operations.

The Board of Governors of the Federal Reserve System regulates the supply of money and credit in the United States. Its fiscal and monetary policies determine, in a large part, our cost of funds for lending and investing and the return that can be earned on

those loans and investments, both of which affect our net interest margin. Federal Reserve Board policies can also materially affect the value of financial instruments that we hold, such as debt securities and mortgage servicing rights. Recent changes in the laws and regulations that apply to us have been significant. Further dramatic changes in statutes, regulations or policies could affect us in substantial and unpredictable ways, including limiting the types of financial services and products that we offer and/or increasing the ability of non-banks to offer competing financial services and products. We cannot predict whether any of this potential legislation will be enacted, and if enacted, the effect that it or any regulations would have on our financial condition or results of operations.

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

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.

Risks of Owning Stock in Heartland

Our stock price can be volatile.
Our stock price can fluctuate widely in response to a variety of factors, including: actual or anticipated variations in our quarterly operating results; recommendations by securities analysts; acquisitions or business combinations; capital commitments by or involving Heartland or our Bank Subsidiaries; operating and stock price performance of other companies that investors deem comparable to us; new technology used or services offered by our competitors; new reports relating to trends, concerns and other issues in the financial services industry; and changes in government

regulations. General market fluctuations, industry factors and general economic and political conditions and events have caused a decline in our stock price in the past, and these factors, as well as, interest rate changes, continued unfavorable credit loss trends, or unforeseen events such as terrorist attacks could cause our stock price to be volatile regardless of our operating results.

Certain banking laws and the Heartland Stockholder Rights Plan may have an anti-takeover effect.
Certain federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire Heartland, even if doing so would be perceived to be beneficial to Heartland’s shareholders. In addition, Heartland's Amended and Restated Rights Agreement (the "Rights Plan") causes it to be difficult for any person to acquire 15% or more of Heartland's outstanding stock (with certain limited exceptions) without the permission of our Board of Directors. The combination of these provisions may inhibit a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of Heartland's common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

As of December 31, 2015, Heartland had no unresolved staff comments.

ITEM 2. PROPERTIES

The following table is a listing of Heartland's principal operating facilities and the home offices of each of the Bank Subsidiaries and of Citizens Finance Parent Co. as of December 31, 2015:

Name and Main Facility Address	Main Facility Square Footage	Main Facility Owned or Leased	Number of Locations[1]
Heartland Financial USA, Inc. 1398 Central Avenue Dubuque, IA 52001	65,000	Owned	3
Dubuque Bank and Trust Company 1398 Central Avenue Dubuque, IA 52001	65,500	Owned	17
Illinois Bank & Trust 6855 E. Riverside Blvd. Rockford, IL 60114	8,000	Owned	12
Wisconsin Bank & Trust 8240 Mineral Point Road Madison, WI 53719	19,000	Owned	20
New Mexico Bank & Trust 320 Gold NW Albuquerque, NM 87102	11,400	Lease term through 2016	18
Arizona Bank & Trust 2036 E. Camelback Road Phoenix, AZ 85016	14,000	Owned	8
Rocky Mountain Bank 2615 King Avenue West Billings, MT 59102	16,600	Owned	16
Summit Bank and Trust [2] 2002 E. Coalton Road Broomfield, CO 80027	14,000	Owned	5
Minnesota Bank & Trust 7701 France Avenue South, Suite 110 Edina, MN 55435	6,100	Lease term through 2018	1
Morrill & Janes Bank and Trust Company 6740 Antioch Road Merriam, KS 66204	7,500	Lease term through 2022	9
Premier Valley Bank 255 East River Park Circle, Suite 180 Fresno, CA 93720	17,600	Lease term through 2018	5
Citizens Finance Parent Co. 2200 John F. Kennedy Road, Suite 103 Dubuque, IA 52002	5,900	Lease term through 2019	14

(1) Includes loan production offices.

(2) As a result of our acquisition of CIC Bancshares, Inc. and the merger of Centennial Bank into Summit Bank & Trust on February 5, 2016, Centennial Bank and Trust currently has 19 locations. The name was changed from Summit Bank & Trust to Centennial Bank and Trust on such date.

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

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings to which Heartland or its subsidiaries are a party at December 31, 2015, other than ordinary routine litigation incidental to their respective businesses. While the ultimate outcome of current legal proceedings cannot be predicted with certainty, it is the opinion of management that the resolution of these legal actions should not have a material effect on Heartland's consolidated financial position or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

EXECUTIVE OFFICERS

The names and ages of the executive officers of Heartland, the position held by these officers with Heartland, and the positions held with Heartland subsidiaries as of December 31, 2015, are set forth below:

Name	Age	Position with Heartland and Subsidiaries and Principal Occupation
Lynn B. Fuller	66	Chairman and Chief Executive Officer of Heartland; Vice Chairman of Dubuque Bank and Trust Company, Wisconsin Bank & Trust, New Mexico Bank & Trust, Arizona Bank & Trust, Rocky Mountain Bank, Centennial Bank and Trust,(1) Minnesota Bank & Trust and Premier Valley Bank; Chairman of Citizens Finance Parent Co.; Director of Heartland Financial USA, Inc. Insurance Services
Bruce K. Lee	55	President of Heartland; Director of Rocky Mountain Bank; President of Heartland Financial USA, Inc. Insurance Services
Bryan R. McKeag	55	Executive Vice President and Chief Financial Officer of Heartland; Treasurer of Citizens Finance Parent Co.; Director of Heartland Financial USA, Inc. Insurance Services
Kenneth J. Erickson	64	Executive Vice President, Chief Credit Officer of Heartland; Executive Vice President, Lending, of Dubuque Bank and Trust Company; Vice Chairman of Citizens Finance Parent Co.
Douglas J. Horstmann	62	Executive Vice President, Lending, of Heartland; Director, President and Chief Executive Officer of Dubuque Bank and Trust Company; Vice Chairman of Illinois Bank & Trust
Brian J. Fox	67	Executive Vice President, Operations, of Heartland
Frank E. Walter	69	Executive Vice President, Commercial Sales, of Heartland
Rodney L. Sloan	56	Executive Vice President and Chief Risk Officer of Heartland
Mark G. Murtha	54	Executive Vice President, Human Resources and Organizational Development, of Heartland
Michael J. Coyle	70	Executive Vice President, Senior General Counsel and Corporate Secretary of Heartland; Secretary of Heartland Financial USA, Inc. Insurance Services
David L. Horstmann	66	Executive Vice President, Finance and Corporate Strategy, of Heartland
Kelly J. Johnson	54	Executive Vice President, Private Client Services, of Heartland

(1) Formerly known as Summit Bank & Trust

Lynn B. Fuller has been a Director of Heartland and of Dubuque Bank and Trust Company since 1984 and Chief Executive Officer of Heartland since 1999. He was President of Heartland from 1987 to 2015. Mr. Fuller has been a Director of Wisconsin Bank & Trust since 1997, New Mexico Bank & Trust since 1998, Arizona Bank & Trust since 2003, Centennial Bank and Trust since 2006, Minnesota Bank & Trust since 2008, Heritage Bank, N.A. from 2012 until its merger with Arizona Bank & Trust in 2013 and Morrill & Janes Bank and Trust Company since January

2014. In 2015, he was named Director of Heartland Financial USA, Inc. Insurance Services. He was a Director of Galena State Bank & Trust Co. from 1992 to 2004 and of Illinois Bank & Trust from 1995 until 2004. 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.

Bruce K. Lee joined Heartland in 2015 as President. Mr. Lee was named a Director of Rocky Mountain Bank and Heartland Financial USA, Inc. Insurance Services in 2015. Prior to joining Heartland, Mr. Lee held various leadership positions at Fifth Third Bancorp from 2001 to 2013, serving most recently as Executive Vice President, Chief Credit Officer from 2011 to 2013. Mr. Lee previously served as President and CEO of a Fifth Third affiliate bank in Ohio where he managed sales and service functions for retail, commercial, residential mortgage, and investments as well as finance, human resources, and marketing. Prior

to Fifth Third, Mr. Lee served as an Executive Vice President and board member for Capital Bank, a community bank located in Sylvania, Ohio.

Bryan R. McKeag joined Heartland in 2013 as Executive Vice President and Chief Financial Officer. Mr. McKeag was named Director of Heartland Financial USA, Inc. Insurance Services in 2015. Prior to joining Heartland, Mr. McKeag served as Executive Vice President, Corporate Controller and Principal Accounting Officer with Associated Banc-Corp in Green Bay, Wisconsin. Prior to Associated Banc-Corp, Mr. McKeag spent 9 years in various finance positions at JP Morgan and 9 years in public accounting at KPMG in Minneapolis. He is an inactive holder of the certified public accountant certification.

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

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

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

Frank E. Walter joined Heartland in 2009 as Executive Vice President, Commercial Sales. Prior to joining Heartland, Mr. Walter was the Rockford Regional President of JP Morgan Chase in Rockford, Illinois for five years. Mr. Walter was President and Chief Executive Officer of Bank One/Rockford from 1993 until Bank One's merger with JP Morgan Chase in 2004. Prior to joining Bank One/Rockford, he served as CEO of Bank One/Chicago from 1987 to 1993 and held various management positions at Wells Fargo for the 16 years prior to joining Bank One/Chicago. Mr. Walter is responsible for commercial sales at Heartland.

Rodney L. Sloan was named Executive Vice President, Chief Risk Officer in August 2011. Mr. Sloan previously served as Senior Vice President, Credit Administration of Heartland since January 2011. Prior to joining Heartland, he served in various roles with Old Second Bancorp in Aurora, Illinois from 1990 to 2011. Mr. Sloan oversees all facets of the enterprise-wide risk management program and provides executive leadership to the internal audit, compliance, and loan review functions at Heartland.

Mark G. Murtha joined Heartland in 2013 as Executive Vice President, Human Resources and Organizational Development. Prior to joining Heartland, Mr. Murtha was Senior Vice President of Human Resources for Enterprise Bank & Trust in St. Louis, Missouri from 2002 to 2013. Mr. Murtha is responsible for all human resources functions including recruiting, organizational development, performance management and training.

Michael J. Coyle joined Heartland in 2009 as Executive Vice President, Senior General Counsel, Corporate Secretary. In 2015, Mr. Coyle was named Secretary of Heartland Financial USA, Inc. Insurance Services. Prior to joining Heartland, Mr. Coyle was an attorney with the Dubuque, Iowa based law firm of Fuerste, Carew, Coyle, Juergens & Sudmeier, P.C. for 38 years, including 35 years as a senior partner. He has extensive experience in corporate and contract law.

David L. Horstmann joined Heartland in 2004 as Vice President, Finance. In 2009, he was promoted to Senior Vice President, Finance. In 2013, he was named Executive Vice President, Finance and Corporate Strategy and served as Interim Chief Financial Officer from July 2013 through September 2013. Prior to joining Heartland, Mr. Horstmann was vice president of finance and operations at Wartburg Theological Seminary in Dubuque, Iowa from 2001 to 2004. He was a founding director and the executive vice president and chief financial officer of Premier Bank in Dubuque, Iowa from 1998 to 2001. His experience includes various executive and financial positions between 1978 and 1998 with Mercantile Bank of Eastern Iowa, Mercantile Bank, FSB of

Davenport, Iowa, Harvest Savings Bank, Dubuque, Iowa, and Dubuque Savings and Loan Association. Mr. Horstmann is an inactive holder of the certified public accountant certification. Mr. Horstmann is the brother of Douglas J. Horstmann, Heartland's Executive Vice President, Lending.

Kelly J. Johnson joined Heartland in 2014 as Executive Vice President, Private Client Services. Prior to joining Heartland, Mr. Johnson served as Executive Vice President of Wealth Management at Umpqua Holdings in Portland, Oregon, where he developed and led the wealth management divisions of Private Banking, Trust Services, Wealth Planning, and Investment Services. Mr. Johnson has also held executive positions with RBC Wealth Management and UBS Wealth Management.

Effective January 19, 2016, Janet M. Quick, Senior Vice President, Deputy Chief Financial Officer was named Executive Vice President, Deputy Chief Financial Officer and Principal Accounting Officer. Ms. Quick has been with Heartland since 1994, serving in various audit, finance and accounting positions. Prior to joining Heartland, Ms. Quick was with Hawkeye Bancorporation in the corporate finance area. She is an active holder of the certified public accountant certification

Effective January 31, 2016, Mr. Erickson retired from his position of Executive Vice President, Chief Credit Officer. Andrew E. Townsend, Executive Vice President and Deputy Chief Credit Officer, succeeded Mr. Erickson. Mr. Townsend joined Dubuque Bank and Trust Company in 1993 as a Loan Review Officer and was selected to join Galena State Bank as Executive Vice President. In 2003, Mr. Townsend assumed the position of President and CEO of Galena State Bank and joined the bank's board of directors. He was named Deputy Chief Credit Officer in 2013 and currently serves as a director on the Illinois Bank & Trust's board of directors. Prior to joining Heartland, he worked at Bank One in the loan review area and had been an examiner for the Iowa Division of Banking.

Effective February 29, 2016, Mr. David L. Horstmann retired from his position of Executive Vice President, Finance and Corporate Strategy.

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 3,200 stockholders of record as of March 9, 2016, and approximately 5,500 additional stockholders held shares in street name. The common stock of Heartland has been quoted on the NASDAQ Stock Market since May 2003 under the symbol “HTLF” and is a NASDAQ Global Select Market security.

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

Calendar Quarter	High	Low
2015:		
First	$33.88	$25.68
Second	38.20	32.42
Third	38.96	34.57
Fourth	39.45	31.26
2014:		
First	$28.76	$24.17
Second	28.27	22.38
Third	25.37	23.10
Fourth	27.86	23.33

Cash dividends have been declared by Heartland quarterly during the two years ending December 31, 2015. The following table sets forth the cash dividends per share paid on Heartland's common stock for the past two years:

Calendar Quarter	2015	2014
First	$0.10	$0.10
Second	0.10	0.10
Third	0.10	0.10
Fourth	0.15	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 is also subject to direct regulatory limitations on the amount of dividends it may pay under the terms of its Series C Preferred Stock issued under the SBLF. See "Business – Supervision and Regulation – Heartland – Dividend Payments" and "Business – Supervision and Regulation - The Bank Subsidiaries – Dividend Payments" and Note 18, Capital Issuance and Redemption, to the consolidated financial statements for a more detailed description of these limitations.

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

Effective January 24, 2008, Heartland's board of directors authorized management to acquire and hold up to 500,000 shares of common stock as treasury shares at any one time. Heartland and its affiliated purchasers made no purchases of its common stock during the quarter ended December 31, 2015.

The following table and graph show a five-year comparison of cumulative total returns for Heartland, the NASDAQ Composite Index, the NASDAQ Bank Stock Index and the SNL Bank and Thrift Index, in each case assuming investment of $100 on December 31, 2010, and reinvestment of dividends. The table and graph were prepared at our request by SNL Financial, LC.

Cumulative Total Return Performance

	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
Heartland Financial USA, Inc.	$100.00	$90.28	$157.45	$176.02	$168.40	$197.45
NASDAQ Composite	$100.00	$99.21	$116.82	$163.75	$188.03	$201.40
NASDAQ Bank	$100.00	$89.50	$106.23	$150.55	$157.95	$171.92
SNL Bank and Thrift	$100.00	$77.76	$104.42	$142.97	$159.60	$162.83

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN*
ASSUMES $100 INVESTED ON DECEMBER 31, 2010
*Total return assumes reinvestment of dividends

ITEM 6. SELECTED FINANCIAL DATA

The following tables contain selected historical financial data for Heartland for the years ended December 31, 2015, 2014, 2013, 2012 and 2011. The selected historical consolidated financial information set forth below is qualified in its entirety by reference to, and should be read in conjunction with, Heartland's consolidated financial statements and notes thereto, included elsewhere in this Annual Report on Form 10-K, and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

	For the Years Ended December 31,				
	2015	2014	2013	2012	2011
STATEMENT OF INCOME DATA					
Interest income	$265,968	$237,042	$199,511	$189,338	$191,737
Interest expense	31,970	33,969	35,683	39,182	46,343
Net interest income	233,998	203,073	163,828	150,156	145,394
Provision for loan and lease losses	12,697	14,501	9,697	8,202	29,365
Net interest income after provision for loan and lease losses	221,301	188,572	154,131	141,954	116,029
Noninterest income[1]	110,685	82,224	89,618	108,662	59,577
Noninterest expenses[1]	251,046	215,800	196,561	183,381	137,296
Income taxes	20,898	13,096	10,335	17,384	10,302
Net income	60,042	41,900	36,853	49,851	28,008
Net (income) loss available to noncontrolling interest, net of tax	—	—	(64)	(59)	36
Net income attributable to Heartland	60,042	41,900	36,789	49,792	28,044
Preferred dividends and discount	(817)	(817)	(1,093)	(3,400)	(7,640)
Net income available to common stockholders	$59,225	$41,083	$35,696	$46,392	$20,404
PER COMMON SHARE DATA					
Net income – diluted	$2.83	$2.19	$2.04	$2.77	$1.23
Cash dividends	$0.45	$0.40	$0.40	$0.50	$0.40
Dividend payout ratio	15.73%	18.26%	19.61%	18.05%	32.52%
Book value	$25.92	$22.40	$19.44	$19.02	$16.29
Tangible book value per common share[2]	$20.57	$19.99	$16.90	$17.03	$14.62
Weighted average shares outstanding-diluted	20,929,385	18,741,921	17,460,066	16,768,602	16,575,506

(1) See Note 1 to the consolidated financial statements for reclassifications presented in the year ended December 31, 2013.
(2) Tangible common equity is common equity less goodwill and intangible assets (excluding servicing rights).

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

	For the Years Ended December 31,				
	2015	2014	2013	2012	2011
BALANCE SHEET DATA					
Investments	$1,878,994	$1,706,953	$1,895,044	$1,561,957	$1,326,794
Loans held for sale	74,783	70,514	46,665	96,165	53,528
Total loans and leases receivable[1]	5,001,486	3,878,003	3,502,701	2,828,802	2,494,631
Allowance for loan and lease losses	48,685	41,449	41,685	38,715	36,808
Total assets	7,694,754	6,051,812	5,923,716	4,990,553	4,305,058
Total deposits	6,405,823	4,768,022	4,666,499	3,845,660	3,210,113
Long-term obligations	263,214	395,705	350,109	389,025	372,820
Preferred equity	81,698	81,698	81,698	81,698	81,698
Common stockholders’ equity	581,475	414,619	357,762	320,107	268,520
EARNINGS PERFORMANCE DATA					
Return on average total assets	0.88 %	0.70 %	0.70 %	1.04 %	0.50 %
Return on average stockholders’ equity	11.92	10.62	10.87	15.78	7.77
Net interest margin ratio[2]	3.97	3.96	3.78	3.98	4.16
Earnings to fixed charges:					
Excluding interest on deposits	4.12x	3.27x	3.02x	3.34x	2.51x
Including interest on deposits	2.73	2.14	1.96	2.15	1.70
ASSET QUALITY RATIOS					
Nonperforming assets to total assets	0.67 %	0.74 %	1.23 %	1.59 %	2.39 %
Nonperforming loans and leases to total loans and leases	0.79	0.65	1.21	1.53	2.31
Net loan and lease charge-offs to average loans and leases	0.12	0.39	0.22	0.23	1.46
Allowance for loan and lease losses to total loans and leases	0.97	1.07	1.19	1.37	1.48
Allowance for loan and lease losses to nonperforming loans and leases	122.77	165.33	98.27	89.71	64.09
CONSOLIDATED CAPITAL RATIOS					
Average equity to average assets	8.52 %	8.00 %	8.09 %	8.47 %	8.47 %
Average common equity to average assets	7.35	6.60	6.46	6.58	6.45
Total capital to risk-adjusted assets	13.74	15.73	14.69	15.35	15.87
Tier 1 capital	11.56	12.95	13.19	13.36	14.08
Common equity Tier 1[3]	8.23	—	—	—	—
Tier 1 leverage	9.58	9.75	9.67	9.84	10.24

(1) Excludes loans held for sale.
(2) Tax equivalent using a 35% tax rate.

(3) Prior to the adoption of Basel III requirements effective January 1, 2015, the common equity Tier 1 capital ratio was not a capital standard required by bank regulatory agencies.

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

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 is presented below. This discussion should be read in conjunction with the Selected Financial Data, the consolidated financial statements and the notes thereto and other financial data appearing elsewhere in this Annual Report on Form 10-K. The consolidated financial statements include the accounts of Heartland and its subsidiaries, all of which are wholly-owned.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, income and expenses. These estimates are based upon historical experience and on various other assumptions that management believes are reasonable under the circumstances. Among other things, the estimates 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. Refer to Note 1, "Summary of Significant Accounting Policies," for further discussion on Heartland's critical accounting policies.

The estimates and judgments that management believes have the most effect on Heartland's reported financial position and results of operations are as follows:

Allowance For Loan And Lease Losses

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

Our allowance for loan and lease losses methodology includes the establishment of a dual risk rating system, which allows the utilization of a probability of default and loss given default for commercial and agricultural loans in the calculation of the allowance for loan lease losses. Heartland's allowance for loan and lease losses methodology also utilizes a loss emergence period, which represents the average amount of time from the point that a loss is incurred to the point at which the loss is confirmed. The loss rates used in the allowance calculation are periodically re-evaluated and adjusted to reflect changes in historical loss levels or other risks. In addition to the allowance methodology, our software also has the ability to perform stress testing and migration analysis on various portfolio segments.

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

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

All other loans, including individually evaluated loans determined not to be impaired, are segmented into groups of loans with similar risk characteristics for evaluation and analysis. Loss rates for various collateral types of commercial

and agricultural loans are based upon the realizable value historically received on the various types of collateral. For smaller commercial and agricultural loans, residential real estate loans and consumer loans, a historic loss rate is established for each group of loans based upon a twelve-quarter weighted moving average loss rate. The appropriateness of the allowance for loan and lease losses is monitored on an ongoing basis by the loan review staff, senior management and the boards of directors of each Bank Subsidiary.

There can be no assurances that the allowance for loan and lease losses will be adequate to cover all probable loan and lease losses, but management believes that the allowance for loan and lease losses was appropriate at December 31, 2015. While management uses available information to provide for loan and lease losses, the ultimate collectability of a substantial portion of the loan portfolio and the need for future additions to the allowance will be based on changes in economic conditions. Should the economic climate deteriorate, borrowers may experience difficulty, and the level of nonperforming loans, charge-offs, and delinquencies could rise and require further increases in the provision for loan and lease losses. In addition, various regulatory agencies, as an

integral part of their examination process, periodically review the allowance for loan and lease losses carried by the Bank 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.

Goodwill And Other Intangibles

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

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

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

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

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

Heartland conducted an internal assessment of the goodwill both collectively and at its subsidiaries in both 2014 and 2015 and determined no goodwill impairment charges were required.

OVERVIEW

Heartland is a multi-bank holding company providing banking, mortgage, wealth management, investments, insurance and consumer finance services to individuals and businesses. Heartland currently has ten banking subsidiaries with 108 locations in 85 communities in Iowa, Illinois, Wisconsin, New Mexico, Arizona, Montana, Colorado, Minnesota, Kansas, Missouri, Texas and California, with mortgage loan production offices in California, Nevada and Idaho. Our primary objectives are to increase profitability and diversify our market area and asset base by expanding through acquisitions and to grow organically by increasing our customer base in the markets we serve.

Our results of operations depend primarily on net interest income, which is the difference between interest income from interest earning assets and interest expense on interest bearing liabilities. Noninterest income, which includes service charges and fees, loan servicing income, trust income, brokerage and insurance commissions, securities gains and gains on sale of loans held for

sale, also affects our results of operations. Our principal operating expenses, aside from interest expense, consist of the provision for loan and lease losses, salaries and employee benefits, occupancy and equipment costs, professional fees, FDIC insurance premiums, advertising and other real estate and loan collection expenses.

Net income recorded for 2015 was $60.0 million compared to $41.9 million recorded in 2014, an increase of $18.1 million or 43%. Net income available to common stockholders was $59.2 million, or $2.83 per diluted common share, for the year ended December 31, 2015, compared to $41.1 million, or $2.19 per diluted common share, earned during the prior year. Return on average common equity was 11.92% and return on average assets was 0.88% for 2015, compared to 10.62% and 0.70%, respectively, for 2014.

Positively affecting net income for 2015 was a $30.9 million or 15% increase in net interest income, largely due to significant growth in our earning asset base, particularly as a result of acquisitions completed during the year. Noninterest income for 2015 was $110.7 million, an increase of $28.5 million or 35% in comparison to 2014, driven primarily by higher gains on sale of loans held for sale and securities gains and increased service charges and fees. The effect of these improvements was mitigated by a $35.2 million or 16% increase in noninterest expenses, primarily due to the added expenses associated with the acquisitions completed during the year.

Net income recorded for 2014 was $41.9 million compared to $36.8 million recorded in 2013, an increase of $5.1 million or 14%. Net income available to common stockholders was $41.1 million, or $2.19 per diluted common share, for the year ended December 31, 2014, compared to $35.7 million, or $2.04 per diluted common share, earned during the prior year. Return on average common equity was 10.62% and return on average assets was 0.70% for 2014, compared to 10.87% and 0.70%, respectively, for 2013.

Positively affecting net income for 2014 was a $39.2 million or 24% increase in net interest income, largely due to strong loan growth and the acquisition of Morrill & Janes Bank and Trust Company completed early in the fourth quarter of 2013. This improvement was offset by an $8.9 million or 22% decrease in gains on sale of loans held for sale, resulting from weaker mortgage loan volumes, and a $19.2 million or 10% increase in noninterest expenses, primarily due to the added expenses of Morrill & Janes Bank and Trust Company.

On January 16, 2015, Heartland completed the acquisition of Community Banc-Corp of Sheboygan, Inc., parent company of Community Bank & Trust in Sheboygan, Wisconsin, in an all stock transaction valued at approximately $53.1 million. Simultaneous with the close of this transaction, Community Bank & Trust was merged into Heartland's Wisconsin Bank & Trust subsidiary. As of the close date, the transaction included, at fair value, total assets of $506.8 million, total loans of $395.0 million and total deposits of $434.0 million. The systems conversion for this transaction was completed on May 15, 2015.

On August 21, 2015, Heartland completed the acquisition of Community Bancorporation of New Mexico, Inc., parent company of Community Bank in Santa Fe, New Mexico, in an all cash transaction valued at approximately $11.1 million. Simultaneous with the close, Community Bank merged into Heartland's New Mexico Bank & Trust subsidiary. As of the close date, the transaction included, at fair value, total assets of $166.3 million, total loans of $99.5 million and total deposits of $147.4 million. The systems conversion for this transaction was completed on November 6, 2015.

On September 11, 2015, Heartland completed the acquisition of First Scottsdale Bank, N.A. in Scottsdale, Arizona, in an all cash transaction valued at approximately $17.7 million. Simultaneous with the close, First Scottsdale Bank was merged into Heartland's Arizona Bank & Trust subsidiary. As of the close date, the transaction included, at fair value, total assets of $81.2 million, total loans of $54.7 million and total deposits of $65.9 million. The systems conversion for this transaction was completed simultaneous with the closing.

On November 30, 2015, Heartland completed the acquisition of Premier Valley Bank, a community bank based in Fresno, California. Simultaneous with the close, Premier Valley became a wholly-owned subsidiary of Heartland. The purchase price was approximately $95.5 million, which was paid by delivery of 1,758,543 shares of Heartland common stock and cash of $28.5 million. As of the close date, the transaction included, at fair value, total assets of $692.7 million, total loans of $389.8 million and total deposits of $622.7 million. The systems conversion for this transaction is expected to occur during the first quarter of 2016.

Subsequent to December 31, 2015, Heartland completed the acquisition of CIC Bancshares, Inc., the parent company of Centennial Bank, headquartered in Denver, Colorado. Simultaneous with the closing of the transaction on February 5, 2016, Centennial Bank was merged into Heartland’s Summit Bank & Trust subsidiary, with the resulting institution now operating under the name Centennial Bank and Trust. As of December 31, 2015, Centennial Bank had assets of approximately $749.0 million, loans of approximately $582.0 million and deposits of approximately $656.0 million. The transaction was valued at approximately $83.5 million.

Total assets of Heartland were $7.69 billion at December 31, 2015, an increase of $1.65 billion or 27% since year-end 2014. Total assets of the entities acquired during 2015 were $1.51 billion at acquisition date. Securities represented 24% of Heartland's total assets at December 31, 2015, compared to 28% at year-end 2014.

Total loans and leases held to maturity were $5.00 billion at December 31, 2015, compared to $3.88 billion at year-end 2014, an increase of $1.12 billion or 29%. This increase includes $939.0 million of total loans and leases held to maturity acquired in the 2015 acquisitions. Exclusive of these acquisitions, total loans and leases held to maturity increased $185.7 million or 5% since year-end 2014.

Total deposits were $6.41 billion as of December 31, 2015, compared to $4.77 billion at year-end 2014, an increase of $1.64 billion or 34%. Of this increase, $1.27 billion was attributable to the acquisitions completed during 2015. Exclusive of these acquisitions, total deposits increased $367.8 million or 8% since year-end 2014. Demand deposits totaled $1.91 billion at December 31, 2015, an increase of $618.9 million or 48% since year-end 2014, with $414.5 million of the increase attributable to the acquisitions. Included in the deposit growth during 2015 was an $89.3 million increase in brokered time deposits, the majority of which were issued to replace higher cost long-term FHLB advances and wholesale repurchase agreements that matured during the year.

Total assets were $6.05 billion at December 31, 2014, an increase of $128.1 million since year-end 2013. Securities represented 28% of total assets at December 31, 2014, compared to 32% at year-end 2013.

Total loans and leases held to maturity were $3.88 billion at December 31, 2014, compared to $3.50 billion at year-end 2013, an increase of $379.8 million or 11%, with $78.4 million of this growth occurring in the fourth quarter, $103.6 million in the third quarter, $117.0 million in the second quarter and $80.8 million during the first quarter. A majority of the growth occurred in the commercial and commercial real estate loan portfolio, which increased $263.3 million or 11% since year-end 2013, with $33.6 million of this growth occurring during the fourth quarter, $59.0 million during the third quarter, $102.9 million during the second quarter and $67.8 million during the first quarter.

Total deposits were $4.77 billion as of December 31, 2014, compared to $4.67 billion at year-end 2013, an increase of $101.5 million or 2%. Demand deposits totaled $1.30 billion at December 31, 2014, an increase of $56.6 million or 5% since year-end 2013. Also increasing during 2014, savings deposits grew to $2.69 billion, an increase of $152.3 million or 6%. Certificates of deposit totaled $785.3 million at December 31, 2014, a decrease of $107.3 million or 12% since year-end 2013.

Common stockholders' equity was $581.5 million at December 31, 2015, compared to $414.6 million at year-end 2014. Book value per common share was $25.92 at December 31, 2015, compared to $22.40 at year-end 2014. Heartland's unrealized gains and losses on securities available for sale, net of applicable taxes, were at an unrealized loss of $4.1 million at December 31, 2015, compared to an unrealized gain of $3.6 million at December 31, 2014.

RESULTS OF OPERATIONS

Net Interest Income

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

Net interest margin, expressed as a percentage of average earning assets, was 3.97% during 2015, compared to 3.96% during 2014 and 3.78% during 2013. Our success at maintaining net interest margin near the 4.00% level is the result of continuous price discipline on both sides of the balance sheet and management's ability to shift dollars from the securities portfolio into the loan portfolio.

Interest income increased $29.0 million or 12% to $266.0 million in 2015 and increased $37.5 million or 19% to $237.0 million in 2014. After an adjustment to add $10.2 million in 2015 and $10.3 million in 2014 for income taxes saved on the interest earned on nontaxable securities and loans, on a tax-equivalent basis, interest income increased $28.8 million or 12% during 2015 and $38.4 million or 18% during 2014. Average earning assets increased $767.8 million or 14% during 2015 compared to 2014, with approximately $553.9 million attributable to the acquisitions completed during the year. Without acquisitions, average earning assets increased $213.9 million or 4%. The average earning assets for 2014 included a full year of the average earning assets at Morrill & Janes Bank & Trust Company, which totaled $816.0 million, while the average earning assets for 2013 included $165.2 million in average earning assets at Morrill & Janes Bank and Trust Company, which was acquired early in the last quarter of 2013. Exclusive of the average earning assets at Morrill & Janes Bank and Trust Company, average earning assets increased $151.1

million or 3% during 2014. Average earning assets increased $620.0 million or 16% during 2013 and exclusive of the Morrill & Janes Bank and Trust Company acquisition, average earning assets increased $454.9 million or 11%. The average interest rate earned on total average earning assets was 4.49% during 2015 compared to 4.59% during 2014 and 4.56% during 2013. The overall yield earned on the securities portfolio was 2.80% in 2015 compared to 3.00% in 2014 and 2.63% in 2013, a decrease of 20 basis points in 2015 and an increase of 37 basis points during 2014. The overall yield earned on the loan portfolio was 5.12% in 2015 compared to 5.32% in 2014 and 5.61% in 2013, a decrease of 20 basis points in 2015 and 29 basis points during 2014. The percentage of average loans, which are typically the highest yielding asset, to total average earning assets was 73% during 2015 compared to 69% during 2014 and 65% during 2013.

Interest expense decreased $2.0 million or 6% during 2015 to $32.0 million compared to $34.0 million during 2014 and decreased $1.7 million or 5% during 2014 from $35.7 million during 2013. Even though average interest bearing liabilities increased $430.4 million or 10% for 2015 and $555.3 million or 16% for 2014, the average interest rate paid on Heartland's deposits and borrowings declined during both years. The average interest rate paid on Heartland's interest bearing deposits and borrowings was 0.71% in 2015 compared to 0.83% in 2014 and 1.01% in 2013. Contributing to these improvements in interest expense was a continued change in the mix of deposits as balances shifted from higher cost certificates of deposit to lower cost interest-bearing deposits. Average savings balances, as a percentage of total average interest bearing deposits, was 76% during 2015 compared to 75% during 2014 and 71% during 2013. Additionally, the average interest rate paid on savings deposits was 0.23% during 2015 compared to 0.31% during 2014 and 0.32% during 2013. As the rates currently paid on Heartland's deposits are effectively approaching a floor, management believes there is less flexibility to pay lower rates on these deposits in the future.

Net interest income totaled $234.0 million during 2015, an increase of $30.9 million or 15% from the $203.1 million recorded during 2014. Net interest income increased $39.3 million or 24% during 2014 from the $163.8 million recorded during 2013. On a tax-equivalent basis, net interest income increased $30.8 million or 14% during 2015 and $40.1 million or 23% during 2014. Management believes net interest margin in dollars will continue to increase as the amount of earning assets grows.

We attempt to manage our balance sheet to minimize the effect that a change in interest rates has on our net interest margin. We plan to continue to work toward improving both our earning asset and funding mix through targeted organic growth strategies, which we believe will result in additional net interest income. We believe our net interest income simulations reflect a well-balanced and manageable interest rate posture. Approximately 37% of our commercial and agricultural loan portfolios consist of floating rate loans that reprice based upon changes in the national prime or LIBOR interest rate. Since nearly 55% of these floating rate loans have interest rate floors that are currently in effect, an upward movement in the national prime interest rate or LIBOR would not have an immediate positive effect on our interest income. Item 7A of this Annual Report on Form 10-K contains additional information about the results of our most recent net interest income simulations. Note 12 to the consolidated financial statements contains a detailed discussion of the derivative instruments we have utilized to manage interest rate risk.

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

ANALYSIS OF AVERAGE BALANCES, TAX EQUIVALENT YIELDS AND RATES[1]

	For the Year Ended December 31,								
	2015			2014			2013		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate	Average Balance	Interest	Rate
EARNING ASSETS									
Securities:									
Taxable	$1,272,573	$26,646	2.09%	$1,296,991	$29,727	2.29%	$1,198,777	$21,501	1.79%
Nontaxable[1]	348,189	18,735	5.38	375,788	20,414	5.43	395,578	20,452	5.17
Total securities	1,620,762	45,381	2.80	1,672,779	50,141	3.00	1,594,355	41,953	2.63
Interest bearing deposits	10,997	14	0.13	7,678	23	0.30	9,242	12	0.13
Federal funds sold	14,153	24	0.17	509	1	0.20	1,417	1	0.07
Loans and Leases:[2]									
Commercial and commercial real estate[1]	3,199,493	152,931	4.78	2,611,150	126,592	4.85	2,078,594	105,239	5.06
Residential mortgage	542,364	21,982	4.05	430,950	18,359	4.26	344,606	14,511	4.21
Agricultural and agricultural real estate[1]	444,808	21,498	4.83	388,974	19,558	5.03	331,622	17,494	5.28
Consumer	364,343	28,936	7.94	313,756	26,034	8.30	261,611	24,210	9.25
Fees on loans		5,418	—	—	6,632	—	—	5,556	—
Less: allowance for loan and lease losses	(44,830)	—	—	(41,521)	—	—	(39,151)	—	—
Net loans and leases	4,506,178	230,765	5.12	3,703,309	197,175	5.32	2,977,282	167,010	5.61
Total earning assets	6,152,090	276,184	4.49%	5,384,275	247,340	4.59%	4,582,296	208,976	4.56%
Nonearning assets	611,811			473,213			500,835		
TOTAL ASSETS	$6,763,901			$5,857,488			$5,083,131		
INTEREST BEARING LIABILITIES									
Savings	$2,918,706	$6,613	0.23%	$2,589,649	$8,042	0.31%	$2,101,295	$6,674	0.32%
Time, $100,000 and over	341,071	3,152	0.92	330,428	3,474	1.05	315,623	4,403	1.40
Other time deposits	606,030	5,765	0.95	535,483	6,638	1.24	532,157	8,891	1.67
Short-term borrowings	339,019	838	0.25	308,942	877	0.28	257,084	808	0.31
Other borrowings	326,684	15,602	4.78	336,569	14,938	4.44	339,578	14,907	4.39
Total interest bearing liabilities	4,531,510	31,970	0.71%	4,101,071	33,969	0.83%	3,545,737	35,683	1.01%
NONINTEREST BEARING LIABILITIES									
Noninterest bearing deposits	1,592,816			1,243,376			1,064,177		
	61,000			44,499			62,161		

Accrued interest and other liabilities								
Total noninterest bearing liabilities	1,653,816			1,287,875			1,126,338		
STOCKHOLDERS' EQUITY	578,575			468,542			411,056		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$6,763,901			$5,857,488			$5,083,131		
Net interest income[1]		$244,214			$213,371			$173,293	
Net interest spread[1]			3.78%			3.76%			3.55%
Net interest income to total earning assets[1]			3.97%			3.96%			3.78%
Interest bearing liabilities to earning assets	73.66%			76.17%			77.38%		

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

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

ANALYSIS OF CHANGES IN NET INTEREST INCOME[1]

	For the Years Ended December 31,					
	2015 Compared to 2014			2014 Compared to 2013		
	Change Due to			Change Due to		
	Volume	Rate	Net	Volume	Rate	Net
EARNING ASSETS / INTEREST INCOME						
Investment securities:						
Taxable	$(551)	$(2,530)	$(3,081)	$1,873	$6,353	$8,226
Nontaxable[1]	(1,487)	(192)	(1,679)	(1,049)	1,011	(38)
Interest bearing deposits	7	(16)	(9)	(2)	13	11
Federal funds sold	23	—	23	(1)	1	—
Loans and leases[1][2]	41,360	(7,770)	33,590	39,013	(8,848)	30,165
TOTAL EARNING ASSETS	39,352	(10,508)	28,844	39,834	(1,470)	38,364
LIABILITIES / INTEREST EXPENSE						
Interest bearing deposits:						
Savings	934	(2,363)	(1,429)	1,520	(152)	1,368
Time, $100,000 and over	109	(431)	(322)	198	(1,127)	(929)
Other time deposits	801	(1,674)	(873)	55	(2,308)	(2,253)
Short-term borrowings	81	(120)	(39)	152	(83)	69
Other borrowings	(448)	1,112	664	(133)	164	31
TOTAL INTEREST BEARING LIABILITIES	1,477	(3,476)	(1,999)	1,792	(3,506)	(1,714)
NET INTEREST INCOME	$37,875	$(7,032)	$30,843	$38,042	$2,036	$40,078

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

The most significant contributor to the improvement in net interest income in both 2015 and 2014 was the increase in the volume of average earning assets. This change made up $39.4 million of the $30.8 million total change in net interest income during 2015 and $39.8 million of the $40.1 million total change in net interest in 2014. A decrease in rates on deposits and borrowings had a positive impact on net interest income, with the increase in the volume of these interest bearing liabilities having a small negative impact. In 2015, the decreasing rates had a negative impact on net interest income as asset yields declined more significantly than the rates paid on liabilities. However, these decreases in rate were more than offset by the increase in interest income resulting from the increased volume of earning assets. In 2014, the decrease in rates positively impacted net interest income as asset yields declined less than rates paid on liabilities.

Provision For Loan And Lease Losses

The allowance for loan and lease losses is established through a provision charged to expense to provide, in Heartland management's opinion, an appropriate allowance for loan and lease losses. In determining that the allowance for loan and lease losses is appropriate, management uses factors that include the overall composition of the loan portfolio, general economic conditions, types of loans, loan collateral values, past loss experience, loan delinquencies, substandard credits and doubtful credits. For additional details on the specific factors considered, refer to the discussion under the captions "Critical Accounting Policies" and "Allowance For Loan and Lease Losses" in this Annual Report on Form 10-K. Heartland believes the allowance for loan and lease losses as of December 31, 2015, was at a level commensurate with the overall risk exposure of the loan portfolio. However, if economic conditions should

become more unfavorable, certain borrowers may experience difficulty and the level of nonperforming loans, charge-offs and delinquencies could rise and require further increases in the provision for loan and lease losses.

Exclusive of loans covered under loss sharing agreements, the allowance for loan and lease losses at December 31, 2015, was 0.97% of loans and leases and 122.77% of nonperforming loans compared to 1.07% of loans and leases and 165.33% of nonperforming loans at December 31, 2014, and 1.19% of loans and leases and 98.27% of nonperforming loans at December 31, 2013. The provision for loan losses was $12.7 million during 2015 compared to $14.5 million during 2014 and $9.7 million during 2013. The increased provision in 2014 was primarily a result of a provision of $4.5 million to compensate for a charge-off on a single large credit. The allowance for loan and lease losses on impaired loans was $2.8 million at December 31, 2015, $2.7 million at December 31, 2014, and $6.7 million at December 31, 2013. The allowance on non-impaired loans was $45.9 million at December 31, 2015, $38.8 million at December 31, 2014 and $35.0 million at December 31, 2013. The portion of the allowance on non-impaired loans represented 0.93%, 1.02% and 1.02% of non-impaired loans and leases at December 31, 2015, 2014 and 2013, respectively.

Noninterest Income

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

NONINTEREST INCOME

	For the Years Ended December 31,			% Change	
	2015	2014	2013	2015/2014	2014/2013
Service charges and fees	$24,308	$20,085	$17,660	21 %	14 %
Loan servicing income	5,276	5,583	1,648	(5)	239
Trust fees	14,281	13,097	11,708	9	12
Brokerage and insurance commissions	3,789	4,440	4,561	(15)	(3)
Securities gains, net	13,143	3,668	7,121	258	(48)
Gain (loss) on trading account securities, net	—	(38)	1,421	100	(103)
Impairment loss on securities	(769)	—	—	(100)	—
Gains on sale of loans held for sale	45,249	31,337	40,195	44	(22)
Valuation adjustment on mortgage servicing rights	—	—	496	—	(100)
Income on bank owned life insurance	1,999	1,472	1,555	36	(5)
Other noninterest income	3,409	2,580	3,253	32	(21)
Total Noninterest Income	$110,685	$82,224	$89,618	35 %	(8)%

During 2014, Heartland revised the classification of mortgage servicing rights income from loan servicing income to gain on sale of loans held for sale. This reclassification is presented in both the current and prior reporting periods and did not affect the financial results. Heartland believes this reclassification is more consistent with industry reporting practices. For the year ended December 31, 2013, $12.8 million was reclassified from loan servicing income to gain on sale of loans held for sale.

Noninterest income was $110.7 million in 2015 compared to $82.2 million in 2014, an increase of $28.5 million or 35%. This increase resulted primarily from increases in gains on sale of loans held for sale, securities gains and service charges and fees. During 2014, noninterest income was $82.2 million compared to $89.6 million in 2013, a decrease of $7.4 million or 8%. This decrease was driven primarily by decreases in gains on sale of loans held for sale from our mortgage banking operations, and from decreased gains on the sale of securities. The decrease was partially offset by increases in other fee income categories.

Service charges and fees increased $4.2 million or 21% from 2014 to 2015 and $2.4 million or 14% from 2013 to 2014. Service charges on checking and savings accounts totaled $6.0 million during 2015 compared to $5.0 million

during 2014 and $4.8 million during 2013. Overdraft fees totaled $7.2 million during 2015, $6.2 million during 2014 and $5.8 million during 2013. Interchange revenue from activity on bank debit cards, along with surcharges on ATM activity, resulted in service charges and fees of $8.2 million during 2015, $7.2 million during 2014 and $6.1 million during 2013. These increases are primarily attributable to a larger demand deposit customer base, a portion of which is attributable to acquisitions. An area of emphasis during 2015 was to increase the level of credit card services provided at the Bank Subsidiaries. Fees for these services totaled $2.4 million in 2015, $1.4 million in 2014 and $656,000 in 2013.

Loan servicing income includes the fees collected for the servicing of commercial, agricultural, and mortgage loans, which are dependent upon the aggregate outstanding balance of these loans, rather than quarterly production and sale of these loans. Loan

servicing income totaled $5.3 million for 2015 compared to $5.6 million for 2014 and $1.6 million for 2013. Loan servicing income related to the servicing of commercial and agricultural loans totaled $3.2 million during 2015 compared to $2.2 million during 2014 and $2.1 million during 2013. The increase during 2015 resulted primarily from the additional commercial and agricultural loans acquired in the Community Banc-Corp of Sheboygan, Inc. acquisition. Fees collected for the servicing of mortgage loans, primarily for GSEs, were $10.7 million during 2015 compared to $8.8 million during 2014 and $6.9 million during 2013. Included in and offsetting loan servicing income is the amortization of capitalized servicing rights, which was $8.6 million during 2015 compared to $5.4 million during 2014 and $7.3 million during 2013. Higher prepayments in the serviced mortgage loan portfolio during 2015 caused an increase in the amortization of capitalized servicing rights and, in turn, a decrease in total residential mortgage loan servicing income. During the first quarter of 2014, the average life of Heartland's mortgage servicing rights increased from 60 months one year earlier to 84 months and continued at that level during the remainder of 2014, causing the monthly amortization expense during 2014 to be lower than in 2013. The portfolio of mortgage loans serviced by Heartland, primarily for GSEs, totaled $4.06 billion at December 31, 2015, compared to $3.50 billion at December 31, 2014, and $3.05 billion at December 31, 2013. Note 8 to the consolidated financial statements contains a discussion of our servicing rights.

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

	As of and For the Years Ended December 31,		
	2015	2014	2013
Mortgage Servicing Fees	$10,707	$8,807	$6,897
Mortgage Servicing Rights Amortization	(8,601)	(5,422)	(7,314)
Total Residential Mortgage Loan Servicing Income	$2,106	$3,385	$(417)
Valuation Adjustment on Mortgage Servicing Rights	$—	$—	$496
Gains On Sale of Residential Mortgage Loans Held For Sale	$43,001	$30,568	$39,728
Total Residential Mortgage Loan Applications	$2,013,407	$1,606,246	$1,919,594
Residential Mortgage Loans Originated	$1,371,274	$1,058,840	$1,484,949
Residential Mortgage Loans Sold	$1,291,298	$923,349	$1,421,497
Residential Mortgage Loan Servicing Portfolio	$4,057,861	$3,498,724	$3,045,893

Net gains on sale of loans held for sale totaled $45.2 million during 2015 compared to $31.3 million during 2014 and $40.2 million during 2013. These gains resulted primarily from the gain or loss on sales of mortgage loans into the secondary market, related fees and fair value marks on the associated derivatives. During the third quarter of 2015, mortgage loan application activity returned to more normal seasonal levels after higher refinance activity during the first two quarters of 2015. The lower interest rate environment during the first half of 2015 encouraged mortgage loan refinancing, as opposed to a relatively higher interest rate environment in the first half of 2014. The decrease during 2014 was related to the flat or moderately increasing interest rate environment that existed throughout much of 2014, as opposed to a low interest rate environment that existed throughout much of 2013, which encouraged mortgage loan refinancings. As reflected in the table above, the volume of residential mortgage loans sold totaled $1.29 billion during 2015 compared to $923.3 million during 2014 and $1.42 billion during 2013. Net gains on sale of loans held for sale also includes gains on the sale of commercial and agricultural loans, which totaled $2.2 million during 2015 compared to $671,000 during 2014 and $407,000 during 2013. An area of emphasis for the Community Banc-Corp of Sheboygan, Inc. locations was the origination for sale of small business loans written under SBA programs, which was the primary reason for the increased gains on sales of commercial and agricultural loans during 2015.

Trust fees increased $1.2 million or 9% during 2015 and $1.4 million or 12% during 2014. A large portion of trust fees are based upon the market value of the trust assets under management, which was $1.92 billion at December 31, 2015, compared to $1.86 billion at December 31, 2014, and $1.62 billion at December 31, 2013. Those values fluctuate throughout the year as market conditions improve or decline.

Securities gains totaled $13.1 million during 2015 compared to $3.7 million during 2014 and $7.1 million during 2013. During 2013, two private label Z tranche securities with a book value of $31,000 were sold at a gain of $1.6 million. Two additional private label Z tranche securities with a book value of $736,000 were sold at a gain of $3.1 million during 2015. Three of these Z tranche securities remain in Heartland's securities available for sale portfolio at a book value of $58,000 and a market value of $2.0 million at December 31, 2015. Management has not determined when any future sales of these Z tranche securities will occur.

Offsetting, in part, the securities gains during 2015 was an impairment loss on two private-label mortgage-backed securities totaling $769,000 recorded during the fourth quarter of 2015. This impairment charge related to a decline in the credit quality of these securities. Management does not anticipate further declines on these or any other securities within the portfolio due to credit

quality, but will continue to monitor the portfolio for any further declines. Based on its analysis, management believes it is prudent to continue to hold these securities as their economic value exceeds their market value.

Heartland experienced net losses of $38,000 in the trading securities portfolio during 2014 compared to net gains of $1.4 million during 2013. The net gains in 2013 were primarily attributable to shares of Fannie Mae preferred stock held in Heartland's trading securities portfolio from 2008 until they were sold during the first quarter of 2014.

Noninterest Expenses

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

NONINTEREST EXPENSES

	For the Years Ended December 31,			% Change	
	2015	2014	2013	2015/2014	2014/2013
Salaries and employee benefits	$144,105	$129,843	$118,224	11 %	10 %
Occupancy	16,928	15,746	13,459	8	17
Furniture and equipment	8,747	8,105	8,040	8	1
Professional fees	23,047	18,241	17,532	26	4
FDIC insurance assessments	3,759	3,808	3,544	(1)	7
Advertising	5,465	5,524	5,294	(1)	4
Intangible assets amortization	2,978	2,223	1,063	34	109
Other real estate and loan collection expenses	2,437	2,309	4,445	6	(48)
Loss on sales/valuations of assets, net	6,821	2,105	3,034	224	(31)
Other noninterest expenses	36,759	27,896	21,926	32	27
Total Noninterest Expenses	$251,046	$215,800	$196,561	16 %	10 %
Efficiency ratio, fully taxable equivalent(1)	69.16 %	71.61 %	75.01 %		

(1) See the following reconciliation of Non-GAAP measure.

Reconciliation of Non-GAAP Measure-Efficiency Ratio

	For the Years Ended December 31,		
	2015	2014	2013
Net interest income	$233,998	$203,073	$163,828
Taxable equivalent adjustment [1]	10,216	10,298	9,465
Fully taxable equivalent net interest income	244,214	213,371	173,293
Noninterest income	110,685	82,224	89,618
Securities gains, net	(13,143)	(3,668)	(7,121)
Impairment loss on securities	769	—	—
Adjusted income	$342,525	$291,927	$255,790
Total noninterest expenses	$251,046	$215,800	$196,561
Less:			
Intangible assets amortization	2,978	2,223	1,063
Partnership investment in historic rehabilitation tax credits	4,357	2,436	596
Loss on sales/valuations of assets, net	6,821	2,105	3,034
Adjusted noninterest expenses	$236,890	$209,036	$191,868
Efficiency ratio, fully taxable equivalent [2]	69.16 %	71.61 %	75.01 %

(1) Computed on a tax equivalent basis using an effective tax rate of 35%.
(2) Efficiency ratio, fully taxable equivalent, expresses noninterest expenses as a percentage of fully taxable equivalent net interest income and noninterest income. This efficiency ratio is presented on a tax equivalent basis, which adjusts net interest income and noninterest income expenses for the tax favored status of certain loans, securities, and historic rehabilitation tax credits. Management believes the presentation of this non-GAAP measure provides supplemental useful information for proper understanding of the financial results as it enhances the comparability of income and expenses arising from taxable and nontaxable sources and excludes specific items, such as securities gains, net, losses sales/valuation of assets, net and impairment losses on securities. This measure should not be considered a substitute for operating results determined in accordance with GAAP.

In the first quarter of 2014, Heartland made certain income statement reclassifications. Heartland separated the expense category of net loss on repossessed assets into two expense categories: other real estate and loan collection expenses and loss on sales/valuations of assets, net. Additionally, gains and losses on sales of fixed assets were reclassified from other noninterest expenses to the newly created loss on sales/valuations of assets, net. These reclassifications are presented in both the current and prior reporting periods. For the year ended December 31, 2013, losses on sales of fixed assets of $235,000 were reclassified from noninterest expenses to loss on sales/valuations of assets, net. These reclassifications did not have a material impact on Heartland's financial statements and did not affect its results of operations. Heartland believes these reclassifications are more consistent with industry reporting practices.

Noninterest expenses totaled $251.0 million in 2015 compared to $215.8 million in 2014, a $35.2 million or 16% increase, with the most significant increases in salaries and employee benefits, professional fees, loss on sales/valuations of assets, net and other noninterest expenses. Noninterest expenses totaled $215.8 million in 2014 compared to $196.6 million in 2013, a $19.2 million or 10% increase. During 2014, significant increases in salaries and employee benefits, occupancy, intangible assets amortization and other noninterest expenses were partially offset by decreases in other real estate and loan collection expenses and net losses on sales/valuations of assets.

Since 2014, one of Heartland's top priorities has been to achieve an efficiency ratio of 65% by year-end 2016, and, given the current operating environment and market conditions, we believe this goal is attainable. To further this priority, in the second and third quarters of 2015, management revised its strategy relative to mortgage loan origination by concentrating on mortgage loan origination within our bank branch footprint and in profitable loan production offices. Specifically, we closed seven under-performing mortgage loan production offices, including locations in Washington, Oregon, Southern California, Nebraska and North Dakota. Management is also focused on completing systems conversions of acquired entities as close to the closing date as possible. In January 2015, our Illinois bank subsidiaries Riverside Community Bank and Galena State Bank & Trust Co. were combined under one charter named Illinois Bank & Trust. Additionally, during 2014, four banking centers were closed.

The largest component of noninterest expense, salaries and employee benefits, increased $14.3 million or 11% in 2015 and $11.6 million or 10% in 2014. The salaries and employee benefits from the 2015 acquisitions comprised $5.6 million of the increase for 2015. The salaries and benefits for Morrill & Janes Bank and Trust Company comprised $6.2 million of the increase for 2014. Annual merit increases and higher incentive plan accruals contributed to the increases for both 2015 and 2014. Also affecting the increase for 2014 were higher medical expenses. Commission expense, a large portion of which is associated with mortgage loan origination activity, was $17.6 million during 2015, $14.3 million during 2014 and $19.3 million during 2013. Full-time equivalent employees totaled 1,799 on December 31, 2015, compared to 1,631 on December 31, 2014, and 1,676 on December 31, 2013.

Occupancy expense increased $1.2 million or 8% in 2015 and $2.3 million or 17% in 2014. Of the $1.2 million increase in 2015, $552,000 was related to acquisitions and lease buyouts on closed mortgage loan production offices. The occupancy expense for Morrill & Janes Bank and Trust Company comprised $922,000 of the increase for 2014.

Professional fees increased $4.8 million or 26% during 2015 and $709,000 or 4% during 2014. These increases were primarily attributable to the services provided to Heartland by third-party advisors, including services performed in connection with acquisitions.

Other real estate and loan collection expenses totaled $2.4 million during 2015 compared to $2.3 million during 2014 and $4.4 million during 2013. The higher amount in 2013 was attributable to the costs associated with the operations of one business held in receivership.

Net losses on sales/valuations of assets totaled $6.8 million during 2015 compared to $2.1 million during 2014 and $3.0 million during 2013. Included in these costs during 2015 was a $3.2 million write-down on a single property held in other real estate that resulted from an updated appraisal.

Other noninterest expenses were $36.8 million during 2015, $27.9 million during 2014 and $21.9 million during 2013. Included in other noninterest expenses were write-downs totaling $4.4 million in 2015, $2.4 million in 2014 and $596,000 in 2013 on investments in commercial and residential real estate projects which qualified for historic rehabilitation tax credits of $5.4 million during 2015, $3.1 million during 2014 and $898,000 during 2013. Other noninterest expenses at Morrill & Janes Bank and Trust Company were $2.9 million during 2014 in comparison with $525,000 in 2013. Excluding the effect of the expense associated with the tax credit investments, other noninterest expenses increased $6.7 million or 26% during 2015 and $4.2 million or 20% during 2014. These increases were primarily a result of initial costs associated with acquisitions and additional investments in technology.

Income Taxes

Heartland's effective tax rate was 25.8% for 2015 compared to 23.8% for 2014 and 21.9% for 2013. Heartland's income taxes included the federal historic rehabilitation tax credits totaling $5.4 million for 2015, $3.1 million for 2014 and $898,000 for 2013. Federal low-income housing tax credits included in Heartland's effective tax rate totaled $580,000 during 2015 compared to $755,000 during 2014 and $798,000 during 2013. Heartland's effective tax rate is also affected by the level of tax-exempt interest income which, as a percentage of pre-tax income, was 23.4% during 2015, 34.8% during 2014 and 37.3% during 2013. The tax-equivalent adjustment for this tax-exempt interest income was $10.2 million during 2015, $10.3 million during 2014 and $9.5 million during 2013.

Segment Reporting

Heartland has two reportable segments: community and other banking and retail mortgage banking. Revenues from community and other banking operations consist primarily of interest earned on loans and investment securities, fees from deposit and ancillary services and net security gains. Retail mortgage banking operating revenues consist of

interest earned on mortgage loans held for sale, gains on sales of loans into the secondary market, the servicing of mortgage loans for various investors and loan origination fee income. See Note 21 to the consolidated financial statements for further information regarding our segment reporting.

Income before taxes for the community and other banking segment for 2015 was $80.1 million compared to $61.8 million for 2014 and $50.8 million for 2013. Driven by strong growth in its earning assets, both organically and as a result of acquisitions, net interest income in this segment was $228.4 million for 2015 compared to $200.4 million for 2014 and $161.5 million for 2013. Provision for loan and lease losses was $12.7 million for 2015 compared to $14.5 million for 2014 and $9.7 million for 2013. Noninterest income totaled $65.4 million for 2015 compared to $48.3 million for 2014 and $49.8 million for 2013. Both periods benefited from increases in the other noninterest income categories of service charges and fees and trust fees. Security gains for this segment totaled $13.1 million during 2015 compared to $3.7 million during 2014 and $7.1 million during 2013. Noninterest expense was $201.1 million for 2015 compared to $172.4 million for 2014 and $150.8 million for 2013. The increases in both

years were primarily in the categories of salaries and employee benefits, occupancy, professional fees and other noninterest expenses, primarily as a result of the acquisitions. Also included in noninterest expenses were costs associated with historic rehabilitation tax credit partnerships investments totaling $5.4 million during 2015, $3.1 million during 2014 and $898,000 during 2013.

The mortgage banking segment recorded income before taxes of $864,000 for 2015 compared to a loss before taxes of $6.8 million for 2014 and a loss before taxes of $3.6 million for 2013. The decrease in 2014 was reflective of the change in long-term interest rates during the second and third quarters of 2013, which continued throughout 2014, resulting in lower loan originations, and the effect higher interest rates have on the gains on sale of loans into the secondary market. Net interest income for this segment was $5.6 million for 2015 compared to $2.7 million for 2014 and $2.4 million for 2013. Noninterest income totaled $45.3 million during 2015 compared to $33.9 million during 2014 and $39.8 million during 2013, reflecting primarily gains on sale of loans held for sale. Noninterest expense was $50.0 million during 2015 compared to $43.4 million during 2014 and $45.8 million during 2013. Contributing to the higher noninterest expense during 2015 was transaction-based compensation to mortgage banking personnel as a result of the increased volume of residential mortgage loans underwritten. Also included in noninterest expense during 2015 was $800,000 in asset write-downs associated with the closure of seven under-performing loan production offices. Management has refined its strategy relative to the retail mortgage banking segment with an emphasis on building out this line of business within bank subsidiary locations instead of in out-of-footprint locations.

FINANCIAL CONDITION

Heartland's total assets were $7.69 billion at December 31, 2015, an increase of $1.64 billion or 27% since December 31, 2014. Total assets of entities acquired during 2015 were $1.51 billion at acquisition date. Heartland's total assets were $6.05 billion at December 31, 2014, an increase of $128.1 million or 2% since December 31, 2013.

Lending Activities

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

LOAN AND LEASE PORTFOLIO

	As of December 31,									
	2015		2014		2013		2012		2011	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Loans and leases receivable held to maturity:										
Commercial	$1,279,214	25.56 %	$1,036,080	26.72 %	$950,197	27.16 %	$712,308	25.22 %	$646,116	25.97
Commercial real estate	2,326,360	46.50	1,707,060	44.02	1,529,683	43.70	1,289,184	45.62	1,163,784	46.79
Agricultural and agricultural real estate	471,870	9.43	423,827	10.93	376,735	10.76	328,311	11.62	262,975	10.57
Residential mortgage	539,555	10.78	380,341	9.81	349,349	9.98	249,689	8.84	194,436	7.82
Consumer	386,867	7.73	330,555	8.52	294,145	8.40	245,678	8.70	220,099	8.85
Gross loans and leases receivable held to maturity	5,003,866	100.00 %	3,877,863	100.00 %	3,500,109	100.00 %	2,825,170	100.00 %	2,487,410	100.0
Unearned discount	(488)		(90)		(168)		(676)		(2,463)	
Deferred loan fees	(1,892)		(1,028)		(2,989)		(2,945)		(3,663)	
Total net loans and leases receivable held to maturity	$5,001,486		$3,876,745		$3,496,952		$2,821,549		$2,481,284	
Loans covered under loss share agreements:										
Commercial and commercial real estate	$—	— %	$54	4.29 %	$2,314	40.24 %	$3,074	42.38 %	$6,380	47.8
Agricultural and	—	—	—	—	543	9.45	748	10.31	1,659	12.43

agricultural real estate										
Residential mortgage	—	—	1,204	95.71	2,280	39.66	2,645	36.47	4,158	31.1
Consumer	—	—	—	—	612	10.65	786	10.84	1,150	8.62
Total loans covered under loss share agreements	—	— %	1,258	100.00 %	5,749	100.00 %	7,253	100.00 %	13,347	100.0
Allowance for loan and lease losses	(48,685)		(41,449)		(41,685)		(38,715)		(36,808)	
Loans and leases receivable, net	$4,952,801		$3,836,554		$3,461,016		$2,790,087		$2,457,823	

Loans held for sale totaled $74.8 million at December 31, 2015, $70.5 million at December 31, 2014, and $46.7 million at December 31, 2013. Mortgage loan origination activity slowed to historically low levels during the fourth quarter of 2013 and returned to more normal levels during 2014 and 2015.

The table below sets forth the remaining maturities of loans and leases by category, including loans held for sale and excluding unearned discount and deferred loan fees, as of December 31, 2015, in thousands:
MATURITY AND RATE SENSITIVITY OF LOANS AND LEASES[1]

		Over 1 Year Through 5 Years		Over 5 Years		
	One Year or Less	Fixed Rate	Floating Rate	Fixed Rate	Floating Rate	Total
Commercial	$532,218	$279,991	$139,838	$153,004	$175,510	$1,280,561
Commercial real estate	453,931	796,020	283,016	270,290	522,200	2,325,457
Residential real estate	204,238	58,470	80,025	163,537	107,453	613,723
Agricultural and agricultural real estate	217,229	147,975	39,489	32,031	35,317	472,041
Consumer	79,404	87,537	50,434	28,758	140,734	386,867
Total	$1,487,020	$1,369,993	$592,802	$647,620	$981,214	$5,078,649

(1) Maturities based upon contractual dates

Total loans and leases held to maturity were $5.00 billion at December 31, 2015, compared to $3.88 billion at year-end 2014, an increase of $1.12 billion or 29%. This increase includes $939.0 million of total loans and leases held to maturity acquired in the 2015 acquisitions. Exclusive of these acquisitions, total loans and leases held to maturity increased $185.7 million or 5% since year-end 2014. Total loans and leases held to maturity were $3.88 billion at December 31, 2014, compared to $3.50 billion at year-end 2013, an increase of $379.8 million or 11%. All loan growth in 2014 was organic.

The commercial and commercial real estate loan category continues to be the primary focus for all the Bank Subsidiaries. These loans comprised 72% of the loans portfolio at December 31, 2015 compared to 71% at year-end 2014. Commercial and commercial real estate loans, which totaled $3.61 billion at December 31, 2015, increased $862.4 million or 31% since year-end 2014. Exclusive of $804.6 million of commercial and commercial real estate loans acquired in the 2015 acquisitions, these loans increased $57.8 million or 2% during 2015. Commercial and commercial real estate loans increased $263.3 million or 11% through organic growth during 2014.

Residential mortgage loans, which totaled $539.6 million at December 31, 2015, increased $159.2 million or 42% since year-end 2014. Exclusive of $97.4 million of loans attributable to acquisitions, residential mortgage loans grew $61.8 million or 16% from year-end 2014. Residential mortgage loans increased $31.0 million or 9% during 2014. Growth in both years was primarily attributable to the expansion in this line of business.

Agricultural and agricultural real estate loans, which totaled $471.9 million at December 31, 2015, increased $48.0 million or 11% in 2015 from $423.8 million at December 31, 2014, and increased $47.1 million or 13% through organic growth during 2014 from $376.7 million at December 31, 2013. Exclusive of $3.9 million of loans attributable to acquisitions, agricultural and agricultural real estate loans increased $44.1 million or 10% in 2015. Approximately 84% of Heartland's agricultural loans at year-end 2015 were borrowers located in the Midwest. The agricultural loan portfolio is well diversified among loans relating to grain crops, dairy cows, hogs and cattle.

Consumer loans, which totaled $386.9 million at December 31, 2015, increased $56.3 million or 17% in 2015 from $330.6 million at December 31, 2014, and increased $36.5 million or 12% through organic growth in 2014 from $294.1 million at December 31, 2013. Exclusive of $34.3 million of loans attributable to acquisitions, consumer loans increased $22.1 million or 7% in 2015. Consumer loans at Heartland's consumer finance subsidiary, Citizens Finance Parent Co., comprised approximately 20% of the total consumer loan portfolio at December 31, 2015, compared to 21% at December 31, 2014, and 23% at December 31, 2013. We continue to look for opportunities to expand this line of business. A twelfth consumer finance office was opened in Milwaukee, Wisconsin and thirteenth in the Des Moines, Iowa metro area in 2014. A fourteenth office was opened in Springfield, Illinois in 2015.

Loans and leases secured by real estate, either fully or partially, totaled $3.32 billion or 66% of total loans and leases at December 31, 2015 and $2.48 billion or 64% of total loans and leases at December 31, 2014. Approximately 60% of the non-farm, nonresidential loans are owner occupied. The largest categories within our real estate secured loans are listed below, in thousands:

LOANS SECURED BY REAL ESTATE

	As of December 31,	
	2015	2014
Residential real estate, excluding residential construction and residential lot loans	$849,296	$702,627
Industrial, manufacturing, business and commercial	429,891	321,338
Agriculture	255,345	252,143
Retail	239,975	200,049
Office	275,289	225,769
Land development and lots	122,551	122,662
Hotel, resort and hospitality	115,083	105,217
Multi-family	179,243	150,657
Food and beverage	90,339	79,208
Warehousing	82,356	68,449
Health services	101,961	49,401
Residential construction	97,205	72,419
All other	164,255	127,714
Loans acquired in 4th quarter 2015	318,797	—
Total loans secured by real estate	$3,321,586	$2,477,653

Although repayment risk exists on all loans, different factors influence repayment risk for each type of loan. The primary risks associated with commercial and agricultural loans are the quality of the borrower’s management and the health of national and regional economies. Additionally, repayment of commercial and agricultural real estate loans may be influenced by fluctuating property values and concentrations of loans in a specific type of real estate. Repayment on loans to individuals, including those secured by 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 Annual Report on 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) making 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 or adequately insured.

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.

The table below presents the amounts of nonperforming loans and leases and other nonperforming assets on the dates indicated, in thousands:

NONPERFORMING ASSETS

	As of December 31,				
	2015	2014	2013	2012	2011
Not covered under loss share agreements:					
Nonaccrual loans and leases	$39,655	$25,070	$42,394	$43,156	$57,435
Loans and leases contractually past due 90 days or more	—	—	24	—	—
Total nonperforming loans and leases	39,655	25,070	42,418	43,156	57,435
Other real estate	11,524	19,016	29,794	35,470	43,506
Other repossessed assets	485	445	397	542	648
Total nonperforming assets not covered under loss share agreements	$51,664	$44,531	$72,609	$79,168	$101,589
Covered under loss share agreements:					
Nonaccrual loans and leases	$—	$278	$783	$1,259	$3,345
Total nonperforming loans and leases	—	278	783	1,259	3,345
Other real estate	—	—	58	352	881
Total nonperforming assets covered under loss share agreements	$—	$278	$841	$1,611	$4,226
Restructured loans[1]	$11,075	$12,133	$19,353	$21,121	$25,704
Nonperforming loans and leases not covered under loss share agreements to total loans and leases receivable	0.79 %	0.65 %	1.21 %	1.53 %	2.31 %
Nonperforming assets not covered under loss share agreements to total loans and leases receivable plus repossessed property	1.03 %	1.14 %	2.06 %	2.77 %	4.02 %
Nonperforming assets not covered under loss share agreements to total assets	0.67 %	0.74 %	1.23 %	1.59 %	2.39 %

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

The tables below summarize the changes in Heartland's nonperforming assets, including those covered by loss share agreements, during 2015 and 2014, in thousands:

	Nonperforming Loans	Other Real Estate Owned	Other Repossessed Assets	Total Nonperforming Assets
December 31, 2014	$25,348	$19,016	$445	$44,809
Loan foreclosures	(6,592)	6,472	120	—
Net loan charge offs	(5,461)	—	—	(5,461)
New nonperforming loans	26,417	—	—	26,417
Acquired nonperforming assets	15,371	991	23	16,385
Reduction of nonperforming loans[1]	(15,428)	—	—	(15,428)
OREO/Repossessed sales proceeds	—	(9,434)	(134)	(9,568)
OREO/Repossessed assets write-downs, net	—	(5,521)	(28)	(5,549)
Net activity at Citizens Finance Parent Co.	—	—	59	59
December 31, 2015	$39,655	$11,524	$485	$51,664

(1) Includes principal reductions and transfers to performing status.

	Nonperforming Loans	Other Real Estate Owned	Other Repossessed Assets	Total Nonperforming Assets
December 31, 2013	$43,201	$29,852	$397	$73,450
Loan foreclosures	(7,272)	7,231	41	—
Net loan charge offs	(14,737)	—	—	(14,737)
New nonperforming loans	20,729	—	—	20,729
Acquired nonperforming assets	—	—	—	—
Reduction of nonperforming loans(1)	(16,573)	—	—	(16,573)
OREO/Repossessed sales proceeds	—	(16,136)	(38)	(16,174)
OREO/Repossessed assets write-downs, net	—	(1,931)	(7)	(1,938)
Net activity at Citizens Finance Parent Co.	—	—	52	52
December 31, 2014	$25,348	$19,016	$445	$44,809

(1) Includes principal reductions and transfers to performing status.

Nonperforming loans, exclusive of those covered under loss sharing agreements, were $39.7 million or 0.79% of total loans and leases at December 31, 2015, compared to $25.1 million or 0.65% of total loans and leases at December 31, 2014, and $42.4 million or 1.21% of total loans and leases at December 31, 2013. The increase in nonperforming loans during 2015 was a result of nonperforming loans acquired in the four acquisitions completed during the year. Without the acquired nonperforming loans, Heartland's nonperforming loans decreased $2.7 million or 10% during 2015. Approximately 36%, or $13.8 million, of Heartland's nonperforming loans at December 31, 2015, had individual loan balances exceeding $1.0 million, the largest of which was $3.8 million. At December 31, 2014, approximately 27%, or $6.8 million, of Heartland's nonperforming loans had individual loan balances exceeding $1.0 million, the largest of which was $3.8 million. The portion of Heartland's nonperforming loans covered by government guarantees was $2.2 million at December 31, 2015, compared to $1.5 million at December 31, 2014, and $236,000 at December 31, 2013.

Delinquencies in each of the loan portfolios continue to be well-managed. Loans delinquent 30 to 89 days as a percent of total loans were 0.31% at December 31, 2015, compared to 0.21% at December 31, 2014, and 0.30% at December 31, 2013. The upward movement in delinquencies during 2015 is attributable to the four acquisitions completed during the year.

Other real estate owned was $11.5 million at December 31, 2015, compared to $19.0 million at December 31, 2014, and $29.9 million at December 31, 2013. Liquidation strategies have been identified for all the assets held in other real estate owned. Management continues to market these properties through an orderly liquidation process instead of an immediate liquidation process in order to avoid discounts greater than the projected carrying costs. Proceeds from the sale of other real estate owned totaled $9.4 million in 2015 compared to $16.1 million in 2014 and $19.1 million in 2013.

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 a 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. The Bank Subsidiaries participate 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 with more affordable monthly payments, with the U.S. 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.

We had an aggregate balance of $12.9 million in restructured loans at December 31, 2015, of which $1.8 million were classified as nonaccrual and $11.1 million were accruing according to the restructured terms. At December 31, 2014, we had an aggregate balance of $13.0 million in restructured loans, of which $865,000 were classified as nonaccrual and $12.1 million were accruing according to the restructured terms.

At December 31, 2015, $168.6 million or 44% of the consumer loans originated by the Bank Subsidiaries were in home equity lines of credit ("HELOCs") compared to $130.0 million or 50% at December 31, 2014, and $115.7 million or 51% at December 31, 2013. 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, advances under HELOCs cannot exceed 80% of the value of the property securing the loan.

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.

Allowance For Loan And Lease Losses

The process we use to determine the appropriateness of the allowance for loan and lease losses is considered a critical accounting practice for Heartland and has remained consistent over the past several years. 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 accounting policies section of this report.

Exclusive of loans covered under loss sharing agreements, the allowance for loan and lease losses at December 31, 2015, was 0.97% of loans and leases and 122.77% of nonperforming loans compared to 1.07% of loans and leases and 165.33% of nonperforming loans at December 31, 2014, and 1.19% of loans and leases and 98.27% of nonperforming loans at December 31, 2013. Exclusive of acquired loans, for which a valuation reserve is recorded, the allowance for loan and lease losses at December 31, 2015, was 1.15% of loans and leases in comparison with 1.13% of loans and leases at December 31, 2014, and 1.38% of loans and leases at December 31, 2013. The allowance for loan and lease losses as a percentage of loans and leases declined in both years as several credit relationships considered impaired, for which specific reserves had been provided, were charged-off or transitioned to other real estate owned. The provision for loan losses was $12.7 million during 2015 compared to $14.5 million during 2014 and $9.7 million during 2013. The increased provision in 2014 was primarily a result of a provision of $4.5 million to compensate for a charge-off on a single large credit. The allowance for loan and lease losses on impaired loans represented $2.8 million at December 31, 2015, in comparison with $2.7 million at December 31, 2014, and $6.7 million at December 31, 2013. The allowance on non-impaired loans was $45.9 million at December 31, 2015, in comparison with $38.8 million at December 31, 2014, and $35.0 million at December 31, 2013. The allowance on non-impaired loans is 0.93% at December 31, 2015 compared to 1.02% of non-impaired loans and leases at both December 31, 2014 and 2013. At December 31, 2015, Heartland had $783.3 million of acquired loans, which are net of $28.7 million of valuation reserves, that are not subject to the allowance.

The amount of net charge-offs was $5.5 million during 2015 compared to $14.7 million during 2014 and $6.7 million during 2013. As a percentage of average loans and leases, net charge-offs were 0.12% during 2015 compared to 0.39% during 2014 and 0.22% during 2013. The net charge-offs for 2014 were impacted by a single $6.6 million charge-off on a commercial loan whereas a large portion of the net charge-offs in 2013 was related to nonfarm nonresidential real estate and construction, land development and other land loans, including 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 Parent Co., our consumer finance subsidiary, experienced net charge-offs of $2.9 million during 2015 compared to $2.6 million during 2014 and $3.3

million during 2013. Net losses as a percentage of average loans, net of unearned, at Citizens were 3.85% for 2015 compared to 4.43% for 2014 and 4.91% for 2013. Loans with payments past due for more than thirty days at Citizens were 3.56% of gross loans at year-end 2015 compared to 2.28% at year-end 2014 and 2.46% at year-end 2013. Although Citizens may periodically experience a charge-off of more significance on an individual credit, we feel our credit culture remains solid.

The 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, in thousands:
ANALYSIS OF ALLOWANCE FOR LOAN AND LEASE LOSSES

	As of December 31,				
	2015	2014	2013	2012	2011
Allowance at beginning of year	$41,449	$41,685	$38,715	$36,808	$42,693
Charge-offs:					
Commercial	1,887	8,749	2,460	1,799	2,970
Commercial real estate	1,368	2,889	3,251	6,898	29,504
Residential real estate	241	342	1,036	988	1,878
Agricultural and agricultural real estate	551	2,251	23	1	167
Consumer	4,967	4,496	4,777	4,818	5,461
Total charge-offs	9,014	18,727	11,547	14,504	39,980
Recoveries:					
Commercial	1,167	753	1,019	1,966	1,051
Commercial real estate	1,200	2,290	2,378	5,194	2,868
Residential real estate	183	148	158	164	46
Agricultural and agricultural real estate	32	11	110	81	33
Consumer	971	788	1,155	804	732
Total recoveries	3,553	3,990	4,820	8,209	4,730
Net charge-offs(1)(2)	5,461	14,737	6,727	6,295	35,250
Provision for loan and lease losses	12,697	14,501	9,697	8,202	29,365
Allowance at end of year	$48,685	$41,449	$41,685	$38,715	$36,808
Net charge-offs to average loans and leases	0.12 %	0.39 %	0.22 %	0.23 %	1.46 %

(1) Includes net charge-offs at Citizens Finance Parent Co. of $2,902 for 2015, $2,571 for 2014, $3,274 for 2013, $2,468 for 2012, and $1,608 for 2011.
(2) Includes net charge-offs (recoveries) on loans covered under loss share agreements of $0 for 2015, ($14) for 2014, $114 for 2013, $409 for 2012, and ($1,065) for 2011.

The 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, in thousands:
ALLOCATION OF ALLOWANCE FOR LOAN AND LEASE LOSSES

	As of December 31,									
	2015		2014		2013		2012		2011	
	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	$16,095	25.56 %	$11,909	26.72 %	$13,099	27.16 %	$11,388	25.22 %	$10,547	25.97 %
Commercial real estate	19,532	46.50	15,898	44.02	14,152	43.70	14,473	45.62	14,623	46.79
Residential real estate	1,934	10.78	3,741	9.81	3,720	9.98	3,543	8.84	3,001	7.82
	3,887	9.43	3,295	10.93	2,992	10.76	2,138	11.62	1,763	10.57

Agricultural and agricultural real estate										
Consumer	7,237	7.73	6,606	8.52	7,722	8.40	7,173	8.70	6,874	8.85
Total allowance for loan and lease losses	$48,685		$41,449		$41,685		$38,715		$36,808	

Management allocates the allowance for loan and lease losses by pools of risk within each loan portfolio. The allocation of the allowance for loan and lease losses by loan portfolio is made for analytical purposes and is not necessarily indicative of the trend

of future loan and lease losses in any particular category. The total allowance for loan and lease losses is available to absorb losses from any segment of the loan portfolio.

Securities

The composition of Heartland's securities portfolio is managed to maximize the return on the portfolio while considering the impact it has on Heartland's asset/liability position and liquidity needs. Securities represented 24% of Heartland's total assets at December 31, 2015, compared to 28% at December 31, 2014, and 32% at December 31, 2013, as a portion of the proceeds from maturities, paydowns and sales were used to fund loan growth. Total available for sale securities as of December 31, 2015, were $1.58 billion, an increase of $176.6 million or 13% since December 31, 2014. The 2015 acquisitions included $290.6 million of available for sale securities. Total available for sale securities as of December 31, 2014, were $1.40 billion, a decrease of $232.0 million or 14% since December 31, 2013.

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

	As of December 31,								
	2015			2014			2013		
	Amount	% of Portfolio		Amount	% of Portfolio		Amount	% of Portfolio	
U.S. government corporations and agencies	$25,766	1.37	%	$24,093	1.41	%	$218,303	11.52	%
Mortgage-backed securities	1,247,071	66.37		1,225,000	71.77		1,149,920	60.68	
Obligation of states and political subdivisions	570,730	30.37		432,279	25.32		498,149	26.29	
Corporate debt securities	846	0.05		—	—		—	—	
Equity securities	13,138	0.70		5,083	0.30		5,028	0.26	
Other securities	21,443	1.14		20,498	1.20		23,644	1.25	
Total securities	$1,878,994	100.00	%	$1,706,953	100.00	%	$1,895,044	100.00	%

The percentage of Heartland's securities portfolio comprised of U.S. government corporation and agencies was 1% at both December 31, 2015, and December 31, 2014, compared to 12% at December 31, 2013. Mortgage-backed securities comprised 66% of Heartland's securities portfolio at December 31, 2015, compared to 72% at December 31, 2014, and 61% at December 31, 2013. The change in the composition of the securities portfolio during 2013 was partially a result of the acquisition of Morrill & Janes Bank and Trust Company, because approximately 46% of its securities were held in U.S. government corporations and agency securities, 49% in mortgage-backed securities and the remainder in municipal securities.

Approximately 80% of Heartland's mortgage-backed securities were issued by GSEs at December 31, 2015, compared to 97% at December 31, 2014, and 87% at December 31, 2013. Heartland's securities portfolio had an expected duration of 3.90 years as of December 31, 2015, compared to 4.07 years as of December 31, 2014, and 4.50 years as of December 31, 2013.

The Volcker Rule, which is scheduled to be fully implemented in 2017, prohibits insured depository institutions and their holding companies from engaging in proprietary trading except in limited circumstances, and prohibits them from owning equity interests in excess of 3% of Tier 1 Capital in private equity and hedge funds. The Volcker Rule will not have a material impact on Heartland’s investment securities portfolio. For additional information on the Volcker Rule, see the discussion under the "Business - F. Supervision and Regulation - The Bank Subsidiaries - The

Volcker Rule and Proprietary Trading" heading of Part I, Item 1 of this report.

At December 31, 2015, we had $21.4 million of other securities, including capital stock in the various Federal Home Loan Banks of which the Bank Subsidiaries are members. All securities classified as other are held at cost.

The tables below present the contractual maturities for the debt securities in the securities portfolio at December 31, 2015, by major category and classification as available for sale or held to maturity, in thousands. Expected maturities will differ from contractual maturities, as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

SECURITIES AVAILABLE FOR SALE PORTFOLIO MATURITIES

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		Mortgage-backed and equity securities		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. government corporations and agencies	$2,006	0.33%	$14,010	1.30%	$6,436	2.08%	$3,314	2.45%	$—	— %	$25,766	3.14%
Obligations of states and political subdivisions	788	2.81	19,115	3.07	68,957	3.26	207,122	3.10	—	—	295,982	3.13
Corporate debt securities	—	—	—	—	—	—	846	4.22	—	—	846	4.22
Mortgage backed securities	—	—	—	—	—	—	—	—	1,242,702	2.28	1,242,702	2.28
Equity securities	—	—	—	—	—	—	—	—	13,138	—	13,138	—
Total	$2,794	1.03%	$33,125	2.32%	$75,393	3.16%	$211,282	3.09%	$1,255,840	2.28%	$1,578,434	2.45%

SECURITIES HELD TO MATURITY PORTFOLIO MATURITIES

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		Mortgage-backed and equity securities		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Obligations of states and political subdivisions	$4,602	3.96%	$13,220	3.93%	$68,773	4.08%	$188,153	4.00 %	$—	— %	$274,748	4.02%
Mortgage backed and equity securities	—	—	—	—	—	—		—	4,369	8.73	4,369	8.73
Total	$4,602	3.96%	$13,220	3.93%	$68,773	4.08%	$188,153	4.00 %	$4,369	8.73%	$279,117	4.09%

In December 2015, Heartland recorded $769,000 additional credit-related other-than-temporary impairment ("OTTI") on two of the private label mortgage-backed securities that previously had credit-related OTTI. The underlying collateral on these securities experienced an increased level of defaults and a slowing of voluntary prepayments causing the present value of the forward expected cash flows, using prepayment and default vectors, to be below the amortized cost basis of the securities. The remaining unrealized losses on Heartland's debt securities are the result of changes in market interest rates or widening of market spreads subsequent to the initial purchase of the securities and

not related to concerns regarding the underlying credit of the issuers or the underlying collateral. For this reason 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, 2015. See Note 4 to the consolidated financial statements for further discussion regarding unrealized losses on our securities portfolio.

Deposits

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

AVERAGE DEPOSITS

	For the Years Ended December 31,								
	2015			2014			2013		
	Average Deposits	Percent of Deposits	Average Interest Rate	Average Deposits	Percent of Deposits	Average Interest Rate	Average Deposits	Percent of Deposits	Average Interest Rate
Demand deposits	$1,592,816	29.18 %	— %	$1,243,376	26.46 %	— %	$1,064,177	26.52 %	— %
Savings	2,918,706	53.47	0.23	2,589,649	55.11	0.31	2,101,295	52.36	0.32
Time deposits less than $100,000	606,030	11.10	0.95	535,483	11.40	1.24	532,157	13.26	1.67
Time deposits of $100,000 or more	341,071	6.25	0.92	330,428	7.03	1.05	315,623	7.86	1.40
Total deposits	$5,458,623	100.00 %		$4,698,936	100.00 %		$4,013,252	100.00 %	

Total average deposits increased $760.0 million or 16% during 2015, with approximately $542.4 million associated with the acquisitions completed during the year. Exclusive of the amount attributable to acquisitions, total average deposits increased $217.6 million or 5% during 2015. Total average deposits increased $685.7 million or 17% during 2014. Included in total average deposits during 2014 was a full year of average deposits at Morrill & Janes Bank and Trust Company totaling $685.1 million. As this acquisition was completed during the fourth quarter of 2013, the amount of average deposits at Morrill & Janes Bank and Trust Company included in total average deposits for 2013 were $139.8 million. Exclusive of the total average deposits at Morrill & Janes Bank and Trust Company in both years, the increase during 2014 was $140.4 million or 4%. The percentage of our total average deposit balances attributable to branch banking offices in our Midwestern markets was 63% during 2015, 64% during 2014 and 62% during 2013.

Average demand deposits increased $349.4 million or 28% during 2015 and $179.2 million or 17% during 2014. Exclusive of approximately $144.1 million in average demand deposits acquired in the acquisitions completed during 2015, average demand deposits increased $205.3 million or 17%. Exclusive of the Morrill & Janes Bank and Trust Company acquisition, average demand deposits increased $108.4 million or 10% during 2014. The mix of total deposits has continued to improve, with demand deposits representing 29%, savings representing 54% and time deposits representing 17% at December 31, 2015. At year-end 2014, demand deposits represented 27% of total deposits, savings represented 56% and time deposits represented 17%. At year-end 2013, demand deposits represented 27% of total deposits, savings represented 54% and time deposits represented 19%. The percentage of our total average demand deposit balances attributable to branch banking offices in our Midwestern markets was 59% during 2015, 57% during 2014 and 56% during 2013.

Average savings deposit balances increased by $329.1 million or 13% during 2015 and $488.4 million or 23% during 2014. Exclusive of approximately $243.6 million in average savings deposits acquired in the acquisitions completed during 2015, average savings deposits increased $85.5 million or 3%. Exclusive of Morrill & Janes Bank and Trust Company acquisition, average savings deposit balances increased $71.7 million or 4% during 2014. The percentage of our total average savings deposit balances attributable to branch banking offices in our Midwestern markets was 64% in 2015, 69% in 2014 and 65% in 2013.

Average time deposits increased $81.2 million or 9% during 2015 and, exclusive of approximately $154.7 million in balances acquired, average time deposits decreased $73.5 million or 8%. Average time deposits increased $18.1 million or 2% during 2014 and, exclusive of those balances acquired through the Morrill & Janes Bank and Trust Company acquisition, average time deposits decreased $39.8 million or 5%. The decrease in time deposits during both years was attributable to a continued 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 continued to elect 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 Midwestern markets was 68% during 2015, 61% during 2014 and 61% during 2013. Average brokered time deposits as a percentage of total average deposits were 3% during 2015, 2% during 2014 and 1% during 2013.

The following table sets forth the amount and maturities of time deposits of $100,000 or more at December 31, 2015, in thousands:

TIME DEPOSITS $100,000 AND OVER

	December 31, 2015
3 months or less	$211,957
Over 3 months through 6 months	63,127
Over 6 months through 12 months	104,263
Over 12 months	103,877
	$483,224

Borrowings

Short-term borrowings generally include federal funds purchased, securities sold under agreements to repurchase, short-term FHLB advances and discount window borrowings from the Federal Reserve Bank. These funding alternatives are utilized in varying degrees depending on their pricing and availability. All of the Bank Subsidiaries own FHLB stock in either the Chicago, Dallas, Des Moines, Seattle, San Francisco or Topeka FHLB, enabling them to borrow funds from their respective FHLB for short- or long-term purposes under a variety of programs. As of December 31, 2015, the amount of short-term borrowings was $293.9 million compared to $330.3 million at year-end 2014, a decrease of $36.4 million or 11%. Short-term FHLB advances totaled $11.1 million at December 31, 2015, compared to $76.0 million at December 31, 2014, a decrease of $64.9 million or 85%. Federal funds purchased totaled $14.1 million at both December 31, 2015, and December 31, 2014.

All of the bank subsidiaries provide retail repurchase agreements to their customers as a cash management tool, sweeping excess funds from demand deposit accounts into these agreements. This source of funding does not increase the bank's reserve requirements. Although the aggregate balance of these retail repurchase agreements is subject to variation, the account relationships represented by these balances are principally local. The balances of retail repurchase agreements were $253.7 million at December 31, 2015, compared to $240.2 million at December 31, 2014, an increase of $13.5 million or 6%.

Also included in short-term borrowings are the revolving credit lines Heartland has with unaffiliated banks, primarily to provide liquidity to Heartland. On June 14, 2013, Heartland replaced its $5.0 million unsecured revolving credit line with a $20.0 million unsecured revolving credit line with the same unaffiliated bank. A balance of $15.0 million was outstanding on this line at December 31, 2015, compared to no balance outstanding at December 31, 2014. Heartland entered into an additional non-revolving credit facility with the same unaffiliated bank on December 15, 2015, which provides borrowing capacity not to exceed $50.0 million when combined with the outstanding balance on its existing amortizing term loan with the same unaffiliated bank. At December 31, 2015, no balance was outstanding on this non-revolving credit line and the borrowing capacity was $41.1 million. Any outstanding balance on the non-revolving credit line is due on November 30, 2016.

The following table reflects information regarding our short-term borrowings as of December 31, 2015, 2014, and 2013, in thousands:

SHORT-TERM BORROWINGS	As of and For the Years Ended December 31,		
	2015	2014	2013
Balance at end of period	$293,898	$330,264	$408,756
Maximum month-end amount outstanding	477,918	420,494	408,756
Average month-end amount outstanding	330,134	307,470	274,352
Weighted average interest rate at year-end	0.15 %	0.19 %	0.19 %
Weighted average interest rate for the year	0.25 %	0.28 %	0.31 %

Other borrowings include all debt arrangements Heartland and its subsidiaries have entered into with original maturities that extend beyond one year, including long-term FHLB borrowings, term borrowings under term notes and senior notes and obligations under trust preferred capital securities. As of December 31, 2015, the amount of other borrowings was $263.2 million, a decrease of $132.5 million or 33% since year-end 2014.

Long-term FHLB borrowings with an original term beyond one year totaled $17.2 million at December 31, 2015, compared to $109.8 million at December 31, 2014, a decrease of $92.6 million or 84%. Total long-term FHLB borrowings at December 31, 2015, had an average interest rate of 1.78% and an average remaining maturity of 30 months. When considering the earliest possible

call date on these advances, the average remaining maturity is shortened to 26 months. Structured wholesale repurchase agreements totaled $30.0 million at December 31, 2015, and $45.0 million at December 31, 2014, a decrease of $15.0 million or 33% due to the maturity of one contract.

The outstanding balance on Heartland's amortizing term loan with an unaffiliated bank was $8.9 million at December 31, 2015, compared to $10.4 million at December 31, 2014.

Heartland also had senior notes totaling $16.0 million at December 31, 2015, compared to $29.5 million at December 31, 2014. Heartland offered to prepay the senior notes, resulting in the paydown of $1.0 million in 2015 and $8.0 million in 2014. These senior notes mature with respect to $5.0 million on February 1, 2017, $6.0 million on February 1, 2018, and $5.0 million on February 1, 2019. The senior notes are unsecured and bear interest at 5.00% per annum payable quarterly.

On December 17, 2014, Heartland issued $75.0 million of subordinated notes with a maturity date of December 30, 2024. The notes were issued at par with an underwriting discount of $1.1 million. The interest rate on the notes is fixed at 5.75% per annum payable semi-annually. The notes were sold to qualified institutional buyers, and the proceeds are being used for general corporate purposes. For regulatory purposes, $73.7 million of the subordinated notes qualified as Tier 2 capital as of December 31, 2015.

The balances outstanding on trust preferred capital securities issued by Heartland are also included in other borrowings. A schedule of Heartland's trust preferred offerings outstanding as of December 31, 2015, excluding deferred issuance costs, is as follows, in thousands:

TRUST PREFERRED OFFERINGS

	Amount Issued	Issuance Date	Interest Rate	Interest Rate as of 12/31/15[1]		Maturity Date	Callable Date
Heartland Financial Statutory Trust IV	$25,774	03/17/2004	2.75% over LIBOR	3.28	%[2]	03/17/2034	03/17/2016
Heartland Financial Statutory Trust V	20,619	01/27/2006	1.33% over LIBOR	1.65	%[3]	04/07/2036	04/07/2016
Heartland Financial Statutory Trust VI	20,619	06/21/2007	6.75%	6.75	%[4]	09/15/2037	03/15/2016
Heartland Financial Statutory Trust VII	20,619	06/26/2007	1.48% over LIBOR	1.89	%[5]	09/01/2037	06/01/2016
Morrill Statutory Trust I	8,712	12/19/2002	3.25% over LIBOR	3.85	%[6]	12/26/2032	03/26/2016
Morrill Statutory Trust II	8,309	12/17/2003	2.85% over LIBOR	3.38	%[7]	12/17/2033	12/17/2016
Sheboygan Statutory Trust I	6,177	09/17/2003	2.95% over LIBOR	3.48	%	9/17/2033	3/17/2016
CBNM Capital Trust I	4,209	09/10/2004	3.25% over LIBOR	3.76	%	12/15/2034	3/15/2016
	$115,038						

(1) Effective weighted average interest rate as of December 31, 2015, was 4.97% due to interest rate swap transactions as discussed in Note 12 to Heartland's consolidated financial statements.
(2) Effective interest rate as of December 31, 2015, was 5.01% 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, 2015, was 4.69% due to an interest rate swap transaction as discussed in Note 12 to Heartland's consolidated financial statements.
(4) Interest rate is fixed at 6.75% through June 15, 2017 then resets to 1.48% over LIBOR for the remainder of the term.

(5) Effective interest rate as of December 31, 2015, was 4.70% due to an interest rate swap transaction as discussed in Note 12 to Heartland's consolidated financial statements.
(6) Effective interest rate as of December 31, 2015, was 4.92% due to an interest rate swap transaction as discussed in Note 12 to Heartland's consolidated financial statements.
(7) Effective interest rate as of December 31, 2015, was 4.51% due to an interest rate swap transaction as discussed in Note 12 to Heartland's consolidated financial statements.

During 2014, Heartland entered into two interest rate swap transactions to fix the interest rates on the trust preferred capital securities assumed by Heartland with the Morrill & Janes Bank and Trust Company transaction. The swaps fix the effective interest rate on Morrill Statutory Trust I debt to 4.92% and the effective interest rate on Morrill Statutory Trust II to 4.51% for five years. In addition, Heartland entered into a forward starting interest rate swap transaction to replace the interest rate swap on Heartland's Statutory Trust IV debt, which expired on March 17, 2014. The new effective interest rate is 5.01% compared to the previous rate of 5.33% and is fixed for seven years.

During 2015, Heartland entered into two additional forward starting interest rate swaps. The first forward starting interest rate swap transaction relates to Heartland's $20.0 million Statutory Trust VI, which will convert from a fixed interest rate subordinated

debenture to a variable interest rate subordinated debenture. The effective date of the interest rate swap transaction is June 15, 2017, and Heartland Statutory Trust VI will effectively remain at a fixed interest rate. The forward-starting swap transaction expires on June 15, 2024. The second forward starting interest rate swap is effective on March 1, 2017, and will replace the current interest rate swap related to Heartland Statutory Trust VII upon its expiration on March 1, 2017.

CAPITAL RESOURCES

Bank regulatory agencies have adopted capital standards by which all bank holding companies will be evaluated, including requirements to maintain certain core capital amounts included as Tier 1 capital at minimum levels relative to total assets (the “Tier 1 Leverage Capital Ratio”) and at minimum levels relative to “risk-weighted assets” which is calculated by assigning value to assets, and off balance sheet commitments, based on their risk characteristics (the “Tier 1 Risk-Based Capital Ratio”), and to maintain total capital at minimum levels relative to risk-weighted assets (the “Total Risk-Based Capital Ratio”). Starting in 2015, bank holding companies are subject to a new Common Equity Tier 1 Capital Ratio, an increased Tier 1 Leverage Capital Ratio and an increased Tier 1 Risk-Based Capital Ratio under the Basel III rules and are required to include in Common Equity Tier 1 capital the effects of other comprehensive income adjustments, such as gains and losses on securities held to maturity, that are currently excluded from the definition of Tier 1 capital, but are allowed to make a one-time election not to include those effects. Heartland and the Bank Subsidiaries have been, and will continue to be, managed so they meet the well-capitalized requirements under the regulatory framework for prompt corrective action and have made the one-time election to exclude the effects of other comprehensive income adjustments on their Tier 1 capital. Under the Basel III rules, the requirements to be categorized as well-capitalized changed from 4% to 5% for the Tier 1 Leverage Capital Ratio, from 6% to 8% for the Tier 1 Risk-Based Capital Ratio and remained at 10% for the Total Risk-Based Capital Ratio. The most recent notification from the FDIC categorized Heartland and each of the Bank Subsidiaries as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the date of that notification that management believes have changed each institution's category.

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

RISK-BASED CAPITAL RATIOS

	As of and For the Years Ended December 31,								
	2015			2014			2013		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Capital Ratios:									
Tier 1 capital	$683,706	11.56	%	$578,564	12.95	%	$537,964	13.19	%
Tier 1 capital minimum requirement	354,980	6.00	%	178,757	4.00	%	163,126	4.00	%
Excess	$328,726	5.56	%	$399,807	8.95	%	$374,838	9.19	%
Common equity Tier 1	$487,132	8.23	%						
Common equity Tier 1 minimum requirement[1]	266,324	4.50	%						
Excess	$220,808	3.73	%						
Total capital	$812,568	13.74	%	$703,032	15.73	%	$599,038	14.69	%
Total capital minimum requirement	473,282	8.00	%	357,513	8.00	%	326,252	8.00	%
Excess	$339,286	5.74	%	$345,519	7.73	%	$272,786	6.69	%
Total risk-adjusted assets	$5,916,027			$4,468,914			$4,078,154		

(1) Prior to the adoption of Basel III requirements effective January 1, 2015, the common equity Tier 1 capital ratio was not a capital standard required by bank regulatory agencies.

LEVERAGE RATIOS[2]

	As of and For the Years Ended December 31,					
	2015		2014		2013	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Capital Ratios:						
Tier 1 capital	$683,706	9.58 %	$578,564	9.75 %	$537,964	9.67 %
Tier 1 capital minimum requirement[3]	285,606	4.00 %	237,316	4.00 %	222,432	4.00 %
Excess	$398,100	5.58 %	$341,248	5.75 %	$315,532	5.67 %
Average adjusted assets	$7,140,152		$5,932,898		$5,560,796	

(2) The leverage ratio is defined as the ratio of Tier 1 capital to average total assets.
(3) Prior to Basel III requirements effective January 1, 2015, we 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.

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

Common stockholders' equity was $581.5 million at December 31, 2015, compared to $414.6 million at year-end 2014. Book value per common share was $25.92 at December 31, 2015, compared to $22.40 at year-end 2014. Changes in common stockholders' equity and book value per common share are the result of earnings, dividends paid, stock transactions and mark-to-market adjustments for unrealized gains and losses on securities available for sale. Heartland's unrealized gains and losses on securities available for sale, net of applicable taxes, were at an unrealized loss of $4.1 million at December 31, 2015, compared to an unrealized gain of $3.6 million at December 31, 2014.

The initial 5.00% dividend rate payable on the Series C Preferred Stock issued to the U.S. Treasury under the SBLF was subject to reduction during the second through ninth quarter after issuance (through September 30, 2013, for Heartland) based upon increases in qualified small business lending ("QSBL") over a baseline amount, and could be reduced to as low as 1.00% if QSBL increased by ten percent or more over that period. After adjustments for acquisitions, Heartland's baseline amount was determined to be $1.01 billion, which required growth in QSBL of $101.0 million to have the dividend rate reduced to 1.00%. Through December 31, 2012, Heartland's QSBL had grown by $123.0 million or 12.1%, regressed to $103.2 million or 10.2% at March 31, 2013, $104.7 million or 10.4% at June 30, 2013, and $117.6 million at September 30, 2013. As a result of its QSBL, the dividend rate on Heartland's $81.7 million of Series C Preferred Stock issued to the U.S. Treasury was 2.00% for the first quarter of 2013, 1.00% for the remaining quarters of 2013 and each quarter of 2014 and 2015 and will be 1.00% for each subsequent quarter through March 15, 2016. If the Series C Preferred Stock is not redeemed before March 15, 2016, the dividend rate will increase to 9.00% and remain at that rate until redeemed. Heartland intends to redeem the Series C Preferred Stock prior to March 15, 2016, primarily through dividend payments from the Bank Subsidiaries.

COMMITMENTS, CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGMENTS

Commitments and Contractual Obligations

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank Subsidiaries evaluate the creditworthiness of customers to which they extend a credit commitment on a case-by-case basis and may require collateral to secure any credit extended. The amount of collateral obtained is based upon management's credit

evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties. Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank Subsidiaries to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. At December 31, 2015, and December 31, 2014, commitments to extend credit aggregated $1.56 billion and $1.42 billion, and standby letters of credit aggregated $55.4 million and $38.9 million, respectively.

The following table summarizes our significant contractual obligations and other commitments as of December 31, 2015, in thousands:

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

		Payments Due By Period			
	Total	Less than One Year	One to Three Years	Three to Five Years	More than Five Years
Contractual obligations:					
Time certificates of deposit	$1,124,203	$811,413	$197,012	$101,744	$14,034
Long-term debt obligations	263,214	52,605	11,171	7,304	192,134
Operating lease obligations	36,919	5,116	7,508	5,702	18,593
Purchase obligations	19,995	5,471	8,719	5,805	—
Other long-term liabilities	5,558	664	1,274	971	2,649
Total contractual obligations	$1,449,889	$875,269	$225,684	$121,526	$227,410
Other commitments:					
Lines of credit	$1,564,712	$1,186,103	$141,963	$49,810	$186,836
Standby letters of credit	55,403	45,075	1,195	8,353	780
Total other commitments	$1,620,115	$1,231,178	$143,158	$58,163	$187,616

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

At the parent company level, routine funding requirements consist primarily of dividends paid to stockholders, including the U.S. Treasury, which holds the Series C Preferred Stock, debt service on revolving credit arrangements and trust preferred securities issuances, debt repayment requirements under other obligations 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, 2015, Heartland's revolving credit agreement with an unaffiliated bank provided a maximum borrowing capacity of $20.0 million, of which $15.0 million was outstanding. Heartland also has a non-revolving credit line with the same unaffiliated bank under which no amount was outstanding at December 31, 2015 that provided a borrowing capacity of $41.1 million at December 31, 2015. These credit agreements contain specific financial covenants which are listed in Note 11 to the consolidated financial statements. At December 31, 2015, Heartland was in compliance with these covenants.

The ability of Heartland to pay dividends to its stockholders is dependent upon dividends paid by its subsidiaries. The Bank Subsidiaries are subject to statutory and regulatory restrictions on the amount they may pay in dividends. To maintain acceptable capital ratios in the Heartland banks, certain portions of their retained earnings are not available for the payment of dividends. Retained earnings that could be available for the payment of dividends to Heartland under the regulatory capital requirements to remain well-capitalized totaled approximately $112.5 million as of December 31, 2015.

On October 22, 2015, Heartland entered into a merger agreement with CIC Bancshares, Inc., parent company of Centennial Bank, headquartered in Denver, Colorado. The agreement provided that CIC Bancshares, Inc. would merge with and into Heartland, the holders of CIC Bancshares Inc. common stock would receive consideration in the form of 20% cash and 80% Heartland common stock, Heartland would issue a new series of convertible preferred stock to holders of CIC Bancshares, Inc. convertible preferred stock, and Heartland would assume the obligations under CIC Bancshares, Inc. convertible notes, including the obligation to issue its common stock upon conversion of the notes. The transaction, in which total consideration was valued at approximately $83.5 million, closed on February 5, 2016. Upon closing of the transaction, Centennial Bank merged with Heartland's Summit Bank & Trust subsidiary and now operates under the name Centennial Bank and Trust.

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, cannot be estimated at this time.

Derivative Financial Instruments
We enter into mortgage banking derivatives, which are classified as free standing derivatives. These derivatives include interest rate lock commitments provided to customers to fund certain mortgage loans to be sold into the secondary market and forward commitments for the future delivery of such loans. We enter into forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of future interest rate changes on the commitments to fund the loans as well as on the residential mortgage loans available for sale. See Note 12, "Derivative Financial Instruments," for additional information on our derivative financial instruments.

LIQUIDITY

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

Operating activities provided cash of $101.5 million during 2015 compared to $80.4 million during 2014 and $135.6 million during 2013. The largest factor in this change was activity in loans originated for sale, which used cash of $3.5 million during 2015, used cash of $23.8 million during 2014 and provided cash of $50.0 million during 2013. Cash used for the payment of income taxes was $11.9 million during 2015 compared to $2.8 million during 2014 and $5.5 million in 2013.

Investing activities used cash of $69.0 million during 2015 compared to $193.7 million during 2014 and $324.0 million during 2013. The proceeds from securities sales, paydowns and maturities were $1.30 billion during 2015 compared to $943.8 million during 2014 and $777.4 million during 2013. Purchases of securities used cash of $1.22 billion during 2015 compared to $750.1 million during 2014 and $869.3 million during 2013. The net increase in loans and leases used cash of $196.5 million in 2015 compared to $397.3 million in 2014 and $284.8 million in 2013. Net cash received in acquisitions was $41.7 million in 2015 and $49.7 million in 2013. No acquisitions were completed in 2014.

Financing activities provided cash of $152.4 million during 2015 compared to $61.9 million during 2014 and $145.6 million during 2013. A net increase in deposit accounts provided cash of $367.9 million during 2015 compared to $101.5 million during 2014 and $101.4 million during 2013. Short-term borrowing activity used cash of $61.7 million during 2015 compared to using cash of $78.5 million during 2014 and providing cash of $114.5 million during 2013. Cash proceeds from other borrowings were $29.0 million during 2015 compared to $79.0 million during 2014 and $5.2 million during 2013. Repayment of other borrowings used cash of $173.7 million during 2015 compared to $32.8 million during 2014 and $66.9 million during 2013.

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 a result, will normally fluctuate. We believe these balances, on average, to be stable sources of funds; however, we intend to rely on deposit growth and additional FHLB borrowings in the future.

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

Heartland's revolving credit agreement with an unaffiliated bank provides a maximum borrowing capacity of $20.0 million, of which $15.0 million was borrowed at December 31, 2015. Heartland also has a non-revolving credit line with the same unaffiliated bank under which no amount was outstanding at December 31, 2015, and which provided a borrowing capacity of $41.1 million at December 31, 2015. These credit agreements contain specific covenants, with which Heartland was in compliance on December 31, 2015.

EFFECTS OF INFLATION

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Management continually develops and applies strategies to mitigate market risk. Exposure to market risk is reviewed on a regular basis by the asset/liability committees of the banks and, on a consolidated basis, by Heartland's executive management and board of directors. Darling Consulting Group, Inc. has been engaged to provide asset/liability management position assessment and strategy formulation services to Heartland and the Bank Subsidiaries. At least quarterly, a detailed review of the balance sheet risk profile is performed for Heartland and each of the Bank Subsidiaries. Included in these reviews are interest rate sensitivity analyses, which simulate changes in net interest income in response to various interest rate scenarios. These analyses consider current portfolio rates, existing maturities, repricing opportunities and market interest rates, in addition to prepayments and growth under different interest rate assumptions. Selected strategies are modeled prior to implementation to determine their effect on Heartland's interest rate risk profile and net interest income. Management does not believe that Heartland's primary market risk exposures have changed significantly in 2015 when compared to 2014.

The core interest rate risk analysis utilized by Heartland examines the balance sheet under increasing and decreasing interest scenarios that are neither too modest nor too extreme. All rate changes are ramped over a 12-month horizon based upon a parallel shift in the yield curve and then maintained at those levels over the remainder of the simulation horizon. Using this approach, management is able to see the effect that both a gradual change of rates (year 1) and a rate shock (year 2 and beyond) could have on Heartland's net interest income. Starting balances in the model reflect actual balances on the “as of” date, adjusted for material and significant transactions. Pro-forma balances remain static. This enables interest rate risk embedded within the existing balance sheet structure to be isolated from the interest rate risk often caused by growth in assets and liabilities. Due to the low interest rate environment, the simulations under a decreasing interest rate scenario were prepared using a 100 basis point shift in rates. The most recent reviews at December 31, 2015, and 2014, provided the following results, excluding the most recent acquisition of Premier Valley Bank on November 30, 2015, in thousands:

	2015 Net Interest Margin	% Change From Base	2014 Net Interest Margin	% Change From Base
Year 1				
Down 100 Basis Points	$234,936	(2.12)%	$187,340	(1.75)%
Base	$240,014		$190,673	
Up 200 Basis Points	$237,327	(1.12)%	$193,773	1.63%
Year 2				
Down 100 Basis Points	$225,803	(5.92)%	$179,828	(5.69)%
Base	$241,105	0.45%	$190,442	(0.12)%
Up 200 Basis Points	$246,145	2.55%	$204,026	7.00%

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

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

Heartland periodically holds a securities trading portfolio that would also be subject to elements of market risk. These securities are carried on the balance sheet at fair value. At both December 31, 2015 and December 31, 2014, Heartland held no securities in its securities trading portfolio.

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

	Notes	As of December 31, 2015	2014
ASSETS			
Cash and due from banks	3	$237,841	$64,150
Federal funds sold and other short-term investments		20,958	9,721
Cash and cash equivalents		258,799	73,871
Time deposits in other financial institutions		2,355	2,605
Securities:			
Available for sale, at fair value (cost of $1,584,703 at December 31, 2015, and cost of $1,396,794 at December 31, 2014)	4	1,578,434	1,401,868
Held to maturity, at cost (fair value of $294,513 at December 31, 2015, and $296,768 at December 31, 2014)	4	279,117	284,587
Other investments, at cost	4	21,443	20,498
Loans held for sale		74,783	70,514
Loans and leases receivable:	5		
Held to maturity		5,001,486	3,876,745
Loans covered by loss share agreements		—	1,258
Allowance for loan and lease losses	5, 6	(48,685)	(41,449)
Loans and leases receivable, net		4,952,801	3,836,554
Premises, furniture and equipment, net	7	146,259	130,713
Premises, furniture and equipment held for sale	2	3,889	—
Other real estate, net		11,524	19,016
Goodwill	2, 8	97,852	35,583
Other intangible assets, net	8	56,945	33,932
Cash surrender value on life insurance		110,297	82,638
Other assets		100,256	59,433
TOTAL ASSETS		$7,694,754	$6,051,812
LIABILITIES AND EQUITY			
LIABILITIES:			
Deposits:	9		
Demand		$1,914,141	$1,295,193
Savings		3,367,479	2,687,493
Time		1,124,203	785,336
Total deposits		6,405,823	4,768,022
Short-term borrowings	10	293,898	330,264
Other borrowings	11	263,214	395,705
Accrued expenses and other liabilities		68,646	61,504
TOTAL LIABILITIES		7,031,581	5,555,495
STOCKHOLDERS' EQUITY:	16, 17, 18		
Preferred stock (par value $1 per share; authorized 20,604 shares; none issued or outstanding)		—	—
Series A Junior Participating preferred stock (par value $1 per share; authorized 16,000 shares; none issued or outstanding)		—	—
		81,698	81,698

Series C Fixed Rate Non-Cumulative Perpetual preferred stock (par value $1 per share; liquidation value $81.7 million; authorized, issued and outstanding 81,698 shares)		
Common stock (par value $1 per share; authorized 30,000,000 shares at December 31, 2015, and 25,000,000 at December 31, 2014; issued 22,435,693 shares at December 31, 2015, and 18,511,125 shares at December 31, 2014)	22,436	18,511
Capital surplus	216,436	95,816
Retained earnings	348,630	298,764
Accumulated other comprehensive income (loss)	(6,027)	1,528
Treasury stock at cost (0 shares at both December 31, 2015, and December 31, 2014)	—	—
TOTAL STOCKHOLDERS' EQUITY	663,173	496,317
Noncontrolling interest	—	—
TOTAL EQUITY	663,173	496,317
TOTAL LIABILITIES AND EQUITY	$7,694,754	$6,051,812

See accompanying notes to consolidated financial statements.

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

	Notes	For the Years Ended December 31, 2015	2014	2013
INTEREST INCOME:				
Interest and fees on loans and leases	5	$227,106	$194,022	$164,702
Interest on securities:				
Taxable		26,646	29,727	21,501
Nontaxable		12,178	13,269	13,295
Interest on federal funds sold		24	1	1
Interest on interest bearing deposits in other financial institutions		14	23	12
TOTAL INTEREST INCOME		265,968	237,042	199,511
INTEREST EXPENSE:				
Interest on deposits	9	15,530	18,154	19,968
Interest on short-term borrowings		838	877	808
Interest on other borrowings (includes $2,222 and $2,239 of interest expense related to derivatives reclassified from accumulated other comprehensive income for the years ended December 31, 2015, and 2014, respectively)		15,602	14,938	14,907
TOTAL INTEREST EXPENSE		31,970	33,969	35,683
NET INTEREST INCOME		233,998	203,073	163,828
Provision for loan and lease losses	5, 6	12,697	14,501	9,697
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES		221,301	188,572	154,131
NONINTEREST INCOME:				
Service charges and fees		24,308	20,085	17,660
Loan servicing income		5,276	5,583	1,648
Trust fees		14,281	13,097	11,708
Brokerage and insurance commissions		3,789	4,440	4,561
Securities gains, net (includes $13,183 and $3,668 of net security gains reclassified from accumulated other comprehensive income for the years ended December 31, 2015, and 2014, respectively)		13,143	3,668	7,121
Gain (loss) on trading account securities		—	(38)	1,421
Impairment loss on securities (includes $253 and $0 of net security losses reclassified from accumulated other comprehensive income for the years ended December 31, 2015, and 2014, respectively)		(769)	—	—
Gains on sale of loans held for sale		45,249	31,337	40,195
Valuation adjustment on mortgage servicing rights		—	—	496
Income on bank owned life insurance		1,999	1,472	1,555
Other noninterest income		3,409	2,580	3,253
TOTAL NONINTEREST INCOME		110,685	82,224	89,618
NONINTEREST EXPENSES:				
Salaries and employee benefits	14, 16	144,105	129,843	118,224
Occupancy	15	16,928	15,746	13,459
Furniture and equipment	7	8,747	8,105	8,040
Professional fees		23,047	18,241	17,532
FDIC insurance assessments		3,759	3,808	3,544
Advertising		5,465	5,524	5,294

Intangible assets amortization	8	2,978	2,223	1,063
Other real estate and loan collection expenses		2,437	2,309	4,445
Loss on sales/valuations of assets, net		6,821	2,105	3,034
Other noninterest expenses		36,759	27,896	21,926
TOTAL NONINTEREST EXPENSES		251,046	215,800	196,561
INCOME BEFORE INCOME TAXES		80,940	54,996	47,188
Income taxes (includes $3,994 and $533 of income tax expense reclassified from accumulated other comprehensive income (loss) for the years ended December 31, 2015, and 2014, respectively)	13	20,898	13,096	10,335
NET INCOME		60,042	41,900	36,853
Net (income) loss available to noncontrolling interest, net of tax		—	—	(64)
NET INCOME ATTRIBUTABLE TO HEARTLAND		60,042	41,900	36,789
Preferred dividends		(817)	(817)	(1,093)
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS		$59,225	$41,083	$35,696
EARNINGS PER COMMON SHARE - BASIC		$2.87	$2.23	$2.08
EARNINGS PER COMMON SHARE - DILUTED		$2.83	$2.19	$2.04
CASH DIVIDENDS DECLARED PER COMMON SHARE		$0.45	$0.40	$0.40

See accompanying notes to consolidated financial statements.

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

	For the Years Ended December 31,		
	2015	2014	2013
NET INCOME	$60,042	$41,900	$36,853
OTHER COMPREHENSIVE INCOME			
Securities:			
Net change in unrealized gain (loss) on securities	(195)	34,450	(50,883)
Reclassification adjustment for net gains realized in net income	(12,930)	(3,668)	(7,121)
Net change in non-credit related other than temporary impairment	295	95	95
Income taxes	5,157	(12,193)	22,119
Other comprehensive income (loss) on securities	(7,673)	18,684	(35,790)
Derivatives used in cash flow hedging relationships:			
Unrealized gain (loss) on derivatives	(2,016)	(1,957)	754
Reclassification adjustment for net losses on derivatives realized in net income	2,222	2,239	2,069
Income taxes	(88)	(102)	(1,010)
Other comprehensive income on cash flow hedges	118	180	1,813
Other comprehensive income (loss)	(7,555)	18,864	(33,977)
Comprehensive income	52,487	60,764	2,876
Less: comprehensive income attributable to noncontrolling interest	—	—	(64)
COMPREHENSIVE INCOME ATTRIBUTABLE TO HEARTLAND	$52,487	$60,764	$2,812

See accompanying notes to consolidated financial statements.

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

	Heartland Financial USA, Inc. Stockholders' Equity							
	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-controlling Interest	Total Equity
Balance at January 1, 2013	$81,698	$16,828	$50,359	$236,279	$ 16,641	$—	$ 2,734	$404,539
Comprehensive income (loss)				36,789	(33,977)		64	2,876
Cash dividends declared:								
Preferred, $13.39 per share				(1,093)				(1,093)
Common, $0.40 per share				(6,908)				(6,908)
Purchase of noncontrolling interest							(2,798)	(2,798)
Purchase of 76,755 shares of treasury stock						(2,102)		(2,102)
Issuance of 1,648,076 shares of common stock		1,571	39,445			2,102		43,118
Stock based compensation			1,828					1,828
Balance at December 31, 2013	$81,698	$18,399	$91,632	$265,067	$ (17,336)	$—	$ —	$439,460
Balance at January 1, 2014	$81,698	$18,399	$91,632	$265,067	$ (17,336)	$—	$ —	$439,460
Comprehensive income				41,900	18,864			60,764
Cash dividends declared:								
Preferred, $10.00 per share				(817)				