Strength. Insight. Growth.

2020 Annual Report

STRENGTH. INSIGHT. GROWTH.

Heartland Financial USA, Inc. is now HTLF

Introducing HTLF. Our new brand reinforces the Strength, Insight and Growth we bring to our employees, customers, communities and investors. HTLF honors Heartland's rich history and reflects the company's geographic diversity and continued growth.

HTLF's unique model powers its banks with technology, efficiency and strength. Decision making is local and focused on customers and relationships. This is community banking with the scale to compete at any level.

DISCOVER MORE AT **HTLFANNUALREPORT**.COM

CORPORATE PROFILE

HTLF's geographically diverse group of banks are located across the Midwest, Southwest and West regions of the United States. HTLF has 141 banking locations serving more than 100 communities in Arizona, California, Colorado, Illinois, Iowa, Kansas, Minnesota, Missouri, Montana, New Mexico, Texas and Wisconsin, as of December 31, 2020.

HTLF is committed to its core commercial business, supported by a strong retail operation and provides a diversified line of financial services including residential mortgage, wealth management, investment and insurance. Our unique operating model and 11 banks support our mission of enriching lives one customer, employee and community at a time.

Heartland's common stock is traded through the NASDAQ Global Select Market System under the symbol "HTLF."

Depository shares representing Heartland preferred stock are also traded through the NASDAQ Global Select Market System under the symbol "HTLFP."

Complete information is available at HTLF.com.

HTLF.COM

Financial Highlights

For the years ended December 31, 2020, 2019 and 2018
Dollars in thousands, except per share data

FOR THE YEAR	2020	%CHANGE FROM 2019 TO 2020	2019	2018
Net income[2]	$137,938	**-7.50%**	$149,129	$116,998
Net income available to common stockholders	133,487	**-10.49**	149,129	116,959
Cash dividends, common	29,468	**19.75**	24,607	19,318
PER SHARE DATA				
Earnings per common share - diluted	$3.57	**-13.77%**	$4.14	$3.52
Cash dividends, common	0.80	**17.65**	0.68	0.59
Book value at December 31	46.77	**8.77**	43.00	38.44
AT YEAR END				
Total assets	$17,908,339	**35.57%**	$13,209,597	$11,408,006
Total loans receivable	10,023,051	**19.78**	8,367,917	7,407,697
Total deposits	14,979,905	**35.63**	11,044,331	9,396,429
Total common stockholders' equity	1,968,526	**24.74**	1,578,137	1,325,175
FINANCIAL RATIOS				
Return on average total assets	0.90%	**-27.42%**	1.24%	1.09%
Return on average stockholders' equity	8.06	**-20.36**	10.12	9.93
Return on average tangible common equity (non-GAAP)[1]	12.28	**-21.93**	15.73	15.72
Net interest margin (GAAP)	3.65	**-8.75**	4.00	4.26
Net interest margin, fully tax-equivalent (non-GAAP)[2]	3.69	**-8.66**	4.04	4.32
Average common stockholders' equity to average total assets	11.21	**-8.56**	12.26	10.93
Total capital to risk-adjusted assets	14.71	**6.98**	13.75	13.72
Tier 1 capital ratio	11.85	**-3.74**	12.31	12.16
Common equity Tier 1 ratio	10.92	**0.37**	10.88	10.66
Tier 1 leverage ratio	9.02	**-10.69**	10.10	9.73

[1] Refer to the "Reconciliation of Return on Average Tangible Common Equity (non-GAAP)" table on page 41 of the annual report on Form 10-K.
[2] Refer to the "Reconciliation of Annualized Net Interest Margin, Fully Tax-Equivalent (non-GAAP)" table on page 42 of the annual report on Form 10-K.

Bruce K. Lee
President and CEO

HTLF

To my fellow shareholders:

It's my honor to introduce you to our new brand, HTLF. As shareholders, you're already familiar with the letters HTLF as our stock ticker symbol. Now, we will use those same four letters as the name of our company and to portray the strength we have today.

The bold type of the HTLF logo signifies **Strength**. The letters are connected, like we are to our banks, clients and communities, giving us **Insight** to deliver extraordinary banking experiences. The sharp edges and angles represent our continued **Growth** and forward movement.

We move forward as HTLF but must also reflect upon 2020, a year unlike any other. The Covid-19 pandemic impacted and disrupted our lives in countless ways. The teams across HTLF and our 11 banks not only met the year's challenges, but thrived in spite of them.

Part of our mission is to enrich the lives of our employees, and in mid-March our focus quickly shifted to their health and safety. We implemented our pandemic management plan, and the strategic investments we'd made in the business enabled us to pivot and protect the health of our employees while continuing to serve our customers and communities.

HTLF is proud to have helped thousands of small businesses in our communities obtain Paycheck Protection Program (PPP) loans. During 2020, we processed nearly 5,000 PPP loans totaling $1.2 billion, which helped preserve more than 112,000 jobs.

In the initial months of the pandemic, we proactively implemented relief programs for our consumer and small business customers. We worked individually with our commercial customers to help them address financial challenges.

We were humbled to provide much-needed support to our communities in 2020. We contributed $1.5 million to nonprofit organizations responding to challenges created by Covid-19 and to high-needs schools for student technology and personal protective equipment.

We continued to make investments in Operation Customer Compass, our multi-year strategic initiative. We delivered new digital banking capabilities for consumers, completed installation of more than 100 new full-featured ATMs and enabled our commercial teams with best-in-class technology and processes.

Consumer behaviors have changed and we provided customers the in-person and digital options they want to interact with us. We continue to rationalize our branch footprint to more efficiently serve our customers.

Financial highlights for the year include:

- Increased total assets by 36 percent to $17.9 billion
- Delivered an efficiency ratio of 56.65, a 585 basis point decrease from 2019
- Deposits grew by $3.9 billion

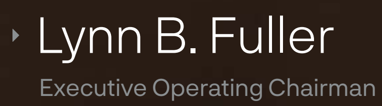
And we completed two acquisitions that further diversified our assets and increased our presence in important growth markets of Phoenix and West Texas.

These are lofty achievements in any year, much less during a pandemic. We emerge even stronger than before.

Strength. Insight. Growth. It's what we bring to our customers and what our unique business model and geographically diverse footprint brings to our shareholders.

Sincerely,

Bruce K. Lee



Lynn B. Fuller

Executive Operating Chairman

HTLF

HTLF shareholders and friends:

Although we've never experienced a worldwide pandemic like the one that crippled the U.S. and world economy in 2020, we continued to serve our customers, protected the health and safety of our employees and provided our shareholders a respectable return on their equity in HTLF. Most notable for the year was HTLF's incredible growth with assets reaching a record high at $17.9 billion and our efficiency ratio reaching a record low at 56.65 percent.

In December 2020, we completed two acquisitions, one of which was our largest to date, the AimBank transaction in West Texas. AimBank merged with and into HTLF's Lubbock-based subsidiary. With this acquisition, FirstBank & Trust is now our largest bank with more than $3 billion in assets. This transaction is expected to be approximately 10 percent accretive to our current shareholders' earnings per share (EPS). Also, Arizona Bank & Trust completed its purchase and assumption of Johnson Bank's four Phoenix branches. Our simultaneous virtual close and systems conversion went extremely well, taking Arizona Bank & Trust's total assets over $1.5 billion. This transaction is expected to be approximately 5 percent accretive to our current shareholders' EPS.

We remain focused on profitability and growth, with acquisitions contributing to several companywide goals. We continue to prioritize both in-market and larger acquisitions, which create greater market dominance and EPS growth from substantial cost saves and synergies. We continue to have a deep pipeline of attractive prospects with a number of active opportunities.

Ten of HTLF's 11 banks have achieved our goal of more than $1 billion in assets. The substantial increase in asset size from accretive acquisitions, combined with Operation Customer Compass' more efficient and scalable operating platform, significantly contributed to lowering our efficiency ratio.

We continue to be recognized as a top-performing and admired banking organization. Not only did we have a year of significant growth, but for the fifth year in a row HTLF was recognized as a Forbes Best Bank. Forbes ranked HTLF 52nd of the top 100 largest banks in the country based on profitability, growth, credit quality and efficiency. We honor Heartland's past while embracing an optimistic future focused on strength, insight and growth. As HTLF, we embrace the strength and vitality of our growing community of banks and strategically position ourselves for future investment and performance.

In May 2020, Kurt Saylor retired from the HTLF Board while continuing as Chairman at Bank of Blue Valley. In December 2020, Christopher S. Hylen joined the HTLF Board of Directors as an independent director. Chris brings more than 25 years of experience in using technology to provide an extraordinary client experience, delivering value to both clients and shareholders. I welcome Chris to the Board while thanking Kurt for his years of dedicated service, insight and guidance.

I would like to thank our leadership teams, employees, customers, communities and shareholders for their ongoing support and dedication. We are truly grateful for your continued investment in HTLF.

Sincerely,

Lynn B. Fuller

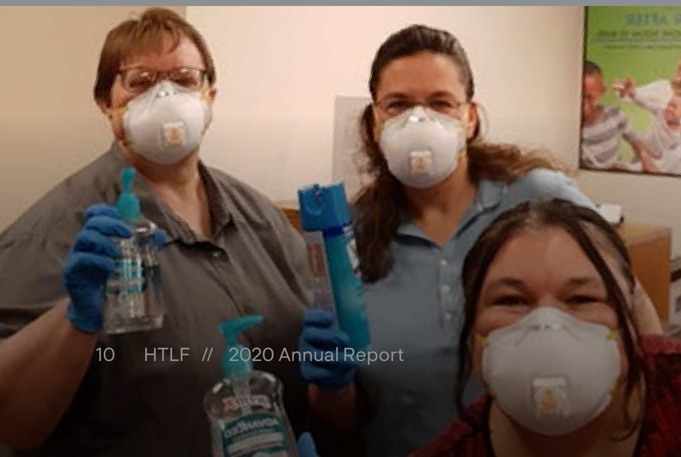
Strength.

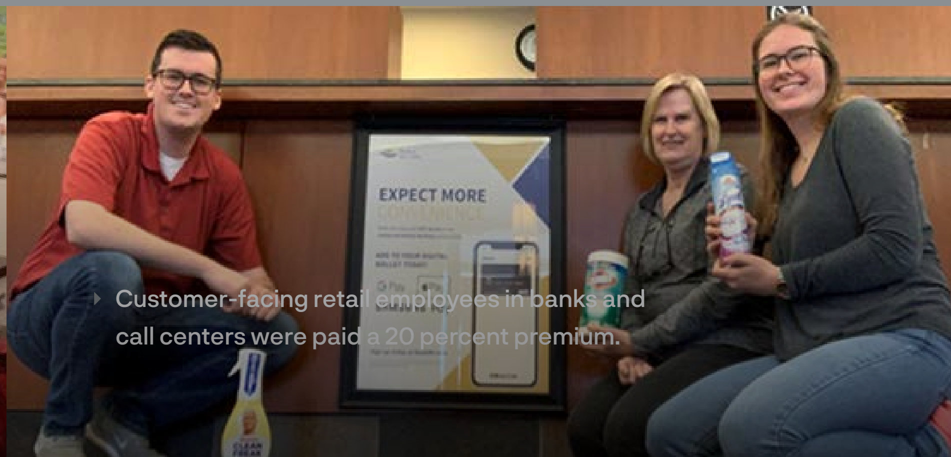
WE OFFER STRENGTH

Strong corporate leadership and innovative thinking have uniquely positioned us in the financial landscape. Our business model and diverse geographic footprint reduce risk and provide our banks with size and efficiency to compete at scale. We are purpose-driven to deliver strength and generate performance.

We provide strength everywhere.

Working from home HTLF style!





Customer-facing retail employees in banks and call centers were paid a 20 percent premium.

PANDEMIC

Our business model is designed to endure challenging times.

HTLF's financial strength, diverse geographic footprint, strong leadership and dedicated local talent positioned us to care for our employees, provide relief for our customers and help ease hardships facing our communities.

As the pandemic emerged our leadership team was quick to respond, meeting every day to evaluate the situation and provide clear and decisive guidance. We implemented our comprehensive pandemic plan and took the necessary steps to ensure workplace safety for our employees and deliver products and services safely to our customers.

HTLF made the health and safety of its employees our top priority. Our IT team quickly enabled two-thirds of our team to work from home. Customer-facing retail employees in banks and call centers were paid a 20 percent premium. We introduced a pandemic time-off program and committed to pay all employees at 100 percent if they needed time off because of illness, to care for a sick family member or provide childcare due to school closings. We also covered 100 percent of any Covid-19-related medical expenses for testing or treatment. Our annual merit cycle continued as planned.

Throughout an unprecedented year our team was committed to serving customers and supporting our communities. We proactively implemented relief efforts for consumer, small business and commercial customers. HTLF is proud to have helped thousands of small businesses in our communities obtain Paycheck Protection Program (PPP) loans. In 2020, we processed nearly 5,000 PPP loans totaling $1.2 billion, which helped preserve more than 112,000 jobs and provided a critical lifeline in our communities. Six banks were top 10 PPP lenders in their respective markets.

We also recognized that our communities needed us now more than ever and deepened our commitment to sharing our time, talent and treasures. In April, HTLF and its banks contributed $1.2 million to nonprofit organizations leading the response to Covid-19 across the communities we serve. Recipients included many community foundations, food banks, YMCAs, fire, police and emergency services directly connecting community needs with our resources.

In the fall, we partnered with AdoptAClassroom.org, donating more than $260,000 to high-needs schools in our communities to purchase technology and PPE, helping students continue to learn in a safe environment.

Our financial strength enabled us to live our mission of enriching our communities. Contributions totaled $1.5 million as we responded to the challenges created by Covid-19. These dollars and our employees' volunteer hours made a meaningful difference and enriched lives in our communities.

Our IT team quickly enabled two-thirds of our team to work from home.

COMMUNITY RELATIONS

We offer strength everywhere.

When we support one another, we unlock the potential in each and every one of us. At HTLF, we live out our mission of enriching lives one employee, customer and community at a time.

It's never been more important to live our mission than in 2020 as our communities faced unprecedented challenges. HTLF is both proud and grateful that our financial position allowed us to offer strength, talent and resources towards the collective needs of our communities.

Uniting together under our mission, HTLF and its banks significantly increased total contributions in 2020 to best meet the needs of each of our communities and their unique challenges. We prioritized our contributions towards K-12 education and small businesses to improve equity and inclusion in underserved segments of our communities.

More than **$2M in total donations** to support our communities.

HTLF and its banks contributed **$1.2 million to nonprofit organizations that work directly with those impacted by Covid-19** in the states where we live and work. Through this effort we provided support for basic needs such as food and housing, child care and youth activities, supporting health personnel, first responders and their families. We were honored to provide support to the organizations serving our communities, working head-on to address the challenges so many neighbors faced in the wake of Covid-19.

"We are extremely grateful for our partnership with Premier Valley Bank which extends well beyond simply a business relationship. This donation allows us to further our common commitment to serve the most vulnerable in our community and comes at a time when we are seeing an unprecedented number of children and families in need of our services."

Matt Dildine
CEO, Fresno Rescue Mission

"In a time of great need, Wisconsin Bank & Trust stepped up. Their significant demonstration of support will immediately help many students who are facing financial hardships due to Covid-19. We are extremely grateful and appreciative of our great partnership with Wisconsin Bank & Trust."

Joshua Boots
Assistant Vice Chancellor for Development and Alumni Engagement, UW-Platteville

"The Santa Fe Community Foundation is proud to partner with businesses in building a culture of community philanthropy – especially when collaboration and solidarity are what will enable us to strengthen our many communities at this critical time. We are honored to work with our longtime partner New Mexico Bank & Trust."

William (Bill) Smith
President and CEO,
Santa Fe Community Foundation

More than $260,000 donated to schools in our communities.

To support our teachers and students during this difficult time, HTLF and its banks donated more than $260,000 to high-needs schools in our communities. This provided teachers with money to purchase needed items such as PPE, resources to motivate and engage remote learners, technology, cleaning and sanitation supplies.

HTLF recognized the daunting challenges the education system faced and understood from employees and community members how critical it was for our children to continue to be educated in a safe and productive way. As a result, we ignited a partnership with AdoptAClassroom.org, a national nonprofit organization dedicated to advancing equity in education by providing teachers and schools access to the resources they need.

"This donation means that the educators at Tahoka Elementary can move closer to providing multiple educational platforms that will benefit all the different learning styles that the students display at the elementary school. This donation is a game changer."

Donald Scott
Tahoka Elementary, Texas

"This amazing gift has meant so much to the staff at Fairview. The 2020-2021 school year has been the most challenging in our careers, and this has been the absolute highlight of our year."

Andrew Demmitt
Fairview Elementary, Kansas

"Every teacher at Toki has been given some money to improve and increase their classroom libraries. The focus is on making sure our texts are accessible, interesting and culturally relevant for students. We want our students to see themselves everywhere, including in the texts and literature they're interacting with every day. We're able to do that now with the donation from Wisconsin Bank & Trust."

Kyle Walsh
Toki Middle School, Wisconsin

THE POWER OF GROWTH

We are focused on thoughtful, intentional and solid growth. Growth fuels our ability to evolve and exceed our customers' needs. It affords the opportunity to compete at any level while providing unmatched experience. It's how we achieve our mission of enriching lives one customer, employee and community at a time. Together, we are HTLF.

Growth.

Powered by HTLF

HTLF

MERGERS AND ACQUISITIONS

We seek growth everywhere.

FIRSTBANK & TRUST

Our growth in 2020 was unprecedented. We closed our largest acquisition ever, the AimBank transaction in West Texas. AimBank merged with HTLF's Lubbock-based FirstBank & Trust, making it our largest bank with more than $3 billion in assets.

> "We are highly impressed with the people and performance of AimBank and the solid community banking franchise they have built," said Lynn B. Fuller, Executive Operating Chairman of HTLF. "AimBank is an outstanding addition to our organization."
>
> Scott L. Wade, Chairman and CEO of AimBank, joined FirstBank & Trust as Vice Chairman of the Board. "We are delighted to join such a high-quality organization. The combination of AimBank and FirstBank & Trust significantly increases our lending capabilities and gives us access to products and services while preserving Aim's legacy as a locally-led community bank."

ARIZONA BANK & TRUST

In early December, Arizona Bank & Trust completed its acquisition of Johnson Bank's four banking centers in Arizona. The transaction expands the number of Arizona Bank & Trust's full-service banking centers in the East Valley of the Phoenix market.

> Bruce K. Lee, HTLF's President and CEO, added, "Johnson Bank's Arizona locations are a natural fit with the geographic footprint and culture of Arizona Bank & Trust. We look forward to growing our relationships in the Phoenix market."
>
> "We have tremendous respect for the team at HTLF and their community banking values. Arizona Bank & Trust's culture is similar to Johnson Bank's in the way in which it engages its employees, serves its customers and supports its communities," said Jim Popp, Johnson Financial Group President and CEO.

Acquisitions contribute to several companywide goals.

Currently, 10 of our 11 banks have assets exceeding $1 billion and we continue to have a deep pipeline of attractive prospects with many active opportunities.

1. Increase overall asset size and earnings base
2. Expand geographic diversification
3. Contribute to operating efficiency and scale

We gain strength everywhere.

NEW HTLF LEADERSHIP

Nathan Jones

▸ Executive Vice President, Chief Credit Officer

Nathan brings more than 20 years of proven experience in managing large scale credit and banking operations, while developing new business processes and capabilities within global and regional financial institutions. As Chief Credit Officer, he is responsible for leading the credit administration organization, an especially important role given today's dynamic credit environment. Nathan's depth of knowledge has allowed us to work with our customers and navigate the pandemic while maintaining a diverse loan portfolio and solid credit metrics. Nathan remains focused on building a strong credit culture and upholding the highest level of financial stewardship for our customers.

NEW BANK LEADERSHIP

Brent Giles

▸ President and CEO

Brent has more than three decades of banking experience, which includes commercial and consumer banking, strategic leadership and teambuilding. He has an unwavering commitment to serving customers and a dedication to community involvement, actively working with local boards. Brent works closely with Wisconsin Bank & Trust customers to help build a stronger and more vibrant future for Wisconsin families and businesses. His extensive banking background and customer-focused approach suits him well as leader of Wisconsin Bank & Trust. Brent is focused on thoughtful, intentional and solid growth that fuels the ability to meet and exceed our customers' needs.

We invest for growth.

When the world shifted to a mostly virtual environment, HTLF had the solutions to meet our customers' needs, providing options for banking on their terms, in-person or digitally.

OPERATION CUSTOMER COMPASS strives to create exceptional customer experiences. Strategic investments over the past two years have empowered our people, evolved our processes and enhanced our technology.

2020 KEY INITIATIVES

Commercial Services

Deliver best-in-class services and processes for our commercial customers as they shifted their business operations.

- Launched integrated payables, enhancing our electronic accounts payable product suite, providing a solution for all payment types.
- Advanced our lock box capability, automating the process of securely collecting check payments while decreasing the potential for error or fr
- Improved eDeposit products, a softw solution that remotely captures and manages deposits, giving greater security and compatibility from almost any device.

New Technology

Adoption of Salesforce CRM and nCino loan origination platform. These tools deliver efficiency, speed and an improved internal and external customer experience while supporting business development efforts.

Video Banking

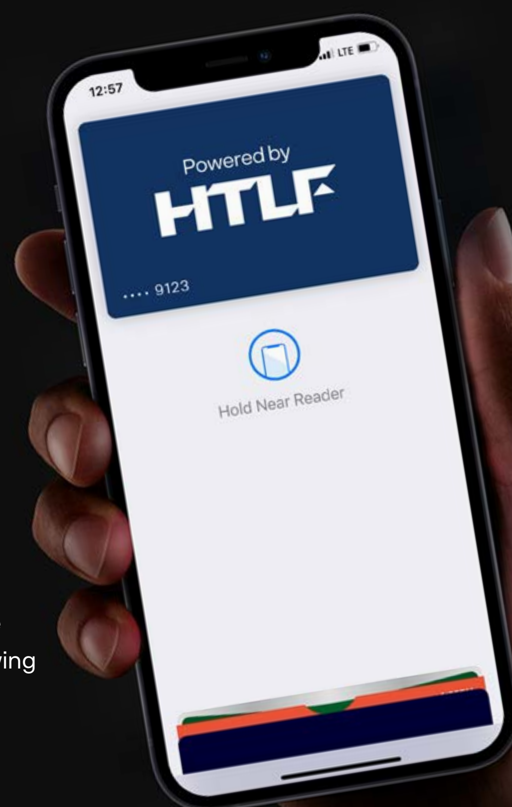
Launched an innovative video banking platform, providing customers a way to transact business, open accounts and apply for loans via video with a live banker.

ATM Upgrade

Upgraded our ATM network, installing more than 100 new state of-the-art ATMs that offer significantly more convenience and fraud protection.

Digital Wallets

Implemented digital wallets featuring Apple Pay, Google Pay and Samsung Pay, allowing customers to make secure, contactless purchases with their mobile device.



Based upon our proven success of implementing best-in-class technology, streamlining processes, increasing capacity and improving operations to provide enhanced customer experiences, all while achieving an all-time low efficiency ratio, we continue to make strategic investments in Operation Customer Compass.

We are a team of financial experts, analysts and thought leaders. We are committed to providing our customers with insights that go beyond basic economic and market advice. We believe dedicated local talent offers unique perspective on regional markets and a true understanding of the customers we serve. It is from this comprehensive view that we provide smart, evidence-based insights that drive real results.

HTLF

Insight.

HTLF | FLEXSTEEL®

FLEXSTEEL

Steely resolve manufactures strong results.

Like many organizations in 2020, Flexsteel was confronted with tough questions and business decisions that would impact the longevity of the company. Flexsteel manufactures furniture that is "built to last," and as a publicly traded company with more than 1,600 global associates, it needed to make difficult decisions to remain durable through the pandemic and into the future.

The uncertainty could have been insurmountable for some organizations. But, with steely resolve and determination, Flexsteel's leadership team acted swiftly and decisively. They cut existing non-core business lines, rationalized their product offering, closed underutilized facilities and found ways to shed additional fixed structure costs.

"This experience renewed our commitment and strengthened our focus on our core business," said Derek P. Schmidt, Chief Financial Officer and Chief Operating Officer. "We have become financially stronger and more agile. At the same time, we renewed our commitment to becoming an omni-channel company and accelerated our focus on growing our e-commerce business, which experienced a surge in demand."

During this timeframe Flexsteel decided to seek a new financial partner that could provide the solutions and the support they needed for growth. That partnership was found with Dubuque Bank and Trust (DB&T).

"The team at DB&T was highly responsive to engaging in the potential opportunity to support Flexsteel and was very collaborative throughout the loan agreement," said Schmidt. "Inventory is crucial to supporting aggressive growth aspirations and DB&T could provide short-term funding to support strategic inventory investments."

As retail stores began to re-open in June, demand for furniture surged. And because of their tenacity and commitment to financial strength, Flexsteel was uniquely positioned to capture that demand.

Schmidt acknowledges DB&T's support to help Flexsteel grow the business in an uncertain time. "We will continue to look for opportunities to expand our partnership," said Schmidt. "At the end of the day, people and relationships make the difference. If there is an issue or I have an urgent need, I know I can trust the DB&T team to be part of the solution. They will do the right thing that is in our best interest. It's their people, their integrity and their character – that's what they bring and what sets them apart."

The results are speaking for themselves. Flexsteel is outperforming its industry, gaining market share and aggressively investing in new areas for future growth.

DEREK P. SCHMIDT
Chief Financial Officer and
Chief Operating Officer, Flexsteel

"If there is an issue or I have an urgent need, I know I can trust the DB&T team to be part of the solution. They will do the right thing that is in our best interest. It's their people, their integrity and their character – that's what they bring and what sets them apart."

"Illinois Bank & Trust believed in our idea and they wanted to be there to help, to see it through, starting on day one. That was unique and they made these things possible"

SARAH-EVA MARCHESE
Founder, Floracracy

FLORACRACY | HTLF

FLORACRACY

Insights flourish into something beautiful.

When Sarah-Eva Marchese first met with Illinois Bank & Trust, her business was just a budding idea driven by the passion of wanting to help people communicate stories of love, sorrow and everything in between through the language of flowers.

After planning for both her wedding and her grandmother's funeral simultaneously, Marchese's vision to revolutionize the flower-buying experience and to put meaning and significance back into what had become a mostly commoditized experience, was born. Her goal was to become fluent in the language of flowers and to allow people to truly express their feelings for every moment and milestone life offers.

As Marchese's idea and vision began to bloom, one of the first pieces of advice she received was to find a friend in the banking business, one who could be a true partner. As she looked to the Rockford community to put down roots and create a home for her business she was introduced to Illinois Bank & Trust.

Illinois Bank & Trust provided mentorship, insights and guidance that helped Floracracy establish banking needs, make introductions to key people, secure access to capital, and "when the pandemic hit and so many others were waiting and didn't have a resource for Paycheck Protection Program loans, that didn't happen to us," said Marchese. "We had a resource and were treated with the same respect as a big company."

This support enabled managing investors in a way they may not have been afforded without the bank's partnership.

"Illinois Bank & Trust believed in our idea and they wanted to be there to help, to see it through, starting on day one. That was unique and they made these things possible," said Marchese. "Starting a company is terrifying and lonely and having someone give us that kind of respect was special."

Floracracy and Illinois Bank & Trust look forward to continuing to develop flourishing ideas. "When I came to Rockford I believed and had hoped we'd be met by the support of the community. Because for us, we're about more than just flowers. We're about community too," said Marchese. "There are amazing partners here. By building our location downtown and the decisions we're making for the business and the community… Illinois Bank & Trust has been a part of this and we're excited to build for the future. The exciting pieces are yet to come."

HTLF | Marathon Medical

MARATHON MEDICAL

Partners who grow together, stay together.

Marathon Medical was founded in 2002 by John St. Leger, a Vietnam veteran inspired by the values he acquired through his time in the service: honor, integrity and character. His goal was to provide excellence in the health care supply chain with a veteran patient-first approach.

For St. Leger, his work is all about relationships. He believes there is an aspect of combining both business and personal that allows for trusted partnerships to form, a foundation from which you can grow and do great things, together. This was the high bar he set for his financial partner, and Citywide Banks has met that expectation for almost 20 years.

Marathon Medical has partnered with Citywide Banks since its inception. "One of the reasons I cherish the partnership is how good they were to us in the beginning, when we were first growing," St. Leger said. "They were interested and attentive to the challenges we were facing. They provided the partnership, relationship, and the amount of attention we needed then, and along the way."

St. Leger's high-touch approach expands to his manufacturing and business partnerships as well. "We try to pay attention to what's going on, and to be nimble and quick."

When the pandemic hit and the country needed ventilators, syringes and needles, Marathon Medical was ready and equipped to meet the needs of both health care organizations and patients.

St. Leger cites a story about a VA hospital in the South that was at risk of shutting its operations because it didn't have the right surface disinfectant. "We had just received a shipment," St. Leger recalls. It was a Thursday, close to the end of business when he got the call. "They needed 500 cases. I told them I could overnight 50 by 8:30 a.m. the next day and have the rest there by Monday morning. They said that would be a miracle. By having some special operations and being flexible, it allows us to do those kinds of things."

The partnership with Citywide Banks has grown through the years, as have both organizations. "We started at $3 million in sales and this year we will have grown to over $50 million. They have treated us the same way, every single day, and we appreciate it," said St. Leger.

Lyn St. Leger, Marathon Medical Chief Financial Officer, adds, "We've both grown and the partnership has grown with it. We're doing things now we never dreamt we'd be doing. For example, the card program. We love the card program. It's been so simple to use, and it has amazed me how well it's been received by our suppliers. They like to be paid this way. It's also been another revenue source, and way to manage accounts payables without setting up other banking challenges."

"Anytime there is something the company needs I know I can call Citywide Banks and they'll take care of it. There's security in knowing that. We're customers for life," Lyn St. Leger concludes.

"Anytime there is something the company needs I know I can call Citywide Banks and they'll take care of it. There's security in knowing that. We're customers for life."

Health and Human Services Secretary Alex Azar visits Marathon Medical, which supplied over $27 million worth of syringes and needles for the Operation Warp Speed effort to take on the Covid 19 pandemic.

From Left to Right:

JON LANDIS COO, Marathon Medical
ALEX AZAR HHS Secretary
JOHN ST. LEGER CEO, Marathon Medical
LYN ST. LEGER CFO, Marathon Medical

Goodwill

Goodwill's mission is to support and strengthen the community, so when its stores closed due to the pandemic it was devastating. **Arizona Bank & Trust**, Goodwill's financial and community partner offered the insights, solutions and the backing through an extended line of credit that ultimately allowed Goodwill to reopen its doors as an essential business. With Arizona Bank & Trust's support, Goodwill could bring its full team back and focus on what was most important – the neighbors who needed career development resources, training and hope to get back on their feet and build a better future.

Fresno Rescue Mission

"When our citizens are not thriving, neither is our community. It means investing in each person. We offer love, guidance, structure and accountability; a way out of their situation. We take them from one step to the next. **Premier Valley Bank** is unique. Their staff personally contributes time and energy to help us care for the community of Fresno by providing for those in need." – Matt Dildine, CEO

Premier Valley Bank is proud to be the financial partner that can support this incredible organization. During Covid-19, Premier Valley Bank provided additional strength through donations that enabled Fresno Rescue Mission to continue supplying hot meals, safe and clean beds, clothing, showers and hygiene items, access to medical care and other critical resources during the pandemic.

Docs Who Care

Whether in the shadow of a pandemic or in the everyday existence of a rural community hospital, Docs Who Care is in the business of finding quality healthcare providers to serve rural communities in their time of need. The organization takes great pride in its personal relationships with the hospitals it serves and the providers committed to serving in these areas.

Docs Who Care has that same level of personal relationship with their local **Bank of Blue Valley** team. Bank of Blue Valley provided a Paycheck Protection Program loan and a line of credit, allowing Docs Who Care to continue to serve in rural communities when local staff were overloaded with patients or quarantined due to Covid-19.

Falling Colors

Falling Colors partners with governments, nonprofits and other organizations to promote human thriving and well-being through investment in innovative programs. Their unique software platform allows organizations to manage funds, track costs, measure effectiveness and drive improvements.

New Mexico Bank & Trust built a trusting partnership with Falling Colors, providing strength, insight and growth through a CRE loan, line of credit, commercial card and treasury services.

“Whether our needs are big or small, New Mexico Bank & Trust helps us immediately so we can focus on our tasks at hand. This level of comfort and confidence in our banking partner just can’t be overestimated in terms of its impact on our bottom line,” said Mindy Hale, Chief Financial Officer

Wrought Washer

For more than a century Wrought Washer has been providing the nation's leading industries high-quality washers for a broad range of markets including automotive, agricultural, electrical, appliance, construction equipment and material handling.

"**Wisconsin Bank & Trust** is a strong bonded partner we can rely on to support our daily financing needs. They are willing and able to assist us with capital expenditures or potential acquisition funding needs. The team at Wisconsin Bank & Trust put trust in Wrought Washer to turn a corner, they truly believed in us and that sets them apart. That's when I knew they weren't just a banking source but they were a true partner of Wrought Washer."
- Chad VanDenLangenberg, Chief Financial Officer

Summit Resources International

Summit Resources International (SRI) seeks to be an amazing place to work in Bozeman and best-in-class in the design, manufacturing, and global distribution of apparel and accessories. Today, SRI manages each of these for Caterpillar, Inc, with distribution in 107 countries.

"**Rocky Mountain Bank** provides an asset-based revolving line of credit for our main operating business. We've been doing business together for over 15 years and have a strong working relationship. Most importantly, the bank has taken the time to understand the global nature of our business, and the intricacies of a consumer products business with a global supply chain." - KC Tolliver, CEO

TreeHouse

Abilene Christian University

"TreeHouse is on a mission to end hopelessness among teens. Community partnerships are a key component of the TreeHouse approach and we rely on passionate community members to lead the charge. Community leaders like **Minnesota Bank & Trust** support TreeHouse in many ways, from a critical donation in a time of need to sponsoring events and volunteering, all while being a trusted banking partner. It's their people who truly make a difference. Mental health has proven to be a major challenge for teens as their world has been flipped upside down by the pandemic. The demand for our services has increased dramatically. Minnesota Bank & Trust's insight and guidance during the pandemic supported our ability to meet the new mental health challenges teens are facing at a critical time when funding was a big question mark."
- Kari Boyce, VP of Finance, Chief Financial Officer

Abilene Christian University (ACU) is a hub of rigorous academic excellence and devoted community. Their mission is to educate students for Christian leadership and service throughout the world.

With the help of HTLF Specialized Industries, **FirstBank & Trust** could provide strength through a competitive finance package on all of ACU's upcoming projects including bond and real estate financing. FirstBank & Trust's financial backing allowed ACU to purchase property for new housing, while also offering a cash-out for deferred maintenance and improvements.

Powered by HTLF

HTLF

DIVERSITY, EQUITY AND INCLUSION

We look for insight everywhere.

The events of 2020 highlighted the need for deeper conversations, introspection and internal assessment around where we, as an organization, can do better and do more to support our people and our communities.

Enriching lives in our communities is an important part of our mission. Our values are rooted in the belief that respect, equity and inclusiveness make us stronger. With insights from our reflections, we have taken actionable steps towards creating a safer, more inclusive and diverse organization that reflects the markets and the communities we serve.

As HTLF we are a diverse and unique group. It's the variety of experiences and lifestyles we bring to work every day that allow us to provide greater insights to help us better understand each other and our customers. It is our individual backgrounds and experiences that shape who we are and allow us to fully embrace our values.

Diversity, Equity and Inclusion are a journey and not a destination. As we look ahead into 2021, we are focused on:

- Strengthening our recruiting and onboarding practices to build diverse talent.
- Further development of our leadership program to recruit high-caliber, recent college graduates and young professionals; our recent leadership program classes have been 60% diverse.
- Investing in our employees through diversity and inclusion training to maximize the experiences on our teams.
- Launching a Diversity Advisory Council to guide on key initiatives across HTLF and our banks. The council will provide educational opportunities and foster strategic guidance, alignment and integration of DEI efforts.
- Continuing to improve diversity and inclusion in all levels of our company.

EXECUTIVE MANAGEMENT AND DIRECTORS

As of December 31, 2020

EXECUTIVE MANAGEMENT

Bruce K. Lee
President and CEO
Lynn B. Fuller
Executive Operating Chairman
—

Deborah K. Deters
Executive Vice President,
Chief Human Resources Officer

Lynn H. "Tut" Fuller, M.D.
Executive Vice President,
Regional President

Laura J. Hughes
Executive Vice President,
Chief Marketing Officer

Nathan R. Jones
Executive Vice President,
Chief Credit Officer

Jay L. Kim
Executive Vice President,
General Counsel

Kevin C. Karrels
Executive Vice President,
Head of Consumer Banking

R. Greg Leyendecker
Executive Vice President,
Regional President

Bryan R. McKeag
Executive Vice President,
Chief Financial Officer

Dennis J. Mochal
Executive Vice President,
Chief Information Officer

Tamina L. O'Neill
Executive Vice President,
Chief Risk Officer

J. Daniel Patten
Executive Vice President,
Finance and Corporate
Strategy

David A. Prince
Executive Vice President,
Head of Commercial Banking

Janet M. Quick
Executive Vice President,
Deputy Chief Financial Officer,
Principal Accounting Officer

Kevin G. Quinn
Executive Vice President,
Regional President

Daniel C. Stevens
Executive Vice President,
Head of ITOPS

Steven E. Ward
Executive Vice President,
Regional President

BOARD OF DIRECTORS

Lynn B. Fuller
Executive Operating Chairman
HTLF
Dubuque, IA

Bruce K. Lee
President and CEO
HTLF
Dubuque, IA

Robert B. Engel
Managing Director and CEO
BLT Advisory Services, LLC
Naples, FL

Mark C. Falb
Chairman and CEO
Kendall Hunt Publishing
Company and Westmark
Enterprises, Inc.
Dubuque, IA

Thomas L. Flynn
Past President and CEO
Flynn Ready-Mix Concrete Co.
Dubuque, IA

Jennifer K. Hopkins
Managing Partner
Crescendo Capital Partners
Centennial, CO

Christopher S. Hylen
Board Member and CEO
Reltio, Inc.
Redwood City, CA

R. Michael McCoy
Chairman, Ex-Officio President
and CEO
McCoy Group
Dubuque, IA

Susan G. Murphy
Principal
The Grace Alliance, LLC
Denver, CO

Barry H. Orr
Director and CEO
FirstBank & Trust
Lubbock, TX

John K. Schmidt
Senior Vice President and
Chief Financial Officer
A.Y. McDonald
Dubuque, IA

Martin J. Schmitz
Chairman
Citywide Banks
Greenwood Village, CO

Duane E. White
Executive Vice President and
Chief Product Officer
Medecision
Minneapolis, MN

HTLF

SUBSIDIARY DIRECTORS AND PRESIDENTS

As of December 31, 2020

ARIZONA BANK & TRUST

John D. Benton
Board Chair

William H. Callahan
President and CEO

—

David M. Adame
Lynn B. Fuller
R. Greg Leyendecker
Paul F. Muscenti
Christian Roe
R. Randy Stolworthy
Dr. Philip To
Frank E. Walter

BANK OF BLUE VALLEY

Kurt M. Saylor
Chairman

Robert D. Regnier
Executive Chairman and CEO

Wendy Reynolds
President

—

Lynn B. Fuller
Thomas A. McDonnell
Rhonda S. McHenry
Kent P. Saylor
Anne D. St. Peter
Robert D. Taylor
Steven E. Ward
Ryan Wilkerson
Steven D. Wilkinson

CITYWIDE BANKS

Martin J. Schmitz
Board Chair

Joanne C. Sherwood
President and CEO

—

Robert B. Engel
Lynn B. Fuller
Jennifer K. Hopkins
Bruce K. Lee
Susan G. Murphy
Kevin G. Quinn
W. Scott Reichenberg
Mike Zoellner

DUBUQUE BANK AND TRUST COMPANY

Thomas L. Flynn
Board Chair

Lynn H. "Tut" Fuller, M.D.
President and CEO

—

Chad M. Chandlee
Richard C. Cody
David C. Davis
James R. Etheredge
Donnelle M. Fuerste
Lynn B. Fuller
Charles D. Glab
Timothy W. Hodge
Douglas J. Horstmann
Robert D. McDonald II
James C. Mulgrew
John B. (J.B.) Priest
John K. Schmidt
John Tallent

FIRSTBANK & TRUST

Barry H. Orr
Chairman and CEO

Greg Garland
President

—

Troy Allcorn
Barry Brown
Lynn B. Fuller
Ricky Green
Bruce K. Lee
Fred Locker
R. Bruce Orr
Gary Rothwell
Scott Wade

ILLINOIS BANK & TRUST

Frank E. Walter
Board Chair

Jeffrey S. Hultman
CEO

Thomas D. Budd
President

—

Charles E. Box
Michael K. Broski
Todd B. Colin
Craig A. Erdmier
Monica B. Glenny
Damon C. Heim
Dana S. Kiley, Jr.
Pamela R. Maher
Michael J. Rogers
Steven E. Ward
Laurel S. Wurster

MINNESOTA BANK & TRUST

Steven M. Thul
Board Chair

Stephen G. Bishop
President and CEO

—

Timothy S. Clark
Lynn B. Fuller
Randy Morgan
Steven E. Ward

NEW MEXICO BANK & TRUST

Lynn B. Fuller
Board Chair

R. Greg Leyendecker
President and CEO

—

Robert W. Eaton
Cole Flanagan
Sherman McCorkle
Michael Mechenbier
Ben F. Spencer

PREMIER VALLEY BANK

Thomas G. Richards
Board Chair

Lo B. Nestman
President and CEO

—

Linda F. East
Marvell French
Lynn B. Fuller
Richard H. Lehman
J. Mike McGowan
Kevin G. Quinn

ROCKY MOUNTAIN BANK

Lynn B. Fuller
Board Chair

Tod M. Petersen
President and CEO

—

Catherine Bergman
Michael Johns
Pamela K. Mower
Gerald Pearsall
Kevin G. Quinn

WISCONSIN BANK & TRUST

J. Cory Recknor
Board Chair

Brent Giles
President and CEO

—

John K. Faust
Lynn B. Fuller
Erik A. Huschitt
Ramesh C. Kapur
Jack R. Liebl
Stephan J. Nickels
Steven F. Streff
Paul W. Sweeney
Steven E. Ward
Thomas J. Wilkinson

Corporate and Investor Information

ANNUAL MEETING

In accordance with local, state and national pandemic guidance and with the safety and health of Heartland Financial USA, Inc. shareholders, employees and the broader community as top priority, the company will hold a "virtual" Annual Meeting.
We invite you to electronically attend the Annual Meeting which will be held on Wednesday, May 19, 2021 at 1:00 p.m. Central Daylight Time. You will be able to attend the Annual Meeting, vote and submit your questions during the meeting by visiting:
http://virtualshareholdermeeting.com/HTLF2021.
Prior to the meeting, you will be able to vote at www.proxyvote.com.

FORM 10-K AND OTHER INFORMATION

The company submits an annual report to the Securities and Exchange Commission on Form 10-K. Stockholders may obtain copies of our Form 10-K without charge by writing to Jay Kim, Executive Vice President, General Counsel, Heartland Financial USA, Inc., 1398 Central Avenue, P.O. Box 778, Dubuque, Iowa 52004-0778. The Form 10-K is also available on the Heartland website under the heading Investor Relations. Securities analysts and other investors seeking additional information about Heartland should contact Bryan R. McKeag, Executive Vice President, Chief Financial Officer, at the above address or call him at 563.589.1994. Additional information is also available at Heartland's website: HTLF.com.

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

Heartland Financial USA, Inc. offers stockholders of record a simple and convenient method of increasing holdings in our company by participating in Heartland's Dividend Reinvestment and Stock Purchase Plan. Participants can directly reinvest dividends and make optional cash purchases to acquire additional shares. They may elect to reinvest dividends on either all or a portion of the shares they hold. Participants may also elect to purchase shares of common stock by making optional cash payments. For additional information regarding the Plan, or to request a copy of the Plan's prospectus, please call Heartland's transfer agent, Broadridge Corporate Issuer Solutions, toll free at 1.866.741.7520.

PROFILE

MAILING ADDRESS

Heartland Financial USA, Inc.
1398 Central Avenue
P.O. Box 778
Dubuque, Iowa 52004-0778
563.589.2100

INDEPENDENT AUDITORS

KPMG LLP
Des Moines, Iowa

CORPORATE COUNSEL

Dorsey & Whitney LLP
Minneapolis, Minnesota

STOCK LISTING

Heartland's common stock is traded through the NASDAQ Global Select Market System under the symbol "HTLF."

Depository shares representing Heartland preferred stock are also traded through the NASDAQ Global Select Market System under the symbol "HTLFP." Complete information is available at HTLF.com.

TRANSFER AGENT/ STOCKHOLDER SERVICES

Inquiries related to stockholder records, stock transfers, changes of ownership, changes of address and dividend payments should be sent to Heartland's transfer agent at the following address: Broadridge Corporate Issuer Solutions, P.O. Box 1342, Brentwood, NY 11717. They may also be contacted by phone at 1.866.741.7520.

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

FORM 10-K

☑ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2020

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ___________ to ___________

Commission File Number: 001-15393

HEARTLAND FINANCIAL USA, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

42-1405748
(I.R.S. Employer identification number)

1398 Central Avenue, Dubuque, Iowa 52001
(Address of principal executive offices) (Zip Code)

(563) 589-2100
(Registrant's telephone number, including area code)

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

Title of Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock $1.00 par value	HTLF	The Nasdaq Global Select Market
Depositary Shares, each representing 1/400th interest in a share of 7.00% Fixed-Rate Reset Non-Cumulative Perpetual Preferred Stock, Series E	HTLFP	The Nasdaq Global Select Market

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 ☐

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 ☑

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 ☑ No ☐

Indicate by check mark whether the Registrant has submitted electronically, every Interactive Data File required to be submitted 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 such files). Yes ☑ No ☐

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

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on or attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☑

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

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, 2020, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $1,161,388,720.

As of February 24, 2021, the Registrant had issued and outstanding 42,096,266 shares of common stock, $1.00 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2021 Annual Meeting of Stockholders, which will be filed no later than 120 days after December 31, 2020, 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 any information incorporated herein by reference) contains, and future oral and written statements of Heartland Financial USA, Inc. ("Heartland") and its management may contain, forward-looking statements within the meaning of such term in Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") with respect to the business, financial condition, results of operations, plans, objectives and future performance of Heartland. Any statements about Heartland's expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. Forward-looking statements may include information about possible or assumed future results of Heartland's operations or performance, and may be based upon beliefs, expectations and assumptions of Heartland's management. These forward-looking statements, are generally identifiable by the use of words such as "believe," "expect," "anticipate," "plan," "intend," "estimate," "project," "may," "will," "would," "could," "should," "view," "opportunity." "potential," or other similar expressions. Although Heartland has made these statements based on management's experience and best estimate of future events, the ability of Heartland to predict results or the actual effect or outcomes of plans or strategies is inherently uncertain, and there may be events or factors that management has not anticipated. Therefore, the accuracy and achievement of such forward-looking statements and estimates are subject to a number of risks, many of which are beyond the ability of management to control or predict, that could cause actual results to differ materially from those in its forward-looking statements. These factors, which Heartland currently believes could have a material adverse effect on its operations and future prospects are detailed in the "Risk Factors" section included under Item 1A. of Part I of this Annual Report on Form 10-K, include, among others:

- COVID-19 Pandemic Risks, including risks related to the ongoing COVID-19 pandemic and measures enacted by the U.S. federal and state governments and adopted by private businesses in response to the COVID-19 pandemic;
- Economic and Market Conditions Risks, including risks related to the deterioration of the U.S. economy in general and in the local economies in which Heartland conducts its operations;
- Credit Risks, including risks of increasing credit losses due to deterioration in the financial condition of Heartland's borrowers, based on declining oil prices and asset and collateral values, which may continue to increase the provision for credit losses and net charge-offs ;
- Liquidity and Interest Rate Risks, including the impact of capital market conditions and changes in monetary policy on our borrowings and net interest income;
- Operational Risks, including processing, information systems, cybersecurity, vendor, business interruption, and fraud risks;
- Strategic and External Risks, including economic, political, and competitive forces impacting our business;
- Legal, Compliance and Reputational Risks, including regulatory and litigation risks; and
- Risks of Owning Stock in Heartland, including stock price volatility and dilution as a result of future equity offerings and acquisitions.

However, there can be no assurance that other factors not currently anticipated by Heartland will not materially and adversely affect Heartland's business, financial condition and results of operations. In addition, many of these risks and uncertainties are currently amplified by and may continue to be amplified by the COVID-19 pandemic and the impact of varying governmental responses that affect Heartland's customers and the economies where they operate. Additionally, all statements in this Annual Report on Form 10-K, including forward-looking statements, speak only as of the date they are made. Heartland does not undertake and specifically disclaims any obligation to publicly release the results of any revisions which may be made to any forward-looking statement to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events or to otherwise update any statement in light of new information or future events. Further information concerning Heartland and its business, including additional factors that could materially affect Heartland's financial results, is included in Heartland's filings with the Securities and Exchange Commission (the "SEC").

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 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 2021 Annual Shareholders Meeting to be held on May 19, 2021, will be available electronically via a link on our website at www.htlf.com.

At December 31, 2020, Heartland had total assets of $17.91 billion, total loans held to maturity of $10.02 billion and total deposits of $14.98 billion. Heartland's total stockholders' equity as of December 31, 2020, was $2.08 billion. Net income available to common stockholders for 2020 was $133.5 million.

Heartland conducts a community banking business through 11 independently branded and chartered community banks (collectively, the "Banks") operating in the states of Iowa, Illinois, Wisconsin, New Mexico, Arizona, Montana, Colorado, Minnesota, Kansas, Missouri, Texas and California. All Banks are insured and regulated by the Federal Deposit Insurance Corporation (the "FDIC"). Listed below are the Banks, which, as of the date of this Annual Report on Form 10-K, operate a total of 133 banking locations:

- Dubuque Bank and Trust Company, Dubuque, Iowa, is chartered under the laws of the state of Iowa.
- Illinois Bank & Trust, Rockford, Illinois, 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.
- Citywide Banks, 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.
- Bank of Blue Valley, 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.
- First Bank & Trust, Lubbock, Texas, is chartered under the laws of the state of Texas.

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

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

In addition, as of December 31, 2020, 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, CBNM Capital Trust I, Citywide Capital Trust III, Citywide Capital Trust IV, Citywide Capital Trust V, OCGI Statutory Trust III, OCGI Capital Trust IV, BVBC Capital Trust II and BVBC Capital Trust III. All of Heartland's subsidiaries were wholly owned as of December 31, 2020.

The principal business of our Banks consists of making loans to and accepting deposits from businesses and individuals. Our Banks 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 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 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 enhance the customer-centric local services of our Banks with a full complement of value-added services, including wealth management, investment, retirement plan and insurance services. We provide contemporary technology solutions that provide our customers 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, credit and 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 customer-centric 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 and treasury management services
    - Private client services, including investment management, trust, retirement plans and brokerage and investment services
    - Convenient and competitive retail products and services
    - Residential mortgage origination and referrals
    - Providing added client value through consultative relationship building

3. Centralizing back-office operations for efficiency.
    - Leverage expertise across all Banks
    - Contemporary 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, risk management, 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." While we are committed to a community banking philosophy, we believe our size, combined with our robust suite of financial products and services, allows us 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 Banks operates under the direction of its own board of directors, we have standard operating policies regarding asset/liability management, liquidity management, risk 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. We also have a stock compensation plan and an employee stock purchase plan.

We are deeply committed to our communities by encouraging the active participation of our employees, officers and board members in local charitable, civic, school, religious and community development activities.

Acquisition and Branch Optimization Strategy

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. In the current environment, we are continuing to seek 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, support our customer-centric culture, 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 institutions, primarily commercial banks or thrifts.

In recent years, we have focused on markets with growth potential in the Midwestern, Southwestern and Western regions of the United States. Our strategy is to balance the growth in our Southwestern and Western markets with the stability of our Midwestern markets. The following table provides information about the implementation of Heartland's expansion strategy:

Year	Name	*De Novo*	Acquisition	Merged Into or Assets Purchased By
1988	Citizens Finance Co.(1)		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(2)		X	Dubuque Bank and Trust Company (2011)
1995	Riverside Community Bank(3)	X		N/A
1997	Cottage Grove State Bank(4)		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(5)	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.(6)
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(7)		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
2016	Centennial Bank(5)		X	Summit Bank & Trust(5)
2017	Founders Community Bank		X	Premier Valley Bank
2017	Citywide Banks		X	Centennial Bank and Trust(8)
2018	Signature Bank		X	Minnesota Bank & Trust
2018	First Bank & Trust		X	N/A
2019	Bank of Blue Valley		X	Morrill & Janes Bank and Trust Company(9)
2019	Rockford Bank and Trust Company		X	Illinois Bank & Trust
2020	Johnson Bank (4 branches)		X	Arizona Bank & Trust
2020	AimBank		X	First Bank & Trust(10)

(1) The loans of Citizens Finance Co. were sold in the first quarter of 2019.

(2) First Community Bank branches were sold in the second quarter of 2019.

(3) Riverside Community Bank changed its name to Illinois Bank & Trust in 2014.

(4) Cottage Grove State Bank was renamed Wisconsin Community Bank upon acquisition and subsequently changed its name to Wisconsin Bank & Trust.

(5) Summit Bank & Trust changed its name to Centennial Bank and Trust upon the acquisition of Centennial Bank.

(6) Galena State Bank & Trust Co. was merged into Illinois Bank & Trust in 2015.

(7) Two Freedom Bank branches were sold in the second quarter of 2019.

(8) Centennial Bank and Trust changed its name to Citywide Banks upon the acquisition of Citywide Banks.

(9) Morrill & Janes Bank and Trust Company changed its name to Bank of Blue Valley upon the acquisition of Bank of Blue Valley.

(10) In the first quarter of 2021, seven of the twenty-five AimBank branches were transferred to New Mexico Bank & Trust.

For a description of the AimBank and Johnson Bank branch acquisitions, refer to "2020 Developments" under Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Through acquisition and organic growth, our goal is to reach at least $1 billion in assets in each of our charters. As of December 31, 2020, we have achieved this goal in ten of our eleven charters. Dubuque Bank and Trust Company, Illinois Bank & Trust, Wisconsin Bank & Trust, New Mexico Bank & Trust, Arizona Bank & Trust, Citywide Banks, Minnesota Bank & Trust, Bank of Blue Valley, Premier Valley Bank and First Bank & Trust each have assets over $1 billion.

Due to changes in the competitive landscape and our customers' banking behaviors, we have selectively sold, consolidated and closed branches recently. We anticipate these strategic activities will provide the resources to support our investments in areas that improve our customer experiences and fuel our organic growth. As a result of our ongoing branch optimization, we may complete additional, selective reductions in our branch network in the future.

Primary Business Lines

General

We are engaged in the business of community banking and operate as a single business segment. Our Banks provide a wide range of commercial, small business and consumer banking services to businesses, including public sector and non-profit entities, and to individuals. We have a broad customer base and are not dependent upon a single or a few customers. We provide a contemporary menu of traditional and non-traditional service channels including online banking, mobile banking and telephone banking. Our Banks provide a comprehensive suite of banking services comprised of competitively priced deposit and credit offerings, along with treasury management and retirement plan 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 Banks are successful in attracting new customers in their markets through professional service, a suite of comprehensive banking products, competitive pricing, credit facilities, convenient locations and proactive communications. Our primary lines of business are described below.

Commercial Banking

Our Banks have a strong commercial loan base generated primarily through business networks and personal relationships in the communities they serve. The current portfolios of the Banks reflect the businesses in those communities and include a wide range of business loans, including lines of credit for working capital and operational purposes. Commercial real estate loans, which include owner occupied and non-owner occupied loans, are generally term loans originated 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. Generally, terms of commercial and commercial real estate loans range from one to five years.

Commercial bankers at the Banks provide a consultative customer-centric approach utilizing the comprehensive suite of banking products and services to deliver tailored solutions to the client 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 business strategies and objectives. The suite of banking services used to accompany this approach are developed 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. Our treasury management has five basic functions:

- collection;
- disbursement;
- management of cash;
- information reporting; and
- fraud prevention.

Our treasury management services suite includes 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 Banks. The table below shows the certifications granted to the Banks from the United States Small Business Administration ("SBA") and United States Department of Agriculture (the "USDA") Rural Development Business and Industry loan program.

Bank	SBA Express Lender	SBA Preferred Lender	SBA Export Express	USDA Certified Lender
Dubuque Bank and Trust Company	X			
Illinois Bank & Trust	X			
Wisconsin Bank & Trust	X	X		X
New Mexico Bank & Trust	X	X	X	
Arizona Bank & Trust	X			
Rocky Mountain Bank	X	X		
Citywide Banks	X	X		
Minnesota Bank & Trust	X			
Bank of Blue Valley	X	X	X	
Premier Valley Bank	X	X	X	
First Bank & Trust	X	X		

Our Banks participate in the Paycheck Protection Program ("PPP"), originally created by the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") and later expanded with the adoption of the Paycheck Protection Program Flexibility Act (the "PPFA") and the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act (the "Economic Aid Act"). PPP loans provide small businesses with funding to maintain payroll and cover certain other overhead expenses. PPP loans are 100% SBA guaranteed and borrowers may be eligible to have an amount up to the entire principal balance forgiven and paid by the SBA. PPP loans also carry a zero-risk rating for regulatory capital purposes, and the Federal Reserve has made available a liquidity facility to facilitate funding of PPP loans held by banks.

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

With the oversight of our centralized credit administration group, our credit risk management process is governed by our loan policy which establishes our framework for credit and underwriting standards across the company and our Banks. Our loan policy provides the underlying standards in alignment with safe and sound credit decision making and in accordance with regulatory guidelines as applicable to our portfolio (e.g., Real Estate Lending Standards, Supervisory Loan-to-Value Limits). Centralized staff in credit administration assist our Bank commercial and agricultural lending officers in the analysis, underwriting of credit and facilitation of the credit approval process.

In addition to the lending personnel of the Banks reporting to their respective boards of directors, our internal loan review validates credit risk rating accuracy and analyzes the credit risk of the Banks. To reduce the risk of loss, we have processes to help identify problem loans early, and we aggressively seek resolution of credit problems.

Heartland has a special assets group which focuses on resolving problem assets. In 2020, we added additional personnel and resources to the special assets group in response to the economic changes caused by the COVID-19 pandemic. Commercial or agricultural loans in a default or workout status are assigned to the special assets group. Special assets personnel are also responsible for marketing repossessed properties and meet with representatives from each Bank on a quarterly basis.

Small Business Banking

Heartland's Small Business Lending Center is dedicated to serving the credit needs of small businesses with annual sales generally under $5 million. The Small Business Lending Center is designed to provide quick turnaround on small business 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 competitively priced deposit offerings and convenient

electronic banking services, as well as retirement plan services. The Banks 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 Banks 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, Bank of Blue Valley's northeast Kansas banking offices, and First Bank & Trust. Agricultural loans constituted approximately 7% of our total loan portfolio at December 31, 2020. Dubuque Bank and Trust Company and Wisconsin Bank & Trust 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, 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 Banks 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 Banks also work closely with governmental agencies, including the FSA, to help agricultural customers obtain credit enhancement products such as loan guarantees, interest assistance and crop insurance.

Residential Real Estate Mortgage Lending
With our acquisition in 2018 of First Bank & Trust in Lubbock, Texas, we acquired its wholly owned mortgage subsidiary, PrimeWest Mortgage Corporation ("PrimeWest"). PrimeWest, which was merged into First Bank & Trust in April 2020, provides mortgage loans to customers in Texas and has expanded to also serve the mortgage needs of our customers in many of our markets. First Bank & Trust services the loans it sells into the secondary market, and at December 31, 2020, residential real estate mortgage loans serviced, primarily for government sponsored entities ("GSE"), totaled $743.3 million.

Heartland fully outsourced its remaining legacy residential real estate mortgage lending business in 2018 by entering into arrangements with third parties to offer residential mortgage loans to customers in many of our markets not served by First Bank & Trust. Additionally, in 2019, Heartland's Dubuque Bank and Trust Company subsidiary sold substantially all of its mortgage servicing rights portfolio. Residential mortgage loans originated through third parties are not being serviced by us.

Retail Banking
A wide variety of retail banking services are delivered through our banking centers. Services include checking, savings, money market accounts, certificates of deposit, individual retirement accounts ("IRAs") and consumer credit cards. Brokerage services, including fixed rate annuity products are also provided in many locations. Consumer lending services of the Banks 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.

Our Banks continue to enhance our retail customers' banking experience through the addition of secure electronic banking options including online account opening and mobile banking. Our retail customers receive high-touch service in our banking center locations and further enjoy the convenience of online bill pay, 24-hour ATM availability, mobile deposit, and 24-hour access to account detail. As technology advances, we are committed to offering our customers the convenience of online, ATM and mobile delivery channels with the security they expect.

Wealth Management and Retirement Plan Services
In most markets where the Banks operate, wealth management, trust, securities brokerage and retirement plan services are offered to customers in the community. In some cases, these services are offered using an individual Bank's trust powers and in others the trust powers and personnel of a sister Bank with trust powers are utilized. As of December 31, 2020, total trust assets under management were $3.42 billion. Heartland also specializes in retirement plan services, offering qualified retirement plan recordkeeping, administration and advice to business clients, including 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 the majority of the Banks. Through LPL Financial, Heartland offers a full array of investment services including mutual funds, annuities, individual retirement products, education savings products, and brokerage services. 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, Western and Southwestern 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 and Southwest as offering greater opportunities for growth accompanied by the potential of wider economic swings. The following table sets forth certain information about the offices and total deposits of each of the Banks as of December 31, 2020, (dollars in thousands):

Charter State	Bank Name	Banking Locations	Market Areas Served	Total Deposits
IA	Dubuque Bank and Trust Company	6	Dubuque MSA	$ 1,456,908
IL	Illinois Bank & Trust	2	Galena	$ 1,338,677
		2	Jo Daviess County	
		6	Rockford MSA	
WI	Wisconsin Bank & Trust	3	Madison MSA	$ 1,057,369
		1	Green Bay MSA	
		5	Sheboygan MSA	
		1	Milwaukee County	
		2	Grant County	
		1	Green County	
NM	New Mexico Bank & Trust	9	Albuquerque MSA	$ 1,749,963
		2	Santa Fe MSA	
		3	Clovis MSA	
		2	Rio Arriba County	
		1	Los Alamos County	
AZ	Arizona Bank & Trust	10	Phoenix MSA	$ 1,357,158
MT	Rocky Mountain Bank	2	Billings MSA	$ 538,012
		2	Flathead County	
		1	Gallatin County	
		1	Ravalli County	
		1	Jefferson County	
		1	Sanders County	
		1	Sheridan County	
CO	Citywide Banks	11	Denver MSA	$ 2,181,511
		4	Jefferson County	
		2	Arapahoe County	
		2	Boulder County	
		1	Eagle County	
		1	Grand County	
		1	Clear Creek County	
		1	Summit County	
MN	Minnesota Bank & Trust	2	Minneapolis/St. Paul MSA	$ 789,555
KS	Bank of Blue Valley	7	Kansas City MSA	$ 1,138,264
		1	Nemaha County	
		2	Brown County	
		1	Atchison County	

Charter State	Bank Name	Banking Locations	Market Areas Served	Total Deposits
CA	Premier Valley Bank	1	Fresno MSA	$ 836,984
		1	Madera County	
		1	Mariposa County	
		4	San Luis Obispo County	
		1	Tuolumne County	
TX	First Bank & Trust	9	Lubbock, TX MSA	$ 2,622,716
		1	Bailey County	
		1	Dallam County	
		1	Ector County	
		1	Gray County	
		1	Hockley County	
		2	Lamb County	
		1	Midland County	
		1	Mitchell County	
		1	Parmer County	
		1	Potter County	
		1	Mitchell County	
		1	Roberts County	
		2	Scurry County	
		1	Taylor County	
		1	Yoakum County	
		2	Colfax County, NM	
		1	Guadalupe County, NM	
		2	Quay County, NM	
		1	Union County, NM	

C. COMPETITION

We face direct competition for deposits, loans and other financial related services. To compete effectively, develop our market share, maintain flexibility and keep pace with changing consumer preferences, business and economic conditions, we continuously refine and develop our banking products and services. We have found the principal methods of competing in the financial services industry are through personal service, product selection, convenience and technology.

The market areas of the Banks are highly competitive, and our competitors are comprised of other commercial banks, credit unions, thrifts, stock brokers, mutual fund companies, mortgage companies and loan production offices, insurance companies and online providers and other non-bank financial service companies. Some of these competitors are local, while others are regional, national or global.

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, significantly changing the regulatory environment in which we operate. The Dodd-Frank Act originally mandated certain enhanced prudential standards for bank holding companies with greater than $50 billion in total consolidated assets as well as company-run stress tests for firms with greater than $10 billion in assets. On May 24, 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the "Economic Growth Act") was signed into law. The Economic Growth Act exempted bank holding companies under $100 billion in assets from these requirements immediately upon enactment. This change shifts the increased costs of these requirements to bank holding companies with assets of $100 billion or more, removing a deterrent to merger and acquisition activity by institutions that were approaching $50 billion in assets.

The financial services industry is also likely to face heightened competition 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 believe we are positioned to compete for loans effectively through the array and quality of the credit services we provide, and the high-touch, customer-centric way in which we provide them. We invest in building long-lasting customer relationships, and our strategy is to serve our customers above and beyond their expectations through excellence in customer service and providing banking solutions that are tailored to our customers' needs. We believe that our long-standing presence and commitment to the communities we serve and the personal service we emphasize enhance our ability to compete favorably in attracting and retaining consumer and business customers. We continue to attract deposit-oriented customers by offering personal attention, combined with contemporary electronic banking convenience, professional service and competitive interest rates. The breadth of our product suite, coupled with our superior customer service, allows us to compete favorably with our larger competitors.

D. HUMAN CAPITAL

The attraction and retention of qualified employees is critical to Heartland's success. At December 31, 2020, Heartland employed 2,013 full-time equivalent employees. In 2020, our employee engagement scores increased to their highest level, with 93% of employees responding.

COVID-19 Relief

As the COVID-19 pandemic advanced throughout the year, our employees' and customers' health and safety remained top of mind as our employees rose to the challenges of serving our customers.

- Heartland instituted "pandemic pay" to ensure employees did not experience financial hardships when they needed to stay remote due to COVID-19 exposures.
- Heartland provides preventative health care coverage at 100% and employees were enabled to seek medical care virtually to make sure they stayed healthy while social distancing.
- We successfully pivoted to deliver all employee onboarding and training virtually, which enabled our new hires to be engaged faster.
- Demonstrating the care and commitment to our customers have come to expect, many employees worked countless hours, often late into the evening, to assist in the processing of PPP loans and other customer needs.
- Our employee teams also continued to serve our communities and Heartland donated $264,000 in support of High Need Schools, which helped teachers and schools purchase needed equipment and supplies for their students.

Competitive Compensation and Benefits

We remain focused on providing market level compensation and benefit packages. We benchmark our compensation programs annually and continually analyze incentive arrangements to ensure that we reward talent appropriately in exchange for their efforts in adding value for our customers. Heartland continues to support employees with matching contributions to their 401(k) (over 90% employee participation), an employee stock purchase plan, and buy down of student debt in exchange for unused paid time off. Employees are also active participants in our wellness platform, which include a weight loss program, a program offering tips on how to stay healthy and resources for home schooling.

Investment in Employee Development

We invest in our talent and provide meaningful development opportunities. Employees participated in over 2,100 hours of training, in addition to compliance training. In 2020, we graduated 10 employees from our leadership program which is comprised of a diverse group of recent college graduates. The program focuses on the development and understanding of basic banking and line of business skills that prepare the candidates for their next role in the Company. This diverse group of talent is being deployed into key roles across our banks and lines of business.

Diversity and Inclusion

Heartland is committed to seeking diversity at all levels of the organization. Heartland adopted the following diversity statement which reflects our current culture as well as what we aspire to be:

> *Heartland is unique and so are you. We all come from different backgrounds and experience that help shape our company values. Our values are rooted in the belief that respect, equality, and inclusiveness make us stronger together. The variety of experiences and lifestyles we bring to work every day provides insights that help us better understand each other and our customers.*

In furtherance of our diversity initiatives, executive leadership participated in diversity, equity and inclusion "listen and learn" sessions, and senior leadership will participate in similar sessions in 2021. We are in the process of implementing additional diversity training for all employees in 2021, updating the onboarding process to enhance employee dialogue and establishing a diversity advisory council.

E. 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. Both the scope of the laws and regulations and the intensity of the supervision to which Heartland is subject have increased in recent years because of the increase in Heartland's asset size and the industry response to the financial crisis, as well as other factors such as technological and market changes. Regulatory enforcement and fines have also increased across the banking and financial services sector. Many of these changes have occurred as a result of the Dodd-Frank Act and its implementing regulations. While the regulatory environment has entered a period of rebalancing of the post financial crisis framework, notably with the passage of the Economic Growth Act, Heartland expects that its business will remain subject to extensive regulation and supervision.

As a bank holding company with subsidiary banks chartered under the laws of eleven different states, Heartland is regulated by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). Each of the Banks 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"); the Texas Department of Banking (the "Texas Division"); and the Division of Banking of the Wisconsin Department of Financial Institutions (the "Wisconsin DFI").

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, consumers, the stability of the financial system in the United States, and the health of the national economy, rather than stockholders.

Federal and state banking regulators regularly examine Heartland and its subsidiaries to evaluate their financial condition and monitor their compliance with laws and regulatory policies. Following those exams, Heartland and the Banks are assigned supervisory ratings. These ratings are considered confidential supervisory information and disclosure to third parties is not allowed without permission of the issuing regulator. Violations of laws and regulations or deemed deficiencies in risk management practices may be incorporated into these supervisory ratings. A downgrade in these ratings could limit Heartland’s ability to pursue acquisitions or conduct other expansionary activities for a period of time, require new or additional regulatory approvals before engaging in certain other business activities or investments, affect a subsidiary bank’s deposit insurance assessment rate, and impose additional recordkeeping and corporate governance requirements, as well as generally increase regulatory scrutiny of Heartland.

Banking and other financial services statutes, regulations and policies are continually under review by Congress, state legislatures and federal and state regulatory agencies. In addition to laws and regulations, state and federal bank regulatory agencies may issue policy statements, interpretive letters and similar written guidance applicable to Heartland and its subsidiaries. Any change in the statutes, regulations or regulatory policies including changes in their interpretation or implementation, may have a material effect on the business of Heartland and its subsidiaries.

This section summarizes material elements of the regulatory framework that applies to Heartland and its subsidiaries. It does not describe all of the applicable statutes, regulations and regulatory policies that apply, nor does it disclose all of the requirements of the statutes, regulations and regulatory policies requirements that are described.

Economic Growth, Regulatory Relief and Consumer Protection Act

On May 24, 2018, the Economic Growth Act was signed into law, easing various regulatory requirements and reducing the cost of complying with the original Dodd-Frank Act.

- Among other regulatory changes, the Economic Growth Act amends various sections of the Dodd-Frank Act, providing relief from Dodd-Frank's enhanced prudential standards and regulatory and company-run stress tests. The Dodd-Frank Act originally mandated certain enhanced prudential standards for bank holding companies with greater than $50 billion in total consolidated assets as well as company-run stress tests for firms with greater than $10 billion in assets. As a result of the Economic Growth Act, bank holding companies with less than $100 billion in assets are no longer required to comply with Dodd-Frank requirements related to resolution planning, liquidity risk management, internal liquidity stress testing, the liquidity coverage ratio, debt-to-equity limits, and capital planning.
- In addition, the Economic Growth Act increased the threshold for requiring a dedicated board risk committee from $10 billion in total consolidated assets (established under the Dodd-Frank Act) to $50 billion in total consolidated assets.
- The Economic Growth Act amends the Volcker Rule by narrowing the definition of "banking entity" and revising the statutory provisions related to the naming of covered funds.
- The Economic Growth Act provides that a depository institution must only assign a heightened risk weight to High Volatility Commercial Real Estate exposures as defined in the Economic Growth Act.
- The Economic Growth Act also provides an exemption to the appraisal requirements for certain transactions with values of less than $400,000 involving real property or an interest in real property that is located in a rural area, as defined in the Economic Growth Act.

Most of the changes required by the Economic Growth Act applicable to bank holding companies with less than $100 billion in assets were effective upon adoption or have been effectively implemented by interim rules and regulatory policy statements. Furthermore, as required by the Economic Growth Act, in November 2019, the Federal Reserve and FDIC adopted rules further tailoring their supervision and regulation of large bank holding companies with more than $100 billion in assets.

The federal banking agencies indicated through interagency guidance that the capital planning and risk management practices of institutions with total assets less than $100 billion would continue to be reviewed through the regular supervisory process, which may offset the impact of the relief from stress testing and risk management requirements provided by the Economic Growth Act.

Regulation of 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, Citywide Banks, Minnesota Bank & Trust, Bank of Blue Valley, Premier Valley Bank and First Bank & Trust, is a bank holding company. As a bank holding company, Heartland is registered with, and is subject to regulation, supervision and examination by, the Federal Reserve under the BHCA. In accordance with Federal Reserve policy, Heartland is expected to act as a source of financial and managerial strength to the Banks and to commit resources to support the Banks in circumstances where Heartland might not otherwise do so. In addition, since the Banks are under the common control of Heartland, the FDIC may look to the assets of the Banks to offset losses incurred as a result of the failure of one or more of the other Banks. Under the Dodd-Frank Act, the FDIC also 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 examination by the Federal Reserve. Supervision and examinations are confidential, and the outcomes of these actions will not be made public. 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 bank holding companies, such as 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 may elect to operate as financial holding companies which 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 Banks is generally subject to similar restrictions on changes in control under federal law and the law of the state granting its charter.

Capital Requirements
Bank holding companies and their subsidiary financial institutions are required to maintain minimum levels of capital in accordance with Federal Reserve and FDIC regulations. These requirements include quantitative measures that assign risk weightings to assets and off-balance sheet items and define and set minimum regulatory capital ratios. Failure to meet minimum capital requirements can initiate certain mandatory, and possible additional discretionary, actions by the federal banking regulators that, if undertaken, could have a material adverse effect on the financial condition and results of operations of a bank holding company and its subsidiaries. Federal banking regulators are required by law to take prompt action when institutions are viewed as engaging in unsafe or unsound practices or do not meet certain minimum capital requirements. In addition to other potential actions, failure to meet regulatory capital requirements would result in limitations on capital distributions as well as executive bonuses. The Federal Reserve, FDIC and applicable state banking regulators may determine that a banking organization, based on its size, complexity or risk profile, must maintain a higher level of capital in order to operate in a safe and sound manner. In addition, if a bank holding company is not well-capitalized, it will have difficulty engaging in acquisition transactions.

The regulations of the Federal Reserve and the FDIC as the primary regulator of state banks, separate capital into three components, Common Equity Tier 1 capital, 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." Common Equity Tier 1 capital consists of common stockholders' equity. 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, for some institutions, 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 credit losses, other qualifying perpetual preferred stock, certain hybrid capital instruments, qualifying term subordinated debt and certain trust preferred securities not otherwise included in Tier 1 capital. Risk weighted assets include the sum of specific assets of an institution multiplied by risk weightings for each asset class.

Under Basel III, the Federal Reserve's capital guidelines applicable to bank holding companies, like the regulations applicable to subsidiary banks, require holding companies to comply with a leverage requirement consisting of a minimum ratio of Tier 1 capital to total assets (the "Leverage Ratio") of 4.0%. The Basel III capital standard also requires a capital conservation buffer designed to absorb losses during periods of economic stress and composed entirely of common equity Tier 1 capital. Basel III requires a capital conservation buffer of 2.5% on top of the minimum risk-weighted asset ratios, resulting in three minimum risk-based capital ratios: (i) a Common Equity Tier 1 capital to risk-weighted assets ratio ("Common Equity Tier 1 Capital

Ratio") of 7.0%; (ii) a Tier 1 capital to total risk-weighted assets ratio (the "Tier1 Capital Ratio") of 8.5% and (iii) a total capital to total risk-weighted assets ratio (the "Total Capital Ratio") of 10.5%. The Basel III Rules generally require that Common Equity Tier 1 capital include the effects of other comprehensive income adjustments, such as gains and losses on securities held to maturity, but allow institutions, such as Heartland, to make a one-time election not to include those effects. Heartland and its Banks elected not to include the effects of other comprehensive income in Common Equity Tier 1 capital.

If an institution grows beyond $15 billion in assets as a result of mergers or acquisitions, it loses its ability to include trust preferred securities in Tier 1 capital. Previously issued trust preferred securities are excluded from Tier 1 capital but remain included in Tier 2 capital. Heartland had $17.91 billion of assets as of December 31, 2020, and reclassified $146.3 million of trust preferred securities from Tier 1 capital to Tier 2 capital.

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." In order to be "well-capitalized" a financial institution must maintain a Leverage Ratio of 5.0% or greater, a Common Equity Tier 1 Capital Ratio of 6.5% or greater, a Tier 1 Capital Ratio of 8.0% or greater, and a Total Capital Ratio of 10.0% or greater. As of December 31, 2020, Heartland had regulatory capital in excess of the Federal Reserve requirements for well-capitalized bank holding companies

Stress Testing

The Dodd-Frank Act requires certain institutions to conduct an annual "stress test" of capital and consolidated earnings and losses under a base case and two severely adverse stress scenarios. The Economic Growth Act raised the asset threshold for stress testing from $10 billion in average total consolidated assets to $100 billion for bank holding companies. As a result Heartland, as well as its Banks, are no longer subject to the Dodd-Frank Act stress test regulations or any requirement to publish the results of stress testing. Despite elimination of this requirement, Heartland continues to perform certain stress tests internally and incorporate the economic models and information developed through its stress testing program into its risk management and business planning activities.

Dividend Payments

Heartland's ability to pay dividends to its stockholders may be affected by both general corporate law consideration, minimum regulatory capital requirements 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. In addition, the payment of dividends to holders of Heartland's common stock is subject to the payment of any preferred dividends payable to holders of Heartland's preferred stock. 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.

Regulation of the Banks

General

All of the Banks 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 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.

Citywide Banks is a Colorado-chartered bank. As a Colorado-chartered bank, Citywide Banks 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.

Bank of Blue Valley is a Kansas-chartered bank. As a Kansas-chartered bank, Bank of Blue Valley 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.

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

Supervisory Assessments
Each of the Banks 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 2020, the Banks paid supervisory assessments totaling $1.3 million.

Capital Requirements
Like Heartland, under current federal regulations, each Bank is required to maintain the minimum Leverage Ratio, Common Equity Tier 1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio described under the caption "Heartland-Capital Requirements" above. 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 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, 2020: (i) none of the Banks was subject to a directive from its primary federal regulator to increase its capital; (ii) each of the Banks exceeded its minimum regulatory capital requirements under applicable capital adequacy guidelines; (iii) each of the Banks was "well-capitalized," as defined by applicable regulations; and (iv) none of the Banks were subject to a directive to maintain capital higher than the regulatory capital requirements, as discussed below under the caption "Safety and Soundness Standards."

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 Banks, the Banks 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 Banks, 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. In May 2016, the Financial Crimes Enforcement Network published a final rule that requires financial institutions to develop policies, procedures and practices to prevent and deter money laundering. The program must be a written board-approved program that is reasonably designed to identify and verify the identities of beneficial owners of legal entity customers at the time a new account is opened. The program must, at a minimum (1) provide for a system of internal controls to assure ongoing compliance; (2) designate a compliance officer; (3) establish an ongoing employee training program; and (4) implement an independent audit function to test programs. Financial institutions were required to comply with the new rule beginning May 11, 2018. This rule has increased compliance costs for the Banks.

Dividend Payments
The primary source of funds for Heartland is dividends from the Banks. In general, the Banks 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 Banks exceeded its minimum capital requirements under applicable guidelines as of December 31, 2020.

As of December 31, 2020, approximately $500.9 million was available in retained earnings at the Banks 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 and state regulators may reduce or prohibit the payment of dividends by the Banks.

Transactions with Affiliates
The Federal Reserve regulates transactions among Heartland and its subsidiaries. Generally, the Federal Reserve Act and Regulation W, as amended by the Dodd-Frank Act, limit lending and certain other "covered transactions" as well as other transactions between the Banks and their affiliates, including Heartland and its subsidiaries and for the primary purpose of protecting the interests of the Banks. The aggregate amount of "covered transactions" a Bank may enter into with an affiliate may not exceed 10% of the capital stock and surplus of the Bank. The aggregate amount of "covered transactions" with all affiliates may not exceed 20% of the capital stock and surplus of the Bank.

"Covered transactions" between each Bank and its 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 a Bank, including derivative contracts, (b) a purchase of securities issued to a Bank, (c) a purchase of assets by a Bank unless otherwise exempted by the Federal Reserve, (d) acceptance of securities issued by an affiliate to the Bank as collateral for a loan, and (e) the issuance of a guarantee, acceptance or letter of credit by a Bank on behalf of an affiliate.

While the quantitative limits and collateral requirement described above are generally not applicable to transactions between Banks, all affiliate transactions, including those between Banks, are subject to safety and soundness requirements, prohibitions on the purchase of low-quality assets, and certain other requirements and most affiliate transactions are required to be on market terms and conditions at least as favorable to the Bank as comparable transactions with non-affiliates.

Insider Transactions
The Banks 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 Banks. Certain limitations and reporting requirements are also placed on extensions of credit by each of the Banks 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 Banks 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.

In June 2016, the Federal Reserve Board issued supervisory guidance for assessing risk management for supervised institutions with total consolidated assets of less than $50 billion ("SR 16-11"). This guidance provides four key areas to evaluate in assessing a risk management system: board and senior management oversight of risk management; policies, procedures and limits; risk monitoring and management information systems and internal controls. In August 2017, the Federal Reserve Board issued proposed guidance addressing supervisory expectations of boards of directors that includes a proposal to further revise and align the supervisory expectations of boards of directors in areas beyond risk management with the board expectations set forth in SR 16-11.

Branching Authority
Each of the Banks 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 Banks 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. In May 2016, financial regulators proposed a rule to replace the 2011 proposed rule. While the 2011 proposed rule was principles-based, the new proposed rule is prescriptive in nature and is intended to prohibit incentive-based compensation arrangements that could encourage inappropriate risk taking by providing excessive compensation or could lead to material financial loss. The new proposed rule would require financial institutions to consider compensation arrangements for "senior executive officers" and "significant risk takers" against several factors, and would require that such arrangements contain both financial and non-financial measures of performance. Until a final rule is issued, it is not clear whether and how this rule will ultimately impact the Banks.

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 Banks) from engaging in proprietary trading of securities, derivatives and certain other financial instruments for the entity's own account; prohibits certain interests in, or relationships with, a hedge fund or private equity fund; and requires the implementation of related compliance programs, commonly referred to as the "Volcker Rule." On January 1, 2020, a revised rule was adopted that was effective January 1, 2021, subject to voluntary compliance prior to that time. Under this revised rule, banks that do not have significant trading activities will have simplified and streamlined compliance requirements, while banks with significant trading activity will have more stringent compliance requirements. The revised rule continues to prohibit proprietary trading, while providing greater clarity and certainty for activities allowed under the law. Heartland did not engage in any significant amount of proprietary trading, as defined in the Volcker Rule, and the impact of the Volcker Rule on Heartland's business activities and investment portfolio was 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 determined that the impact related to investments considered to be covered funds did not have a significant effect on its financial condition or results of operations.

Community Reinvestment Act Requirements
The Community Reinvestment Act ("CRA") imposes a continuing and affirmative obligation on each of the Banks 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 in meeting the credit needs of its community. Applications for additional acquisitions are subject to evaluation of the effectiveness of the Banks' in meeting their CRA requirements.

In December of 2019, the FDIC issued a proposal to significantly amend existing CRA regulations, with the goal of making the regulatory framework more objective, transparent, consistent, and easy to understand. To accomplish these goals, this proposed rule would strengthen the CRA regulations by clarifying which activities qualify for CRA credit, updating where activities count for CRA credit, creating a more transparent and objective method for measuring CRA performance, and providing for more transparent, consistent, and timely CRA-related data collection, recordkeeping, and reporting. While the adoption and implementation of this proposed rule is uncertain, if adopted it is not anticipated that the rule would become effective before 2022.

Consumer Protection
The Consumer Finance Protection Bureau ("CFPB") has undertaken numerous rule-making and other initiatives, including issuing informal guidance and taking enforcement actions against certain financial institutions. The CFPB’s rulemaking, examination and enforcement authority has affected and will continue to significantly affect financial institutions involved in the provision of consumer financial products and services.

The CFPB has also been publishing complaints submitted by consumers regarding consumer financial products and services in a publicly-accessible online portal. The CFPB also publishes complaint narratives from consumers that opted to have their narratives made public. The publication of complaint narratives could affect the Banks 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.

Mortgage Lending

Mortgage loans held at each of the Banks, which were made prior to the outsourcing of Heartland’s legacy mortgage lending business, and mortgage loans originated by First Bank & Trust are 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. In recent years, 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, Truth in Lending Act ("TILA") and RESPA. The 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.

The HMDA and Regulation C require lenders to report certain information regarding home loans and includes tests for determining what financial institutions and credit transactions are covered under HMDA and 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. Regulation C requires detailed information from lenders and the reporting on mortgage loan underwriting and pricing.

Federal law also requires financial institutions to impose a mandatory purchase requirement for flood insurance for loans secured by certain real property located in areas with special flood hazards. In February 2019, federal regulators issued a final rule implementing the Biggert-Waters Flood Insurance Reform Act. The final rule, which became effective July 1, 2019, includes rules for identifying when private flood insurance policies must be accepted and criteria to apply in determining whether certain types of coverage qualify as "flood insurance" for federal flood insurance law purposes.

Ability-to-Repay and Qualified Mortgage Rule

Under Federal Reserve Board Regulation Z, mortgage lenders, such as First Bank & Trust, are required 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. The Banks primarily originate compliant qualified mortgages.

Data Privacy and Cybersecurity

Federal and state law contains extensive consumer privacy protection provisions. The Gramm-Leach-Bliley Act ("GLBA") requires financial institutions to periodically disclose their privacy policies and practices relating to sharing such information and, in some cases, enables retail customers to opt out of the sharing of certain information with unaffiliated third parties. Other federal and state laws and regulations impact Heartland’s ability to share certain information with affiliates and non-affiliates. The GLBA also requires financial institutions to implement an information security program that includes administrative, technical and physical safeguards to ensure the security and confidentiality of customer records and information.

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 ("FFIEC") developed the Cybersecurity Assessment Tool to help institutions identify their risks and determine their preparedness for cybersecurity threats.

In September 2016, the FFIEC issued a revised Information Security booklet. The revised booklet includes updated guidelines for evaluating the adequacy of information security programs (including effective threat identification, assessment and monitoring, and incident identification assessment and response), assurance reports and testing of information security programs.

Data privacy and data protection are areas of increasing state legislative focus. For example, the California Consumer Protection Act of 2018 (the "CCPA"), which became effective on January 1, 2020, applies to for-profit businesses that conduct business in California and meet certain revenue or data collection thresholds. The CCPA will give consumers the right to request disclosure of information collected about them, and whether that information has been sold or shared with others, the right to request deletion of personal information (subject to certain exceptions), the right to opt out of the sale of the consumer's personal information, and the right not to be discriminated against for exercising these rights. The CCPA contains several exemptions, including an exemption applicable to information that is collected, processed, sold or disclosed pursuant to the GLBA. In addition, similar laws may be adopted by other states where Heartland does business.

Like other lenders, the Banks use credit bureau data in their underwriting activities. Use of such data is regulated under the Fair Credit Reporting Act ("FCRA"), and the FCRA also regulates reporting information to credit bureaus, prescreening individuals for credit offers, sharing of information between affiliates, and using affiliate data for marketing purposes. Similar state laws may impose additional requirements on Heartland and its subsidiaries.

The federal banking regulators, as well as the SEC and related self-regulatory organizations, regularly issue guidance regarding cybersecurity that is intended to enhance cyber risk management among financial institutions. A financial institution is expected to establish a framework of internal control, first, second and third lines of defense, and risk management policies, procedures and processes that are designed to address the risks that it faces in its business operations. A financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations if the institution or its critical service providers fall victim to a cyber-attack.

Durbin Amendment

The Dodd-Frank Act included provisions (known as the "Durbin Amendment"), which restrict interchange fees to those which are "reasonable and proportionate" for certain debit card issuers and limits the ability of networks and issuers to restrict debit card transaction routing. The Federal Reserve issued final rules implementing the Durbin Amendment on June 29, 2011. In the final rules, interchange fees for debit card transactions were capped at $0.21 plus five basis points to be eligible for a safe harbor such that the fee is conclusively determined to be reasonable and proportionate. The interchange fee restrictions contained in the Durbin Amendment, and the rules promulgated thereunder, only apply to debit card issuers with $10 billion or more in total consolidated assets at year-end. Because Heartland's assets exceeded $10 billion at December 31, 2018, it was required to comply with the Durbin Amendment effective July 1, 2019.

ITEM 1A. RISK FACTORS

An investment in our securities is subject to risks inherent in our business. The material risks and uncertainties that management believes affect us are described below. Additional risks and uncertainties that management is not aware of or that management currently deems immaterial may also impair our business operations. If any of the events described in the risk factors should actually occur, our financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our securities could decline significantly, and you could lose all or part of your investment.

COVID-19 Pandemic Risks

The ongoing COVID-19 pandemic and measures intended to prevent its spread have adversely affected, and may continue to adversely affect our business activities, financial condition, and results of operations and such effects will depend on future developments, which are highly uncertain and difficult to predict.

Global health concerns relating to the COVID-19 pandemic and related government actions taken to reduce the spread of the virus have negatively impacted the macroeconomic environment, and the pandemic has significantly increased economic uncertainty and abruptly reduced economic activity. The extent to which the COVID-19 pandemic impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain and are difficult to predict, including, but not limited to, the duration and spread of the pandemic, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume.

The pandemic has resulted in government authorities implementing numerous measures to try to contain the virus, including the declaration of a federal National Emergency; multiple cities' and states' declarations of states of emergency; school and business closings; limitations on social or public gatherings and other social distancing measures, such as working remotely; travel restrictions, quarantines and shelter-in-place orders. Such measures have significantly contributed to rising unemployment and negatively impacted consumer and business spending, borrowing needs and saving habits. The federal government has taken measures to address the economic and social consequences of the pandemic, including the passage of the CARES Act and later with the adoption of the PPFA and the Economic Aid Act. The CARES Act, as supplemented by the PPFA and Economic Aid Act, among other things, provides certain measures to support individuals and businesses in maintaining solvency through monetary relief, including in the form of financing, loan forgiveness and automatic forbearance. There can be no assurance, however, that the steps taken by the worldwide community or the U.S. government will be sufficient to address the negative economic effects of COVID-19 or avert severe and prolonged reductions in economic activity.

We may experience adverse financial consequences due to a number of factors, including, but not limited to:

- negative effects on net interest income and net interest margins as a result of the low interest rate environment;
- increased credit losses due to financial strain on our customers as a result of the pandemic and governmental actions, specifically on loans to borrowers in the lodging, retail trade, retail properties, restaurants and bars and oil and gas;
- increases in our provision for credit losses and net charge-offs resulting from increased credit losses;
- declines in collateral values;
- an impairment of goodwill or core deposit and customer relationship intangibles that could result in charges being recorded and restrictions on the ability of certain Banks to pay dividends to us;
- loan modifications and loan payment deferrals resulting in reduced earnings;
- increased demand on our liquidity as we meet borrowers' needs and cover expenses related to the pandemic management plan;
- negative effects on capital and leverage ratios as a result of reduced liquidity which, although not currently contemplated, could reduce or force suspension of dividends;
- stock price volatility;
- workforce disruptions if a significant portion of our workforce is unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic;
- third-party disruptions, including negative effects on network providers and other suppliers, which may affect their ability to perform under the terms of agreements or provide essential services;
- increased cyber and payment fraud risk due to increased online and remote activity; and
- other operational failures due to changes in our normal business practices because of the pandemic and governmental actions to contain it.

These factors may remain prevalent for a significant period of time and may continue to adversely affect our business, results of operations and financial condition even after the COVID-19 pandemic has subsided. There are no comparable recent events that provide guidance as to the effect the spread of COVID-19 as a global pandemic may have, and, as a result, the ultimate impact of the pandemic is highly uncertain and subject to change.

Our participation in the Paycheck Protection Program and other regulatory and governmental actions to mitigate the impact of the COVID-19 could result in reputational harm, claims and litigation.

Our Banks are participating lenders in the PPP, a loan program administered through the Small Business Administration ("SBA") that was created under the CARES Act, and modified by the PPFA and Economic Aid Acts, to help eligible businesses, organizations and self-employed persons fund their operational costs during the COVID-19 pandemic. Under this program, the SBA guarantees 100% of the amounts of fixed, low interest rate loans that are subject to numerous other regulatory requirements. Borrowers are also eligible to apply to the SBA for forgiveness of their PPP loan obligations, and most are expected to do so. Because of the short windows between the passing of the authorizing legislation and the opening of the PPP, there was and continues to be some ambiguity in the laws, rules and guidance regarding the operation of the PPP. Subsequent rounds of legislation and associated agency guidance have not provided necessary clarity and have created potential additional inconsistencies and ambiguities. Accordingly, the Banks are exposed to risks relating to compliance with the PPP requirements, including reputational harm. Additionally, since the launch of the PPP, several other larger banks have been subject to litigation regarding the process and procedures used in processing applications for the PPP. If PPP borrowers fail to qualify for loan forgiveness, the Banks face a heightened risk of holding these loans at unfavorable interest rates for an extended period of time. The Banks have credit risk on PPP loans if a determination is made by the SBA that there is a

deficiency in the manner in which the loan was originated, funded, or serviced. If a deficiency is identified, the SBA may deny forgiveness, take action against borrowers and, in some instances, deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from the Banks.

Economic and Market Conditions Risk

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 Banks 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.

Our business is concentrated in and dependent upon the continued growth and welfare of the various markets that we serve.
We operate in 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 economic vitality, business activity, population, income levels, deposits and real estate activity in those areas and may be impacted by the effects of past and future civil unrest and domestic disturbances in the communities that we serve. 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 impact the stability of our deposit funding sources. Consequently, declines in economic conditions in those markets could generally affect our financial condition and results of operations.

Our business and performance are vulnerable to the impact of volatility in debt and equity markets.
As most of our assets and liabilities are financial in nature, our performance is sensitive to the performance of the financial markets. Turmoil and volatility in the financial markets can be a major contributory factor to overall weak economic conditions, including the impaired ability of borrowers and other counterparties to meet obligations to us. Financial market volatility may:

- Affect the value or liquidity of our on-balance sheet and off-balance sheet financial instruments.
- Affect the value of capitalized servicing assets.
- Affect our ability to access capital markets to raise funds. Inability to access capital markets if needed, at cost effective rates, could adversely affect our liquidity and results of operations.
- Affect the value of the assets that we manage or otherwise administer or service for others. Although we are not directly impacted by changes in the value of such assets, decreases in the value of those assets would affect related fee income and could result in decreased demand for our services.

Changes in interest rates and other conditions could negatively impact net interest income and net interest margin.
Market interest rates have declined significantly since the beginning of the COVID-19 pandemic as a result of actions taken by the Federal Reserve. In March 2020, the Federal Reserve reduced the target federal funds rate and announced a $700 billion quantitative easing program in response the expected economic impact of the COVID-19 pandemic. In addition, the Federal Reserve reduced the interest rate it pays on excess reserves. We expect that these reductions in interest rates, especially if prolonged, could continue to adversely affect our net interest income and margins and our profitability.

As a result of the high percentage of our assets and liabilities that are interest-bearing, changes in interest rates, in the shape of the yield curve or in spreads between different market interest rates, can have a material effect on our financial performance. 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 Reserve that influence market interest rates, and our ability to respond to changes in such rates. The Board of Governors of the Federal Reserve System regulates the supply of money and credit in the United States, and it influences interest rates by changing the discount rate at which it lends money to banks and by adjusting the target for the federal funds rate at which banks borrow from other banks. 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.

At any given time, our assets and liabilities may be affected differently by a given change in interest rates. Asset values, especially commercial real estate collateral, securities or other fixed rate earning assets, can decline significantly with relatively minor changes 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, and specifically, our net interest income. 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.

We may be adversely impacted by the planned phasing out of the London Interbank Offered Rate ("LIBOR") as a reference rate.

We have derivative contracts, borrowings, variable rate loans and other financial instruments with attributes that are either directly or indirectly dependent on the LIBOR. In 2017, the United Kingdom Financial Conduct Authority ("FCA"), which regulates LIBOR, announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. On November 30, 2020, the ICE Benchmarks Administration ("IBA"), which compiles and oversees LIBOR, announced a consultation on its intention to cease publication of one-week and two-month LIBOR at the end of 2021 and to continue publishing other LIBOR tenors until June 2023. It is unknown whether any banks will continue to voluntarily submit rates for the calculation of LIBOR or whether LIBOR will continue to be published by the IBA after these dates based on these submissions or on any other basis.

The transition from LIBOR to SOFR or a different alternative reference rate is complex and could have a range of adverse impacts on us. In particular, any such transition could, among other things, (i) adversely effect the value of, return on and trading for financial assets or liabilities that are linked to LIBOR, including securities, loans or derivatives; (ii) require renegotiation of outstanding financial assets and liabilities; (iii) result in additional inquiries or other actions from regulators in respect to our preparation and readiness for the LIBOR transition; (iv) increase the risks of disputes or litigation and/or increase expenses related to the transition; (v) adversely impact our reputation as we work with customers to transition loans and financial instruments from LIBOR; (vi) require successful system and analytics development and operationalization to transition to our systems, loan portfolio and risk management processes away from LIBOR, which will require reliance on third-party vendors; and (vii) cause disruption in financial markets that are relevant to our business.

In March 2020, the Financial Accounting Standards Board ("FASB") issued ASU 2020-04 *"Reference Rate Reform"* which addresses the effect of the anticipated transfer away from LIBOR towards new interest rate benchmarks under GAAP. We have formed a working group that continues to actively assess the impacts of ASU 2020-04 and the related opportunities and risks involved in the LIBOR transition. However, there can be no assurance that actions taken by us and third parties to address these risks or otherwise prepare for the transition from LIBOR will be successful.

We have recorded goodwill as a result of acquisitions, and if it becomes impaired, our earnings could be significantly impacted.

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, 2020, we had goodwill of $576.0 million, representing approximately 28% 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 consolidated balance sheet reflected approximately $62.7 million of deferred tax assets at December 31, 2020, 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.

Changes in the federal, state or local tax laws may negatively impact our financial performance.
We are subject to changes in tax law that could increase our effective tax rates. The enactment of such legislation including provisions impacting tax rates, apportionment, consolidation or combination, income, expenses, credits and exemptions may have a material impact on our business, financial conditions and results of operations. These tax law changes may also be retroactive to previous periods and could negatively affect our current and future financial performance. For example, while the Tax Cuts and Jobs Act signed into law in December 2017 reduced our federal corporate tax rate from 35% in 2017 to 21%, there is no assurance that tax rates will remain at current levels or that presently anticipated benefits will be realized in future years' financial performance.

Our business and financial performance could be adversely affected, directly or indirectly, by natural disasters, climate change, pandemics, terrorist activities, domestic disturbances or international hostilities
Neither the occurrence nor the potential impact of natural disasters, climate change, pandemics, terrorist activities, domestic disturbances or international hostilities can be predicted. However, these occurrences could impact us directly (for example, by interrupting the ours systems, which could prevent the us from obtaining deposits, originating loans and processing and controlling the flow of business; causing significant damage to our facilities; or otherwise preventing us from conducting business in the ordinary course), or indirectly as a result of their impact on our borrowers, depositors, other customers, vendors or other counterparties (for example, by damaging properties pledged as collateral for our loans or impairing the ability of certain borrowers to repay their loans). We could also suffer adverse consequences to the extent that natural disasters, climate change, pandemics, terrorist activities, domestic disturbances or international hostilities affect the financial markets or the economy in general or in any particular region. These types of impacts could lead, for example, to an increase in delinquencies, bankruptcies or defaults that could result in higher levels of nonperforming assets, net charge- offs and provisions for credit losses.

Our ability to mitigate the adverse consequences of these occurrences is in part dependent on the quality of our resiliency planning, and our ability, if any, to anticipate the nature of any such event that occurs. The adverse impact of natural disasters, climate change, pandemics, terrorist activities, domestic disturbances or international hostilities also could be increased to the extent that there is a lack of preparedness on the part of national or regional emergency responders or on the part of other organizations and businesses that we transact with, particularly those that we depend upon, but have no control over. Additionally, the force and frequency of natural disasters are increasing as the climate changes.

Our framework for managing risks may not be effective in mitigating risk and losses.
Our risk management framework seeks to mitigate risk and loss. We have established processes and procedures intended to identify, measure, monitor, report, and analyze the types of risk to which we are subject, including liquidity risk, credit risk, market risk, interest rate risk, compliance risk, strategic risk, reputation risk, and operational risk related to our employees, systems and vendors, among others. However, as with any risk management framework, there are inherent limitations to our risk management strategies as there may exist, or develop in the future, risks that it has not appropriately anticipated or identified. We must also develop and maintain a culture of risk management among our employees, as well as manage risks associated with third parties, and could fail to do so effectively. If our risk management framework proves ineffective, we could incur litigation and negative regulatory consequences, and suffer unexpected losses that could affect its financial condition or results of operations.

Credit Risks

If we do not properly manage our credit risk, we could suffer material credit losses.
There are substantial risks inherent in making any loan, including, but not limited to:

- risks resulting from changes in economic and industry conditions;
- risks inherent in dealing with individual borrowers;
- uncertainties as to the future value of collateral; and
- the risk of non-payment of loans.

Although we attempt to minimize our credit risk through prudent loan underwriting procedures and by monitoring concentrations of our loans, there can be no assurance that these underwriting and monitoring procedures will effectively reduce these risks. Moreover, as we continue to expand into new markets, credit administration and loan underwriting policies and procedures may need to be adapted to local conditions. The inability to properly manage our credit risk or appropriately adapt our credit administration and loan underwriting policies and procedures to local market conditions or to changing economic circumstances could have an adverse impact on our allowance and provision for credit losses and our financial condition, results of operations and liquidity.

We are subject to lending concentration risks.

Our commercial loans, which tend to be larger and more complex credits than loans to individuals, are primarily approved based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. If the economy weakens or if the industry in which the borrower operates weakens, our borrowers may experience depressed or sudden decreases in revenues that could hinder their cash flow and ability to repay their loans. Consequently, declines in the economy could have a material adverse impact on our earnings. Most often, the underlying 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.

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, regarding the accuracy and completeness of that information. As a result of the current economic environment caused by the COVID-19 pandemic, we are engaging in more frequent communication with borrowers to better understand their creditworthiness and the challenges faced. These communications should allow Heartland to respond proactively as borrower needs and issues arise. 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.

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, which is comprised of owner-occupied, non-owner occupied, and real estate construction loans, represents a large portion of our commercial loan portfolio. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in any of our geographic markets in which the real estate is located. Adverse developments in nationwide or regional market conditions affecting real estate values could negatively impact 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. We believe that the effect of and response to the COVID-19 pandemic (as separately described above) will have some impact on all commercial real estate loans and more heavily impact lodging, retail trade, and retail properties, in particular those retail properties dependent on restaurants and bars, and the oil and gas, segments.

Real estate construction loans involve additional risks because funds are advanced based upon estimates of costs and the estimated value of the completed project and also have a greater risk of default in a weaker economy because the source of repayment is reliant on the successful and timely sale of lots or land held for resale. These loans present project completion risks, as well as the risks applicable to other commercial real estate loans. 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.

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 a 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.

The ability of a borrower to repay agricultural loans may be especially affected by many factors outside of the borrower's control.

Payments on agricultural and agricultural real estate loans are dependent on the profitable operation or management of the farm property securing the loan. If the cash flow from a farming operation is diminished, the borrower's ability to repay the loan may be impaired. Loans that are unsecured or secured by rapidly depreciating assets such as farm equipment or assets such as livestock or crops 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.

The success of a 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 to global trade agreements, 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.

We hold one- to four-family first-lien residential mortgage loans in our loan portfolio, and the ability of the borrower to repay may be difficult to estimate.

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 to enforce collection of the loan obligations. If the value of the collateral is incorrect, we could face higher losses on the loans.

Economic disruption resulting from the COVID-19 pandemic may make it difficult for some customers to repay their loans, resulting in increased credit losses.

The effect of and response to the COVID-19 pandemic (as separately described above) will make it difficult for some customers to make timely payments on their loans in accordance with their terms. We believe that the COVID-19 pandemic will have some impact on all customers and more heavily impact the lodging, retail trade, retail properties, restaurants and bars and oil and gas segments. As of December 31, 2020, Heartland's aggregate loan exposure to borrowers in these segments was $1.82 billion or 14% of total loan exposure.

In keeping with guidance from regulators, we have actively worked with COVID-19 affected borrowers to defer their payments, interest, and fees. Beginning in March of 2020, we offered certain customers the opportunity to modify the terms of existing loans, resulting in interest only payments or the deferment of principal and interest payments for a set period of time, typically 90 days. In accordance with regulatory guidance, these modifications are not considered or reported as troubled debt restructurings. While interest and fees will still accrue to income, through normal GAAP accounting, should eventual credit losses on these deferred payments occur, interest income and fees accrued would need to be reversed. In such a scenario, interest income and net interest margin could be negatively impacted in future periods. Upon completion of these initial deferral periods, it is anticipated that some loans will return to normal repayment and other may require further modifications. As of December 31, 2020, approximately $122.8 million of the modifications made by us remained in some form of payment deferral as a result of these modifications.

These loan deferrals are intended to increase the likelihood that the affected borrowers will operate through and recover following the COVID-19 pandemic, after which their loans will return to a normal repayment schedule and perform in accordance with their original terms. There can be no assurance, however, that these efforts will be successful and may instead only result in a delay rather than avoidance of deterioration or losses on loans to the affected borrowers. If economic conditions worsen, we could be required to further increase our allowance for credit losses and record additional credit loss expense. Our asset quality measures could worsen during future measurement periods if the effects of the COVID-19 pandemic are prolonged.

Government programs established in response to the COVID-19 pandemic may delay but not avoid the realization of credit losses.
Pursuant to the CARES Act, beginning at the end of March 2020, the SBA made up to six months of principal and interest payments on behalf of borrowers on certain qualifying SBA guaranteed loans. Pursuant to the Economic Aid Act, beginning in February of 2021 the SBA began making an additional three months of such principal and interest payments.

The CARES Act also established the PPP (as further described above). PPP loans are also in payment deferral, requiring no principal or interest payments until the loan forgiveness process is completed. Pursuant to the Economic Aid Act, in January of 2021, the PPP loan program was re-opened for new PPP borrowers and expanded to allow certain previous PPP borrowers to receive a second draw PPP loan. Second draw PPP loans are also 100% SBA guaranteed, eligible for up to 100% forgiveness by the SBA and will be in payment deferral, requiring no principal or interest payments until the loan forgiveness process is completed.

The foregoing programs are intended to increase the likelihood that the affected borrowers operate through and recover following the COVID-19 pandemic, after which their loans will return to a normal repayment schedule and perform in accordance with their original terms or in the case of PPP loans, will be forgiven. There can be no assurance, however, that these programs will be successful and may instead result in a delay rather than avoidance of deterioration or losses on loans to the affected borrowers. In addition, while the implementation and success of these programs is highly dependent on the SBA and other governmental bodies, these programs also expose the participating financial institutions, including Heartland, to reputational risks.

Our allowance for credit losses may prove to be insufficient to absorb losses in our loan portfolio.
We establish our allowance for credit losses in consultation with management of the Banks and maintain it at a level considered appropriate by management to absorb current expected credit losses and risks inherent in the portfolio. While the level of allowance for credit losses reflects management's continuing evaluation of quantitative and qualitative factors including industry concentrations, loan portfolio quality and economic conditions, 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. Despite the current stable economic and market conditions, there remains a risk of continued asset and economic deterioration. At December 31, 2020, our allowance for credit losses as a percentage of total loans was 1.31% and as a percentage of total nonperforming loans was approximately 149%. Although we believe that the allowance for credit losses is appropriate to absorb current expected credit 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 credit 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. Credit losses in excess of our reserves may adversely affect our business, financial condition and results of operations.

In June 2016, the FASB issued an accounting standard update, *"Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments,"* which replaced the "incurred loss" model for recognizing credit losses with an "expected loss" model referred to as the Current Expected Credit Loss ("CECL") model. The new CECL standard became effective for us on January 1, 2020. Under the CECL model, we are required to present certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, at the net amount expected to be collected. CECL also requires that an allowance for credit losses be established for any unfunded loan commitments that are not cancelable. The measurement of expected credit losses is based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount, including anticipated losses resulting from deteriorating economic conditions as a result of events such as the COVID-19 pandemic. This measurement takes place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the incurred loss model previously required under GAAP, which delayed recognition until it is probable a loss has been incurred. Accordingly, the adoption of the CECL model materially affected how we determine our allowance for credit losses and could require us to significantly increase our allowance in future periods. Moreover, the CECL model may create more volatility in the level of our allowance for credit losses. If we are required to materially increase our level of allowance for credit losses for any reason, such increase could adversely affect our business, financial condition and results of operations. See Note 1, "Basis of Presentation," of the notes to the consolidated financial statements for additional information on the impact of the adoption of this standard.

While the fiscal stimulus and relief programs enacted in response to the COVID-19 pandemic have mitigated credit losses in the near term, once these programs have run their course, we may experience changes in the value of collateral securing outstanding loans, deterioration in the credit quality of borrowers, and the inability of borrowers to repay loans in accordance with their loan terms causing credit losses.

Liquidity and Interest Rate Risks

Liquidity is essential to our business, and our performance could be adversely affected by constraints in or increased costs for funding.

We require liquidity to fund our deposit and debt obligations as they come due. A number of factors beyond our control could have a detrimental impact on the availability or costs of that funding. These include market disruptions, changes in our credit ratings or the sentiment of investors, the state of the regulatory environment and monetary and fiscal policies, declines in the value of our investment securities, loss of substantial deposits or customer relationships, financial or systemic shocks, significant counterparty failures or reputational damage. 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 significant 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.

The required accounting treatment of loans we acquire through acquisitions could result in higher net interest margins and interest income in current periods and lower net interest margins and interest income in future periods.

Under United States GAAP, we are required to record loans acquired through acquisitions, at fair value. Estimating the fair value of such loans requires management to make estimates based on available information and facts and circumstances on the acquisition date. Any net discount, which is the excess of the amount of reasonably estimable and probable discounted future cash collections over the purchase price, is accreted into interest income over the weighted average remaining contractual life of the loans. Therefore, our net interest margins may fluctuate due to the net discount accretion. We expect the yields on the total loan portfolio will decline as our acquired loan portfolios pay down or mature and the corresponding accretion of the net discount decreases. We expect downward pressure on our interest income to the extent that the runoff of our acquired loan portfolios is not replaced with comparable high-yielding loans. This could result in higher net interest margins and interest income in current periods and lower net interest margins and interest income in future periods.

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

We strive to maintain a diverse liability portfolio, and we manage deposit 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 deposit portfolio of a single Bank, 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.

Our growth may create the need 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, from time to time, we 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 Banks. In general, the Banks 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 and preferred stock and to pay interest and principal on our debt. Dividends payable on common shares are also subject to quarterly dividends payable on outstanding preferred shares at the applicable dividend rate.

Reduction in the value, or impairment of our investment securities, can impact our earnings and common stockholders' equity.
We maintained a balance of $6.29 billion, or 35% of our assets, in investment securities at December 31, 2020. 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 may have to record provision expense to establish an allowance for credit losses on our carried at fair value debt securities, and 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. In addition, the COVID-19 pandemic has accelerated the need to implement technological changes as a result of modifications to our business practices implemented in order to address governmental restriction and requirements to address the needs, preferences and best interests of our employees, customers and business partners.

Our operations are affected by risks associated with our use of vendors and other third-party service providers.
We rely on vendor and third-party relationships for a variety of products and services necessary to maintain our day-to-day activities, particularly in the areas of correspondent relationships, operations, treasury management, information technology and security. This reliance exposes us to risks of those third parties failing to perform financially or failing to perform contractually or to our expectations. These risks could include material adverse impacts on our business, such as credit loss or fraud loss, disruption or interruption of business activities, cyber-attacks and information security breaches, poor performance of services affecting our customer relationships and/or reputation, and possibilities that we could be responsible to our customers for legal or regulatory violations committed by those third parties while performing services on our behalf. In addition, the COVID-19 pandemic has increased the risk of third-party disruptions, including negative effects on network providers and other suppliers, which have been, and may further be, affected by, stay-at-home orders, market volatility and other factors that increase their risks of business disruption or that may otherwise affect their ability to perform under the terms of any agreements with us or provide essential services. While we have implemented an active program of oversight to address this risk, there can be no assurance that our vendor and third-party relationships will not have a material adverse impact on our business.

We also face indirect technology, cybersecurity and operational risks relating to the customers, clients and other third parties with whom we do business or upon whom we rely to facilitate or enable our business activities, including for example financial counterparties, regulators, and providers of critical infrastructure such as internet access or electrical power. Due to the increasing consolidation, interdependence, and complexity of financial entities and technology systems, a technology failure, cyber-attack or other information or security breach that significantly degrades, deletes or comprises the systems or data of one or more financial entities could have a material impact on counterparties or other market participants, including us. This consolidation, interconnectivity and complexity may increase the risk of operational failure on both an individual and industry-wide basis.

Interruption in or breaches of our network security and the resulting theft or compromise of business and customer information could adversely affect our business or reputation, and create significant legal, regulatory or financial exposure.
We rely heavily on communications and information systems to conduct our business, and as part of our business, we maintain significant amounts of data about our customers and the products they use. 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 and fraudsters. Our business relies on the secure processing, transmission, storage and retrieval of

confidential, personal, proprietary and other information in our computer and data management systems and networks, and in the computer and data management systems and networks of third parties.

We, our customers, regulators and other third parties, including other financial service institutions and companies engaging in data processing, have been subject to, and are likely to continue to be the target of cyber-attacks. These cyber-attacks include computer viruses, malicious or destructive code, phishing attacks, denial of service information, ransomware, improper access by employees or vendors, attacks on personal emails of employees, or breaches of third party vendors that could result in the unauthorized release, gathering and monitoring, misuse, loss or destruction of confidential, proprietary and any other information of ours, our employees, our customers, or of third parties, and damage to our systems or other material disruptions. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate or remediate any information security vulnerabilities or incidents. Despite efforts to protect our systems and implement controls, processes, policies, and other measures, we may not be able to anticipate all security breaches, nor may we be able to implement guaranteed preventive measures against such security breaches. Cybersecurity risks for banking organizations have significantly increased in recent years in part because of the proliferation of and rapid evolution of new technologies, the use of the internet and telecommunication technologies to conduct financial transactions. For example, cybersecurity risks may increase in the future as we continue to increase our mobile-payment and other internet-based products offerings and increase our internal usage of web-based products and applications. Given the continued and rapid evolution of cyber threats, we may not be able to anticipate or prevent all such attacks and could be held liable for any security breach or loss. In addition, the COVID-19 pandemic has increased cyber and payment fraud risk due to increased online and remote activity. The occurrence of any failure, interruption, or security breach of our information systems could result in violations of privacy and other laws, 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

We could face significant legal and reputational harm if we fail to safeguard personal information.
Heartland is subject to complex and evolving laws and regulations governing the privacy and protection of personal information of individuals. The protected individuals can include our customers, our employees, and the employees of our suppliers, counterparties and other third parties. Ensuring that our collection, use, transfer and storage of personal information comply with applicable laws and regulations in relevant jurisdictions can increase operating costs, impact the development of new products or services, and reduce operational efficiency. Any mishandling or misuse of the personal information of customers, employees or others by Heartland or a third party affiliated with Heartland could expose us to litigation or regulatory fines, penalties or other sanctions.

Additional risks could arise if Heartland or third parties do not provide adequate disclosure or transparency to our customers about the personal information collected from them and its use; any failure to receive, document, and honor the privacy preferences expressed by our customers; any failure to protect personal information from unauthorized disclosure; or any failure to maintain proper training on privacy practices for all employees or third parties who have access to personal data. Concerns regarding the effectiveness of our measures to safeguard personal information and abide by privacy preferences, or even the perception that those measures are inadequate, could cause us to lose existing or potential customers and thereby reduce our revenues. In addition, any failure or perceived failure by Heartland to comply with applicable privacy or data protection laws and regulations could result in requirements to modify or cease certain operations or practices, significant liabilities or regulatory fines, penalties, or other sanctions. Any of these outcomes could damage our reputation and otherwise adversely affect our business.

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 ability of our employees to perform their jobs day-to-day to support our on-going 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, including those with specialized skills, or in general, the failure 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 markets and growth strategy rely 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 and could be difficult during times of low unemployment. 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 analytical and forecasting models may be improper or ineffective.

The processes we use to estimate our current expected credit losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depends upon the use of analytical and forecasting models. These models could reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the models may prove to be inadequate or inaccurate because of other flaws and limitations in their design or their implementation. If the models we use to guide management's decisions and oversight relating to interest rate risk and asset-liability management are inadequate, we may incur increased or unexpected losses upon changes in market interest rates or other market measures. If the models we use for determining our probable loan losses are inadequate, the allowance for credit losses may not be appropriate to support future charge-offs. If the models we use to measure the fair value of financial instruments are inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what we could realize upon sale or settlement of such financial instruments. Any such failure in our analytical or forecasting models 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.

Strategic and External Risks

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 Banks 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 have acquired, 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 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 changes in our business model, sales of certain assets or business units, decreases 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

Government regulation can result in limitations on our growth strategy.

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, Housing and Urban Development ("HUD") 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, our ability to offer new products, our ability to obtain financing and other aspects of our strategy.

We are subject to extensive and evolving government regulation and supervision, which can increase the cost of doing business and lead to enforcement actions.

Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of FDIC-insured institutions, their holding companies and affiliates that is intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than shareholders. These laws, and the regulations of the bank regulatory agencies issued under them, affect, among other things, the scope of our business, the kinds and amounts of investments that we and the Banks may make, reserve requirements, required capital levels relative to assets, the nature and amount of collateral for loans, the establishment of branches, our ability to merge, consolidate and acquire, dealings with our and the Banks' insiders and affiliates and our payment of dividends.

It is uncertain whether and to what extent the current administration will increase the regulatory burden on community banks, and changes in existing regulations and their enforcement may require modification to Heartland's existing regulatory compliance and risk management infrastructure.

We have experienced heightened regulatory requirements and scrutiny following the global financial crisis and as a result of the Dodd-Frank Act. Although the reforms primarily targeted systemically important financial service providers, their influence filtered down in varying degrees to community banks over time and the reforms have caused our compliance and risk management processes, and the costs thereof, to increase. The Dodd-Frank Act established 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 the routine course of regulatory oversight, proposals to change the laws and regulations governing the operations of banks and other financial institutions are frequently raised in the U.S. Congress, state legislatures and before bank regulatory authorities. Similarly, proposals to change the accounting and financial reporting requirements applicable to banks and other depository financial institutions are frequently raised by the SEC, the federal banking agencies and other authorities. The likelihood of significant changes in laws and regulations in the future and the effect such changes might have on our operations are impossible to determine. Recent changes in the laws and regulations that apply to us have been significant. Moreover, 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.

More stringent requirements related to capital and liquidity may limit our ability to return earnings to stockholders or operate or invest in our business.

The Federal Reserve has adopted capital adequacy guidelines that are used to assess the adequacy of capital in supervising a bank holding company. The final Basel III rules and changes required by the Dodd-Frank Act substantially amended the regulatory risk-based capital rules applicable to Heartland. Under Basel III, the fully-phased in capital conservation buffer is 2.50% above the minimum capital requirement.

Additional requirements may be imposed in the future. The Basel Committee continues to examine ways to strengthen the regulation, supervision and practices of banks and has produced, and continues to produce a number of consultation and discussion papers which point to a significant revision of the Basel Framework, including improvements to the calculation of risk-weighted assets and the comparability of capital ratios. The ultimate impact on our capital and liquidity will depend on the implementation of further changes in the United States.

We are becoming subject to additional regulatory requirements as our total assets increase, and these additional requirements could have an adverse effect on our financial condition or results of operations.

Various federal banking laws and regulations impose heightened requirements on larger banks and bank holding companies. These heightened requirements have added, and will continue to add, restrictions and complexity to our business operations, as we expand. For example, we were required to comply with the Durbin Amendment effective July 1, 2019, which imposes interchange fee restrictions to debit card issuers.

The Economic Growth Act exempted bank holding companies under $100 billion in assets from certain Dodd-Frank Act requirements that were otherwise applicable to bank holding companies with greater than $10 billion and $50 billion in total consolidated assets. As required by the Economic Growth Act, the federal banking agencies adopted rules further tailoring their supervision and regulation of large bank holding companies with more than $100 billion in assets. However, federal banking agencies have also indicated through interagency guidance that the capital planning and risk management practices of

institutions with total assets less than $100 billion would continue to be reviewed through the regular supervisory process, which may offset the impact of the relief from stress testing and risk management requirements provided by the Economic Growth Act.

Litigation and enforcement actions could result in negative publicity and could adversely impact our business and financial results.
We face significant legal and regulatory risks in our business, and the volume of claims and amount of damages and penalties claimed in litigation and governmental proceedings against financial institutions have increased in recent years. Reputation risk, or the risk to our earnings and capital from the resulting 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 consumer fraud, financial difficulties or even failure of some institutions, to fear of fraud, 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.

Substantial legal liability or significant governmental action against us could materially impact our business and financial results. Also, the resolution of a litigation or regulatory matter could result in additional accruals or exceed established accruals for a particular period, which could materially impact our results from operations for that period.

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 Banks; 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.

Stockholders may experience dilution as a result of future equity offerings and acquisitions.
In order to raise capital for future acquisitions or for general corporate purposes, we may offer additional shares of our common stock or other securities convertible into or exchangeable for our common stock at a price per share that may be lower than the current price. In addition, investors purchasing shares or other securities in the future could have rights superior to existing stockholders. The price per share at which we sell additional shares of our common stock, or securities convertible or exchangeable into common stock, may be higher or lower than the price paid by existing stockholders.

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 stockholders. 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, 2020, 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 Banks as of December 31, 2020:

Name and Main Facility Address	Main Facility Square Footage	Main Facility Owned or Leased	Number of Locations
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	6
Illinois Bank & Trust 6855 E. Riverside Blvd. Rockford, IL 60114	8,000	Owned	10
Wisconsin Bank & Trust 119 Junction Road Madison, WI 53719	19,000	Owned	13
New Mexico Bank & Trust 320 Gold NW Albuquerque, NM 87102	11,400	Lease term through 2026	17
Arizona Bank & Trust 2036 E. Camelback Road Phoenix, AZ 85016	14,000	Owned	10
Rocky Mountain Bank 2615 King Avenue West Billings, MT 59102	16,600	Owned	9
Citywide Banks 1800 Larimer Street Suite 100 Denver, CO 80202	8,700	Lease term through 2030	23
Minnesota Bank & Trust 7701 France Avenue South, Suite 110 Edina, MN 55435	6,100	Lease term through 2023	2
Bank of Blue Valley 11935 Riley Street Overland Park, KS 66213	38,000	Owned	11
Premier Valley Bank 255 East River Park Circle, Suite 180 Fresno, CA 93720	17,600	Lease term through 2023	8
First Bank & Trust 9816 Slide Road Lubbock, TX 79424	64,500	Owned	32

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 Banks 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, Suites 300 and 400 in Dubuque, Iowa. In December 2019, Heartland formed a limited liability corporation with an unrelated third party to purchase the location on Locust Street, and Heartland has a lease with the limited liability corporation.

For information on obligations related to our leased facilities, see Note 23, "Leases," to the consolidated financial statements.

ITEM 3. LEGAL PROCEEDINGS

The information required by this item is set forth in Part II, Item 8, Financial Statements and Supplementary Data, under Note 15,"Commitments, Off-Balance Sheet Arrangements, and Legal Proceedings."

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

INFORMATION ABOUT OUR 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, are set forth below:

Name	Age	Position with Heartland and Subsidiaries and Principal Occupation
Lynn B. Fuller	71	Executive Operating Chairman and Director of Heartland; Vice Chairman of Dubuque Bank and Trust Company, Wisconsin Bank & Trust, New Mexico Bank & Trust, Arizona Bank & Trust, Rocky Mountain Bank, Citywide Banks, Minnesota Bank & Trust, Bank of Blue Valley, Premier Valley Bank and First Bank & Trust; Director of Heartland Financial USA, Inc. Insurance Services
Bruce K. Lee	60	Chief Executive Officer, President and Director of Heartland; Director of Citywide Banks, Bank of Blue Valley and First Bank & Trust; President of Heartland Financial USA, Inc. Insurance Services
Bryan R. McKeag	60	Executive Vice President, Chief Financial Officer of Heartland; Treasurer of Citizens Finance Parent Co.; Director of Heartland Financial USA, Inc. Insurance Services
Janet M. Quick	55	Executive Vice President, Deputy Chief Financial Officer, Principal Accounting Officer of Heartland
Deborah K. Deters	56	Executive Vice President, Chief Human Resources Officer, of Heartland
Lynn H. Fuller	37	President and Chief Executive Officer of Dubuque Bank and Trust Company
Nathan R. Jones	48	Executive Vice President, Chief Credit Officer of Heartland
Jay L. Kim	57	Executive Vice President, Corporate Secretary, Senior General Counsel, of Heartland; Secretary of Heartland Financial USA, Inc. Insurance Services
Tamina L. O'Neill	51	Executive Vice President, Chief Risk Officer of Heartland
David A. Prince	50	Executive Vice President, Commercial Banking, of Heartland
Daniel C. Stevens	65	Executive Vice President, Operations, of Heartland

Lynn B. Fuller was named Executive Operating Chairman of Heartland in 2018. Mr. Fuller has been a Director of Heartland since 1987 and of Dubuque Bank and Trust Company since 1984. Mr. Fuller was the Chief Executive Officer of Heartland from 1999 to 2018 and was President of Heartland from 1990 to 2015. Mr. Fuller currently serves as a Director on the following Heartland subsidiary boards: Wisconsin Bank & Trust since 1997, New Mexico Bank & Trust since 1998, Arizona Bank & Trust since 2003, Rocky Mountain Bank since 2004, Citywide Banks since 2006, Minnesota Bank & Trust since 2008, Bank of Blue Valley since 2013, Heartland Financial USA, Inc. Insurance Services since 2015, Premier Valley Bank since 2015 and First Bank & Trust since 2018. 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 1987. 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. He was a Director of Galena State Bank & Trust Co. from 1992 to 2004 and of Illinois Bank & Trust from 1995 until 2004 and Heritage Bank, N.A. from 2012 until its merger with Arizona Bank & Trust in 2013. Mr. Fuller is the father of Lynn H. Fuller, President and Chief Executive Officer of Dubuque Bank and Trust Company.

Bruce K. Lee was named Chief Executive Officer of Heartland in 2018. Mr. Lee joined Heartland in 2015 as President and was elected a Director of Heartland in 2017. Mr. Lee currently serves as a Director on the following Heartland subsidiary boards: Heartland Financial USA, Inc. Insurance Services since 2015, Citywide Banks since 2017, First Bank & Trust since 2018 and Bank of Blue Valley since 2019. 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. 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. Mr. Lee was a Director of Rocky Mountain Bank from 2015 to 2018.

Bryan R. McKeag joined Heartland in 2013 as Executive Vice President, 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.

Janet M. Quick was named Executive Vice President, Deputy Chief Financial Officer and Principal Accounting Officer in 2016. Ms. Quick had served as Senior Vice President, Deputy Chief Financial Officer since 2013. 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.

Deborah K. Deters joined Heartland in 2017 as Executive Vice President, Chief Human Resource Officer where she oversees Organizational Development, Talent Management, Total Rewards, Payroll, and Employee Relations. Prior to Heartland Ms. Deters served as the Senior Vice President and Chief Human Resources Officer at HUB International, LTD., a North American insurance brokerage based in Chicago, Illinois. While at HUB she was named the organization's first Chief Human Resources Officer and transformed its Human Resources function while supporting the company's growth from 4,000 to over 10,000 employees. Prior to HUB, Ms. Deters held several positions over 17 years with Bally Entertainment, finishing as Senior Vice President, Chief Human Resource Officer of Bally Total Fitness.

Lynn H. Fuller joined Heartland in 2013 as Executive Vice President, Corporate Director of Retail. In 2016, Mr. Fuller assumed the position of Market President of Dubuque Bank and Trust Company, and in 2017, Mr. Fuller was named President and Chief Executive Officer of Dubuque Bank and Trust Company. He serves on the board of Dubuque Bank and Trust Company. Prior to joining Heartland, from 2010 to 2013, Mr. Fuller was a Case Team Leader at Bain & Company in Chicago, Illinois, where he led his team in providing expert advice on client issues and industry topics and recommended solutions.

Nathan R. Jones joined Heartland in July 2020 as Executive Vice President, Chief Credit Officer. Prior to joining Heartland, Mr. Jones was the Chief Credit Officer for Fulton Financial Corporation, a regional financial holding company based in Lancaster, Pennsylvania from 2018 until joining Heartland. Mr. Jones previously served as the Executive Vice President Credit Administration and Analytics for First Horizon National Corporation, a regional financial holding company based in Memphis, Tennessee from 2011 to 2018. Mr. Jones has managed large scale credit and banking operations while developing and delivering new business processes and capabilities within global and regional financial institutions. He has previously worked for Bank of America and BMO Harris primarily in the risk management areas.

Jay L. Kim joined Heartland in January 2020 as Executive Vice President, General Counsel and was named as Corporate Secretary in October 2020. Mr. Kim was most recently a partner with Dorsey & Whitney LLP, based in Minneapolis, Minnesota, in their Banking and Financial Services Industry group and focused on advising banks, trust companies, wealth management firms, commercial and residential mortgage brokers and retirement plan administrators on mergers and acquisitions and regulatory and operational matters. Mr. Kim rejoined Dorsey & Whitney LLP in 2017 after serving as Executive Vice President, General Counsel and Director of Corporate Development for Alerus Financial Corporation headquartered in Grand Forks, North Dakota from 2012 to 2017. His responsibilities at Alerus included oversight of the risk management, audit and compliance functions as well as acquisitions and investor relations. Prior to joining Alerus in 2012, he was a partner at Dorsey & Whitney LLP and another Minneapolis law firm, and he also served as Senior Vice President and General Counsel with Marquette Financial Companies.

Tamina L. O'Neill joined Heartland in 2019 as Executive Vice President, Chief Risk Officer. Ms. O'Neill was most recently the Director of Enterprise Risk Management at MB Financial Bank, a Chicago based mid-size institution from 2013 until joining Heartland. Ms. O'Neill's experience spans small, mid-size and larger global financial institutions as her financial services and risk management career started approximately 30 years ago with LaSalle Bank/ABN AMRO, a multi-national global financial institution. Over the course of her career, she has built programs and led teams in government lending, commercial banking compliance, corporate compliance, operational risk and enterprise risk management.

David A. Prince joined Heartland in 2018 as Executive Vice President, Commercial Banking. Prior to joining Heartland, Mr. Prince was the Commercial Banking Group Executive Vice President at Associated Banc-Corp., headquartered in Green Bay, Wisconsin from 2010 until joining Heartland. Mr. Prince has served in leadership roles at GE Capital Commercial Finance and National City Bank and has extensive commercial lending experience.

Daniel C. Stevens joined Heartland in 2019 as Executive Vice President, Operations. He most recently served as the Chief Operating Officer for Rabobank, NA based in Roseville, California from 2014 through 2019 and its Chief Financial Officer from 2008 through 2014. Mr. Stevens has over 35 years of financial services experience, which includes serving as a Chief Financial Officer, Chief Accounting Officer, and Chief Operating Officer. Mr. Stevens started his professional career at Arthur Andersen & Co. in Chicago, Illinois. He is an inactive holder of the certified public accountant certification.

PART II

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

Heartland's common stock was held by approximately 2,900 stockholders of record as of February 16, 2021, and approximately 16,160 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.

On March 17, 2020, Heartland's board of directors authorized management to acquire and hold up to 5% of capital or $98.4 million as of December 31, 2020, 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, 2020.

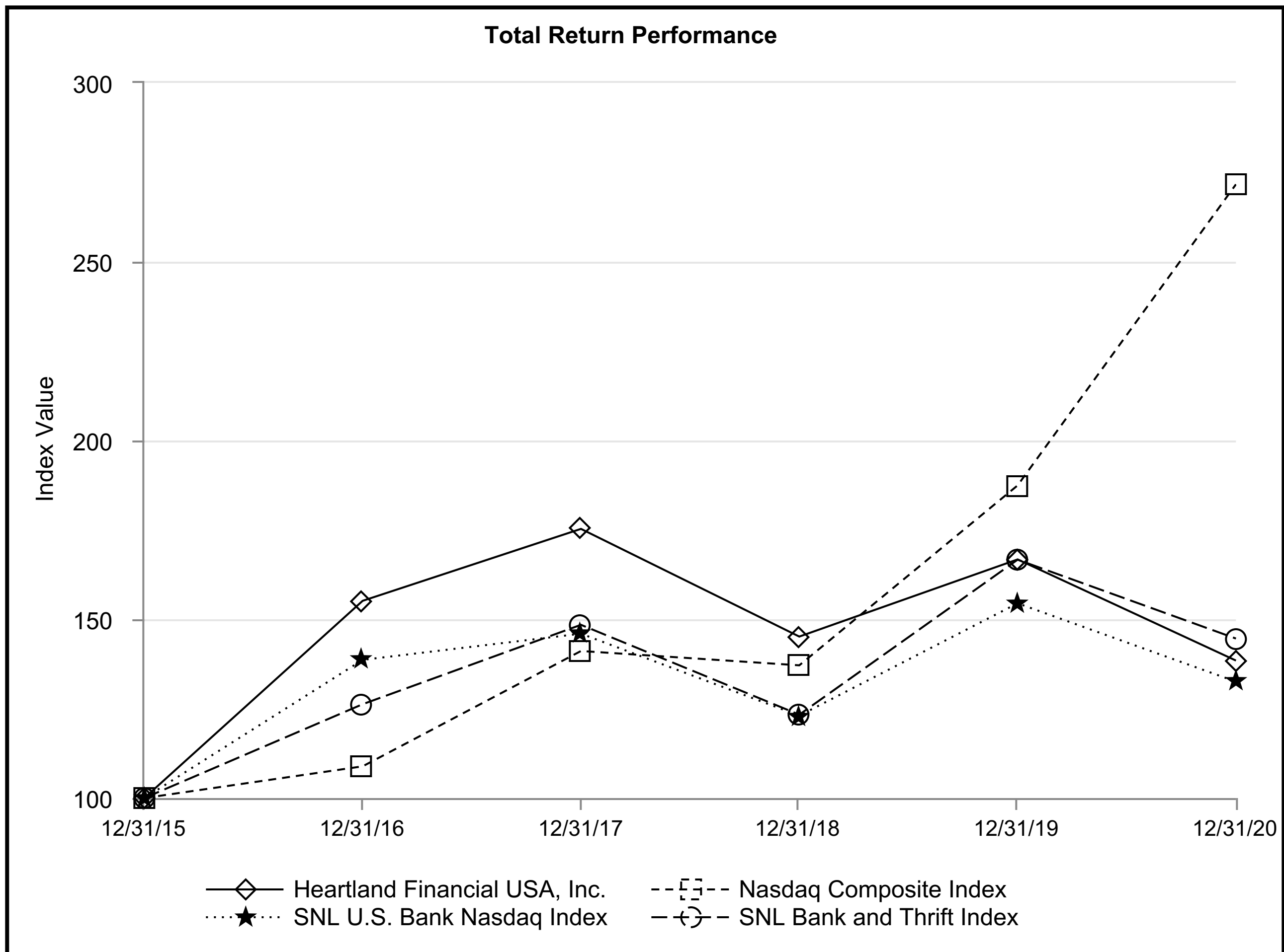
The following table and graph show a five-year comparison of cumulative total returns for Heartland, the Nasdaq Composite Index, the SNL U.S. Bank Nasdaq Index and the SNL Bank and Thrift Index, in each case assuming investment of $100 on December 31, 2015, and reinvestment of dividends. The table and graph were prepared at our request by S&P Global Market Intelligence.

Cumulative Total Return Performance

	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020
Heartland Financial USA, Inc.	$ 100.00	$ 155.16	$ 175.28	$ 145.16	$ 166.74	$ 138.45
Nasdaq Composite Index	100.00	108.87	141.13	137.12	187.44	271.64
SNL U.S. Bank NASDAQ Index	100.00	138.65	145.97	123.04	154.47	132.56
SNL Bank and Thrift Index	100.00	126.25	148.45	123.32	166.67	144.61

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN*
ASSUMES $100 INVESTED ON DECEMBER 31, 2015

* 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, 2020, 2019, 2018, 2017 and 2016. 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)

	As of and For the Years Ended December 31,				
	2020	2019	2018	2017	2016
STATEMENT OF INCOME DATA					
Interest income	$ 536,612	$ 514,329	$ 465,820	$ 363,658	$ 326,479
Interest expense	44,883	80,600	51,866	33,350	31,813
Net interest income	491,729	433,729	413,954	330,308	294,666
Provision for credit losses	67,066	16,657	24,013	15,563	11,694
Net interest income after provision for credit losses	424,663	417,072	389,941	314,745	282,972
Noninterest income	120,291	116,208	109,160	102,022	113,601
Noninterest expenses	370,963	349,161	353,888	297,675	279,668
Income taxes	36,053	34,990	28,215	43,820	36,556
Net income	137,938	149,129	116,998	75,272	80,349
Preferred dividends and discount	(4,451)	—	(39)	(58)	(292)
Interest expense on convertible preferred debt	—	—	—	12	51
Net income available to common stockholders	$ 133,487	$ 149,129	$ 116,959	$ 75,226	$ 80,108
PER COMMON SHARE DATA					
Net income – diluted	$ 3.57	$ 4.14	$ 3.52	$ 2.65	$ 3.22
Cash dividends	$ 0.80	$ 0.68	$ 0.59	$ 0.51	$ 0.50
Dividend payout ratio	22.41 %	16.43 %	16.76 %	19.25 %	15.53 %
Book value per common share (GAAP)	$ 46.77	$ 43.00	$ 38.44	$ 33.07	$ 28.31
Tangible book value per common share (non-GAAP)[1]	$ 32.07	$ 29.51	$ 25.70	$ 23.99	$ 22.55
Weighted average shares outstanding-diluted	37,356,524	36,061,908	33,213,148	28,425,652	24,873,430
Tangible common equity ratio (non-GAAP)[1]	7.81 %	8.52 %	8.08 %	7.53 %	7.28 %
Reconciliation of Tangible Book Value Per Common Share (non-GAAP)					
Common equity (GAAP)	$1,968,526	$1,578,137	$1,325,175	$ 990,519	$ 739,559
Less goodwill	576,005	446,345	391,668	236,615	127,699
Less core deposit intangibles and customer relationship intangibles, net	42,383	48,688	47,479	35,203	22,775
Tangible common equity (non-GAAP)	$1,350,138	$1,083,104	$ 886,028	$ 718,701	$ 589,085
Common shares outstanding, net of treasury stock	42,093,862	36,704,278	34,477,499	29,953,356	26,119,929
Common equity (book value) per share (GAAP)	$ 46.77	$ 43.00	$ 38.44	$ 33.07	$ 28.31
Tangible book value per common share (non-GAAP)	$ 32.07	$ 29.51	$ 25.70	$ 23.99	$ 22.55
Reconciliation of Tangible Common Equity Ratio (non-GAAP)					
Total assets (GAAP)	$17,908,339	$13,209,597	$11,408,006	$9,810,739	$8,247,079
Less goodwill	576,005	446,345	391,668	236,615	127,699
Less core deposit intangibles and customer relationship intangibles, net	42,383	48,688	47,479	35,203	22,775
Total tangible assets (non-GAAP)	$17,289,951	$12,714,564	$10,968,859	$9,538,921	$8,096,605
Tangible common equity ratio (non-GAAP)	7.81 %	8.52 %	8.08 %	7.53 %	7.28 %

(1) Refer to the "Non-GAAP Financial Measures" section after these financial tables for additional information on the usage and presentation of these non-GAAP measures, and refer to these tables for reconciliations to the most directly comparable GAAP measures.

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

	As of and For the Years Ended December 31,				
	2020	2019	2018	2017	2016
BALANCE SHEET DATA					
Investments	$6,292,067	$3,435,441	$ 2,715,388	$ 2,492,866	$ 2,131,086
Loans held for sale	57,949	26,748	119,801	44,560	61,261
Total net loans receivable held to maturity	10,023,051	8,367,917	7,407,697	6,391,464	5,351,719
Allowance for credit losses-loans	131,606	70,395	61,963	55,686	54,324
Total assets	17,908,339	13,209,597	11,408,006	9,810,739	8,247,079
Total deposits(1)	14,979,905	11,044,331	9,396,429	8,146,909	6,847,411
Long-term obligations	457,042	275,773	274,905	285,011	288,534
Preferred equity	110,705	—	—	938	1,357
Common stockholders' equity	1,968,526	1,578,137	1,325,175	990,519	739,559
EARNINGS PERFORMANCE DATA					
Annualized return on average assets	0.90 %	1.24 %	1.09 %	0.83 %	0.98 %
Annualized adjusted return on average assets (non-GAAP)(2)	0.93	1.28	1.14	0.88	1.00
Annualized return on average common equity	8.06	10.12	9.93	8.63	11.80
Annualized return on average tangible common equity (non-GAAP)(2)	12.28	15.73	15.72	12.05	15.84
Annualized adjusted return on average tangible common equity (non-GAAP)(2)	12.65	16.25	16.48	12.64	16.16
Annualized net interest margin	3.65	4.00	4.26	4.04	3.95
Annualized net interest margin, fully tax-equivalent (non-GAAP)(2)	3.69	4.04	4.32	4.22	4.13
Efficiency ratio, fully tax-equivalent (non-GAAP)(2)	56.65	62.50	62.59	64.05	65.61
Earnings to fixed charges excluding interest on deposits	8.24x	9.84x	8.59x	7.69x	7.27x
Earnings to fixed charges including interest on deposits	3.80	2.85	3.65	4.30	4.38
ASSET QUALITY RATIOS					
Nonperforming assets to total assets	0.53 %	0.66 %	0.69 %	0.76 %	0.91 %
Nonperforming loans to total loans	0.88	0.96	0.98	0.99	1.20
Net loan charge-offs to average loans	0.32	0.11	0.25	0.24	0.11
Allowance for credit losses to total loans	1.31	0.84	0.84	0.87	1.02
Allowance for credit losses to nonperforming loans	149.37	87.28	85.27	87.82	84.37
CONSOLIDATED CAPITAL RATIOS					
Average equity to average assets	11.59 %	12.26 %	10.94 %	9.69 %	8.53 %
Average common equity to average assets	11.21	12.26	10.93	9.68	8.31
Total capital to risk-adjusted assets	14.71	13.75	13.72	13.45	14.01
Tier 1 capital	11.85	12.31	12.16	11.70	11.93
Common Equity Tier 1	10.92	10.88	10.66	10.07	10.09
Tier 1 leverage	9.02	10.10	9.73	9.20	9.28
Reconciliation of Annualized Return on Average Tangible Common Equity (non-GAAP)					
Net income available to common stockholders (GAAP)	$ 133,487	$ 149,129	$ 116,959	$ 75,226	$ 80,108
Plus core deposit and customer intangibles amortization, net of tax(3)	8,429	9,458	7,391	3,950	3,660
Adjusted net income available to common stockholders (non-GAAP)	$ 141,916	$ 158,587	$ 124,350	$ 79,176	$ 83,768
Average common stockholders' equity (GAAP)	$1,656,708	$1,473,396	$ 1,177,346	$ 871,683	$ 678,989
Less average goodwill	456,854	415,841	340,352	184,554	125,724
Less average other intangibles, net	44,298	49,377	46,206	30,109	24,553
Average tangible common equity (non-GAAP)	$1,155,556	$1,008,178	$ 790,788	$ 657,020	$ 528,712
Annualized return on average common equity (GAAP)	8.06 %	10.12 %	9.93 %	8.63 %	11.80 %
Annualized return on average tangible common equity (non-GAAP)	12.28 %	15.73 %	15.72 %	12.05 %	15.84 %

(1) Includes deposits held for sale

(2) Refer to the "Non-GAAP Financial Measures" for additional information on the usage and presentation of these non-GAAP measures, and refer to these financial tables for the most directly comparable GAAP measures.

(3) Computed on a tax equivalent basis using an effective tax rate of 21% beginning January 1, 2018 and 35% for all prior periods.

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

	As of and For the Years Ended December 31,				
	2020	2019	2018	2017	2016
Reconciliation of Annualized Adjusted Return on Average Assets (non-GAAP)					
Net income available to common stockholders (GAAP)	$ 133,487	$ 149,129	$ 116,959	$ 75,226	$ 80,108
Acquisition, integration and restructuring costs[1]	4,251	5,198	5,976	3,884	1,671
Adjusted net income (non-GAAP)	$ 137,738	$ 154,327	$ 122,935	$ 79,110	$ 81,779
Average assets (GAAP)	$14,782,605	$12,021,917	$10,772,297	$ 9,009,625	$ 8,172,576
Adjusted return on average assets (non-GAAP)	0.93 %	1.28 %	1.14 %	0.88 %	1.00 %
Reconciliation of Annualized Adjusted Return on Average Tangible Common Equity (non-GAAP)					
Adjusted net income (non-GAAP)	$ 137,738	$ 154,327	$ 122,935	$ 79,110	$ 81,779
Plus core deposit and customer relationship intangibles amortization, net of tax[1]	8,429	9,458	7,391	3,950	3,660
Adjusted net income excluding intangible amortization (non-GAAP)	$ 146,167	$ 163,785	$ 130,326	$ 83,060	$ 85,439
Average tangible common equity (GAAP)	$1,155,556	$1,008,178	$ 790,788	$ 657,020	$ 528,712
Annualized adjusted return on average tangible common equity (non-GAAP)	12.65 %	16.25 %	16.48 %	12.64 %	16.16 %
Reconciliation of Annualized Net Interest Margin, Fully Tax-Equivalent (non-GAAP)					
Net interest income (GAAP)	$ 491,729	$ 433,729	$ 413,954	$ 330,308	$ 294,666
Plus tax-equivalent adjustment[1]	5,466	4,929	6,228	15,139	12,919
Net interest income, fully tax-equivalent (non-GAAP)	$ 497,195	$ 438,658	$ 420,182	$ 345,447	$ 307,585
Average earning assets	$13,481,613	$10,845,940	$ 9,718,106	$ 8,181,914	$ 7,455,217
Net interest margin (GAAP)	3.65 %	4.00 %	4.26 %	4.04 %	3.95 %
Net interest margin, fully tax-equivalent (non-GAAP)	3.69 %	4.04 %	4.32 %	4.22 %	4.13 %
Reconciliation of Efficiency Ratio (non-GAAP)					
Net interest income (GAAP)	$ 491,729	$ 433,729	$ 413,954	$ 330,308	$ 294,666
Plus tax-equivalent adjustment[1]	5,466	4,929	6,228	15,139	12,919
Net interest income, fully tax-equivalent	497,195	438,658	420,182	345,447	307,585
Noninterest income	120,291	116,208	109,160	102,022	113,601
Securities gains, net	(7,793)	(7,659)	(1,085)	(6,973)	(11,340)
Unrealized gain on equity securities, net	(640)	(525)	(212)	—	—
Gain on extinguishment of debt	—	(375)	—	(1,280)	—
Valuation adjustment on servicing rights	1,778	911	46	(21)	33
Adjusted revenue (non-GAAP)	$ 610,831	$ 547,218	$ 528,091	$ 439,195	$ 409,879
Total noninterest expenses (GAAP)	$ 370,963	$ 349,161	$ 353,888	$ 297,675	$ 279,668
Less:					
Core deposit intangibles and customer relationship intangibles amortization	10,670	11,972	9,355	6,077	5,630
Partnership investment in tax credit projects	3,801	8,030	4,233	1,860	1,051
(Gain)/loss on sales/valuations of assets, net	5,101	(19,422)	2,208	2,475	1,478
Acquisition, integration and restructuring expenses	5,381	6,580	7,564	5,975	2,571
Adjusted noninterest expenses (non-GAAP)	$ 346,010	$ 342,001	$ 330,528	$ 281,288	$ 268,938
Efficiency ratio, fully tax-equivalent (non-GAAP)	56.65 %	62.50 %	62.59 %	64.05 %	65.61 %
Acquisition, integration and restructuring costs					
Salaries and employee benefits	$ 398	$ 816	$ 1,331	$ 147	$ 125
Occupancy	—	1,215	—	285	6
Furniture and equipment	958	87	602	369	218
Professional fees	3,399	2,365	2,096	3,380	921
Advertising	143	203	49	143	166
(Gain)/loss on sales/valuations of assets, net	—	1,003	2,352	902	—
Other noninterest expenses	483	891	1,134	749	1,135
Total acquisition, integration and restructuring costs	$ 5,381	$ 6,580	$ 7,564	$ 5,975	$ 2,571

(1) Computed on a tax-equivalent basis using an effective tax rate of 21% beginning January 1, 2018 and 35% for all prior periods.

Non-GAAP Financial Measures

This Annual Report on Form 10-K contains references to financial measures which are not defined by generally accepted accounting principles ("GAAP"). Management believes the non-GAAP measures are helpful for investors to analyze and evaluate Heartland's financial condition and operating results. However, these non-GAAP measures have inherent limitations and should not be considered a substitute for operating results determined in accordance with GAAP. Additionally, because non-GAAP measures are not standardized, it may not be possible to compare the non-GAAP measures presented in this section with other companies' non-GAAP measures. Reconciliations of each non-GAAP measure to the most directly comparable GAAP measure may be found in the financial tables above.

The non-GAAP measures presented in this Annual Report on Form 10-K, management's reason for including each measure and the method of calculating each measure are presented below:

- Annualized net interest margin, fully tax-equivalent, adjusts net interest income for the tax-favored status of certain loans and securities. Management believes this measure enhances the comparability of net interest income arising from taxable and tax-exempt sources.
- Efficiency ratio, fully tax equivalent, expresses noninterest expenses as a percentage of fully tax-equivalent net interest income and noninterest income. This efficiency ratio is presented on a tax-equivalent basis which adjusts net interest income and noninterest expenses for the tax favored status of certain loans, securities, and tax credit projects. 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 as noted in the reconciliation contained in this Annual Report on Form 10-K.
- Net interest income, fully tax equivalent, is net income adjusted for the tax-favored status of certain loans and securities. Management believes this measure enhances the comparability of net interest income arising from taxable and tax-exempt sources.
- Tangible book value per common share is total common equity less goodwill and core deposit and customer relationship intangibles, net, divided by common shares outstanding, net of treasury. This measure is included as it is considered to be a critical metric to analyze and evaluate use of equity, financial condition and capital strength.
- Tangible common equity ratio is total common equity less goodwill and core deposit and customer relationship intangibles, net, divided by total assets less goodwill and core deposit and customer relationship intangibles, net. This measure is included as it is considered to be a critical metric to analyze and evaluate financial condition and capital strength.
- Annualized return on average tangible common equity is net income excluding intangible amortization calculated as (1) net income excluding tax-effected core deposit and customer relationship intangibles amortization, divided by (2) average common equity less goodwill and core deposit and customer relationship intangibles, net. This measure is included as it is considered to be a critical metric to analyze and evaluate use of equity, financial condition and capital strength.
- Annualized adjusted return on average tangible common equity excludes tax-effected acquisition, integration and restructuring costs. Management believes the presentation of this non-GAAP measure is useful to compare return on average tangible common equity excluding the variability of acquisition, integration and restructuring costs.
- Annualized adjusted return on average assets is net income available to common stockholders plus acquisition, integration and restructuring costs, net of tax, divided by average assets. Management believes this measure is useful to compare the return on average assets excluding the variability of acquisition, integration and restructuring costs.
- Organic deposit growth is exclusive of deposits obtained through acquisitions and the reclassification of deposits that are held for sale. Management believes that this measure provides a more complete understanding of underlying trends in deposit growth notwithstanding dispositions and acquisitions.
- Organic loan growth is exclusive of loans obtained through acquisitions, PPP loans and the reclassification of loans that are held for sale. Management believes that this measure provides a more complete understanding of underlying trends in loan growth notwithstanding dispositions and acquisitions.

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.

For a discussion of 2018 results of operations, including a discussion of the financial results for the fiscal year ended December 31, 2019, compared to the fiscal year ended December 31, 2018, refer to Part I, Item 7 of our Annual Report on Form 10-K, which was filed with the SEC on February 26, 2020.

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 Credit Losses

The process utilized by Heartland to estimate the allowance for credit losses is considered a critical accounting policy for Heartland. The allowance for credit losses represents management's estimate of identified and unidentified current expected credit losses in the existing loan portfolio. Therefore, the accuracy of this estimate could have a material impact on Heartland's earnings.

For certain commercial and agricultural loans and any related unfunded loan commitments, the expected credit losses are calculated on a pool basis through a transition matrix model derived life of loan probability of default and loss given default methodology. The probability of default and loss given default methodology have been developed using Heartland's historical loss experience over the look back period, currently over the most recent 12 years. For smaller commercial and agricultural loans, residential real estate loans and consumer loans and any related unfunded loan commitments, a lifetime average historical loss rate is established for each pool of loans based upon an average loss rate calculated using Heartland historical loss experience over the look back-period. The loss rates used in the allowance calculation are periodically re-evaluated and adjusted to reflect changes in historical loss levels or other risks.

If a loan no longer shares similar risk characteristics with other loans in the pool, it is evaluated on an individual basis and is not included in the collective evaluation. All individually assessed loan calculations are completed at least semi-annually.

Heartland's allowance methodology also has a qualitative component, the purpose of which is to provide management with a means to take into consideration changes in current conditions that could potentially have an effect, up or down, on the level of recognized loan losses, that, for whatever reason, may not be represented in the quantitative analysis performed in determining its base loan loss rates.

Additionally, our allowance calculation utilizes an overlay approach for its economic forecasting component, similar to the method utilized for the qualitative factors. The length of the reasonable and supportable forecast period is a judgmental determination based on the level to which Heartland can reasonably support its forecast of economic conditions that drive its estimate of expected loss.

The appropriateness of the allowance for credit losses is monitored on an ongoing basis by the credit administration group, loan review staff, executive and senior management and the boards of directors of Heartland and each Bank. There can be no assurances that the allowance for credit losses will be adequate to cover all current expected credit losses, but management believes that the allowance for credit losses was appropriate at December 31, 2020. While management uses available

information to provide for credit 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 financial difficulty, and the level of nonperforming loans, charge-offs, and delinquencies could rise and require further increases in the provision for credit losses. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for credit losses carried by the Banks. 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.

Business Combinations, Goodwill and Core Deposit Intangibles

We record all assets and liabilities purchased in an acquisition, including intangibles, at fair value. Determining the fair value of assets and liabilities acquired often involves estimates based on third-party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques that may include the use of estimates. 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. Core deposit intangibles 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 fair value measurement of loans and core deposit intangibles require us to make subjective judgments concerning estimates of how the acquired assets will perform in the future using valuation methods. The fair value of acquired loans is based on a discounted cash flow methodology that projects principal and interest payments using key assumptions related to the discount rate and loss rates. The fair value of core deposit intangibles is based on the cost savings approach under a discounted cash flow methodology, whereby projected net cash flow benefits are derived from estimating costs to carry deposits compared to alternative funding costs, and includes key assumptions related to the discount rate, deposit attrition rates and net costs, including discounted cash flow analyses. 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.

OVERVIEW

Heartland is a multi-bank holding company providing banking, mortgage, wealth management, investments and insurance services to individuals and businesses. As of the date of this Annual Report on Form 10-K, Heartland has eleven banking subsidiaries with 133 locations in Iowa, Illinois, Wisconsin, New Mexico, Arizona, Montana, Colorado, Minnesota, Kansas, Missouri, Texas and California. 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 and income on bank owned life insurance also affects our results of operations. Our principal operating expenses, aside from interest expense, consist of the provision for credit losses, salaries and employee benefits, occupancy and equipment costs, professional fees, advertising, core deposit intangibles and customer relationship intangibles amortization and other real estate and loan collection expenses.

2020 Overview

Net income available to common stockholders was $133.5 million, or $3.57 per diluted common share, for the year ended December 31, 2020, compared to $149.1 million, or $4.14 per diluted common share, earned during the prior year. Return on average common equity was 8.06% and return on average assets was 0.90% for 2020, compared to 10.12% and 1.24%, respectively, for 2019.

Total assets of Heartland were $17.91 billion at December 31, 2020, an increase of $4.70 billion or 36% from $13.21 billion at year-end 2019. Included in this increase, at fair value, were $1.97 billion of assets acquired in the AimBank transaction and $419.7 million of assets acquired in the Johnson Bank branch transaction. Exclusive of these transactions, total assets increased $2.31 billion or 17% since December 31, 2019. Securities represented 35% of Heartland's total assets at December 31, 2020, compared to 26% at year-end 2019.

Total loans held to maturity were $10.02 billion at December 31, 2020, compared to $8.37 billion at year-end 2019, an increase of $1.66 billion or 20%. This change includes $1.24 billion of total loans held to maturity acquired at fair value in the AimBank and Johnson Bank branch transactions, which included $53.1 million of PPP loans. Excluding the loans acquired in the AimBank and Johnson Bank branch transactions and legacy PPP loans of $904.7 million, total loans held to maturity organically decreased $487.3 million or 6% since December 31, 2019.

Total deposits were $14.98 billion as of December 31, 2020, compared to $11.04 billion at year-end 2019, an increase of $3.94 billion or 36%. This increase includes $2.09 billion of deposits acquired at fair value in the AimBank and Johnson Bank branch transactions. Exclusive of the deposits acquired at fair value in the AimBank and Johnson Bank branch transactions, total deposits organically grew $1.85 billion or 17% since December 31, 2019.

Common stockholders' equity was $1.97 billion at December 31, 2020, compared to $1.58 billion at year-end 2019. Book value per common share was $46.77 at December 31, 2020, compared to $43.00 at year-end 2019. Heartland's unrealized gains and losses on securities available for sale, net of applicable taxes, reflected an unrealized gain of $76.8 million at December 31, 2020, compared to an unrealized gain of $969,000 at December 31, 2019.

2020 Developments

Adoption of ASU 2016-13, *"Financial Instruments - Credit Losses (Topic 326)"*

On January 1, 2020, Heartland adopted ASU 2016-13, *"Financial Instruments - Credit Losses (Topic 326),"* commonly referred to as "CECL." The impact of Heartland's adoption of CECL on January 1, 2020 ("Day 1") resulted in the following:

- an increase of $12.1 million to the allowance for credit losses related to loans, which included a reclassification of $6.0 million of purchased credit impaired loan discount on previously acquired loans, and a cumulative-effect adjustment to retained earnings totaling $4.6 million, net of taxes of $1.5 million;
- an increase of $13.6 million to the allowance for unfunded commitments and a cumulative-effect adjustment to retained earnings totaling $10.2 million, net of taxes of $3.4 million, and
- established an allowance for credit losses for Heartland's held to maturity debt securities of $158,000 and a cumulative-effect adjustment to retained earnings totaling $118,000, net of taxes of $40,000.

The allowance calculation under CECL is an expected loss model, which encompasses expected losses over the life of the loan and held to maturity securities portfolios, including expected losses due to changes in economic conditions and forecasts, such as those caused by the COVID-19 pandemic. For more information, see Note 1, "Basis of Presentation" and Note 6, "Allowance for Credit Losses" to the consolidated financial statements contained herein.

COVID-19

In March 2020, the outbreak of the novel Coronavirus Disease 2019 ("COVID-19") was recognized as a pandemic by the World Health Organization. The spread of COVID-19 has created a global public health crisis that has resulted in unprecedented uncertainty, volatility and disruption in financial markets and in governmental, commercial and consumer activity in the United States, as well as globally. Governmental responses to the pandemic have included orders closing businesses not deemed essential and directing individuals to restrict their movements, observe social distancing and shelter in place. These actions, together with responses to the pandemic by businesses and individuals, have resulted in rapid decreases in commercial and consumer activity, temporary closures of many businesses, which have led to a loss of revenues and a rapid increase in unemployment, material decreases in commodity prices and business valuations, disruptions in global supply chains, market downturns and volatility, changes in consumer behavior related to pandemic fears, emergency response legislation and an expectation that the Federal Reserve will maintain a low interest rate environment for the foreseeable future.

In the first quarter of 2020, Heartland implemented and continues to operate under its pandemic management plan to assure workplace and employee safety and business resiliency. Relief and support provided to employees, customers and communities facing challenges from the impacts of COVID-19 included the following measures:

- employees who can work from home continue to do so, and those employees who are working in bank offices have been placed on rotating teams to limit potential exposure to COVID-19;
- all in-person events and large meetings are canceled and have transitioned to virtual meetings;
- employees receive an increase in time off and enhanced health care coverage related to testing and treatments for COVID-19;
- Heartland has installed and requires the use of personal protective equipment in bank offices;

- Heartland implemented a 20% wage premium for certain customer-facing employees through August 2020, and pandemic pay for employees unable to work due to exposure or contraction of the virus;
- Heartland participates in the Paycheck Protection Program ("PPP"), originally created by the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") and later expanded with the adoption of the Paycheck Protection Program Flexibility Act (the "PPFA") and the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act (the "Economic Aid Act"). PPP loans are 100% SBA guaranteed and borrowers may be eligible to have an amount up to the entire principal balance forgiven and paid by the SBA. Heartland originated $1.2 billion of PPP loans during 2020 and continues to originate PPP loans under the first and second draw programs that were established under the Economic Aid Act.
- Heartland has participated in the CARES Act SBA loan payment and deferral program for existing SBA loans; and
- Heartland has contributed $1.5 million to support communities served by Heartland and its subsidiary banks, including donations of $264,000 to local schools.

While the measures described above remain in effect, Heartland's pandemic management plan continues to evolve in response to the recent developments relating to the COVID-19 pandemic.

The ultimate impact of the COVID-19 pandemic on Heartland's financial condition and results of operations will depend on the severity and duration of the pandemic, related restrictions on business and consumer activity, efficacy and distribution of vaccines and the availability of government programs to alleviate the economic stress of the pandemic. See Heartland's "Safe Harbor Statement" in Part I of this Annual Report on Form 10-K.

Issued $115.0 Million of Preferred Equity

On June 26, 2020, Heartland issued and sold 4.6 million depositary shares, each representing a 1/400th interest in a share of 7.00% Fixed-Rate Reset Non-Cumulative Perpetual Preferred Stock, Series E. The depositary shares are listed on The Nasdaq Global Select Market under the symbol "HTLFP." The net proceeds of $110.7 million are being used for general corporate purposes, which may include organic and acquired growth, financing investments, capital expenditures, investments in wholly-owned subsidiaries as regulatory capital and repayment of debt.

Branch Optimization

In the second half of 2020, Heartland's member banks approved plans to consolidate eight branch locations, which included two branches in the Midwest region, five branches in the Western region and one in the Southwestern region, and resulted in $1.2 million and $2.3 million of fixed asset write-downs in the third and fourth quarters of 2020, respectively. The branch consolidations are expected to be completed in early 2021. Heartland continues to review its branch network for optimization and consolidation opportunities, which may result in additional write-downs of fixed assets in future periods.

Johnson Bank Arizona Operations Purchase and Assumption

On December 4, 2020, Arizona Bank & Trust ("AB&T"), Heartland's wholly-owned subsidiary headquartered in Phoenix, Arizona, acquired certain assets and assumed substantially all of the deposits and certain other liabilities of Johnson Bank's Arizona operations, which included four banking centers. Johnson Bank is a wholly-owned subsidiary of Johnson Financial Group, Inc. headquartered in Racine, Wisconsin. As of the closing date, AB&T acquired, at fair value, total assets of $419.7 million, which included gross loans of $150.7 million, and deposits of $415.5 million. The systems conversion occurred simultaneously with the closing of the transaction.

AimBank Acquisition

On December 4, 2020, Heartland completed the acquisition of AimBank, headquartered in Levelland, Texas. Based on Heartland's closing common stock price of $41.89 on December 4, 2020, the aggregate consideration paid to AimBank common shareholders was $264.5 million, which was paid by delivery of common stock of $217.2 million and cash of $47.3 million, subject to certain hold-back provisions of the merger agreement relating to the cash consideration. AimBank was merged with and into Heartland's wholly-owned Texas subsidiary, First Bank and Trust, and the combined entity operates as First Bank and Trust. As of the closing date, AimBank had, at fair value, total assets of $1.97 billion, which included gross loans of $1.09 billion, and deposits of $1.67 billion. The systems conversion for this transaction occurred in February 2021.

2019 Developments

Net income available to common stockholders was $149.1 million, or $4.14 per diluted common share, for the year ended December 31, 2019, compared to $117.0 million, or $3.52 per diluted common share, earned during 2018. Return on average common equity was 10.12% and return on average assets was 1.24% for 2019, compared to 9.93% and 1.09%, respectively, for 2018.

Total assets of Heartland were $13.21 billion at December 31, 2019, an increase of $1.80 billion or 16% from $11.41 billion at year-end 2018. Included in this increase, at fair value, were $766.2 million of assets acquired in the Blue Valley Ban Corp. transaction and $495.7 million of assets acquired in the Rockford Bank and Trust transaction. Exclusive of these transactions, total assets increased $539.7 million or 5% since December 31, 2018. Securities represented 26% of Heartland's total assets at December 31, 2019, compared to 24% at year-end 2018.

Total loans held to maturity were $8.37 billion at December 31, 2019, compared to $7.41 billion at year-end 2018, an increase of $960.2 million or 13%. This change includes $896.0 million of total loans held to maturity acquired at fair value in the Blue Valley Ban Corp. and Rockford Bank and Trust transactions. During the first quarter of 2019, Heartland classified $32.1 million of loans as held for sale in conjunction with branch sales. Excluding the reclassification of loans to held for sale and the Blue Valley Ban Corp. and Rockford Bank and Trust transactions, total loans held to maturity organically grew $96.3 million or 1% since December 31, 2018.

Total deposits were $11.04 billion as of December 31, 2019, compared to $9.40 billion at year-end 2018, an increase of $1.65 billion or 18%. This increase includes $1.05 billion of deposits acquired at fair value in the Blue Valley Ban Corp. and Rockford Bank and Trust transactions. During the first quarter of 2019, Heartland classified $77.0 million of deposits as held for sale in conjunction with branch sales. Exclusive of the reclassification of deposits to held for sale and the deposits acquired at fair value in the Blue Valley Ban Corp. and Rockford Bank and Trust transactions, total deposits organically grew $677.5 million or 7% since December 31, 2018.

Common stockholders' equity was $1.58 billion at December 31, 2019, compared to $1.33 billion at year-end 2018. Book value per common share was $43.00 at December 31, 2019, compared to $38.44 at year-end 2018. Heartland's unrealized gains and losses on securities available for sale, net of applicable taxes, reflected an unrealized gain of $969,000 at December 31, 2019, compared to an unrealized loss of $32.5 million at December 31, 2018.

Blue Valley Ban Corp. Acquisition

On May 10, 2019, Heartland completed the acquisition of Blue Valley Ban Corp. and its wholly-owned subsidiary, Bank of Blue Valley, headquartered in Overland Park, Kansas. Based on Heartland's closing common stock price of $44.78 per share on May 10, 2019, the aggregate consideration paid to Blue Valley Ban Corp. common shareholders was $92.3 million, which was paid by delivery of 2,060,258 shares of Heartland common stock. On the closing date, in addition to this merger consideration, Heartland provided Blue Valley Ban Corp. the funds necessary to repay outstanding debt of $6.9 million, and Heartland assumed $16.1 million of trust preferred securities at fair value. Immediately following the closing of the transaction, Bank of Blue Valley was merged with and into Heartland's wholly-owned Kansas subsidiary, Morrill & Janes Bank and Trust Company, and the combined entity operates under the Bank of Blue Valley brand. As of the closing date, Blue Valley Ban Corp. had, at fair value, total assets of $766.2 million, total loans held to maturity of $542.0 million, and total deposits of $617.1 million. The transaction was a tax-free reorganization with respect to the stock consideration received by the stockholders of Blue Valley Ban Corp.

Rockford Bank and Trust Company Asset Purchase and Assumption

On November 30, 2019, Heartland's Illinois Bank & Trust subsidiary completed its acquisition of substantially all of the assets and substantially all of the deposits and certain other liabilities of Rockford Bank and Trust Company, headquartered in Rockford, Illinois. The all-cash payment was approximately $46.6 million. Rockford Bank and Trust Company was a wholly-owned subsidiary of Moline, Illinois-based QCR Holdings, Inc. As of the closing date, Rockford Bank and Trust Company had, at fair value, total assets of $495.7 million, which included $354.0 million of gross loans held to maturity, and $430.3 million of deposits.

Branch Sales and Other Divestitures

- On January 11, 2019, Heartland exited the consumer finance business and entered into an agreement to sell the loan portfolios of its consumer finance subsidiaries, Citizens Finance Co. and Citizens Finance of Illinois Co. (collectively, "Citizens"). The loan portfolios had a fair value of $67.2 million and were classified as held for sale as of December 31, 2018. All of the Citizens locations closed in February 2019.

- On February 22, 2019, Heartland completed the sale of two branch locations of Wisconsin Bank & Trust. The sale included loans of $11.7 million and deposits of $48.6 million. Heartland recorded a net gain of $3.2 million in the first quarter of 2019, which consisted of a gain of $3.5 million and write-off of $329,000 of core deposit intangibles.
- On April 30, 2019, Dubuque Bank and Trust Company closed on the sale of substantially all its mortgage servicing rights portfolio, which contained loans with an unpaid principal balance of approximately $3.31 billion to PNC Bank, N.A. The transaction qualified as a sale, and $20.6 million of mortgage servicing rights were de-recognized on the consolidated balance sheet as of June 30, 2019. Cash of $36.6 million was received during 2019, and Heartland recorded a gain on the sale of this portfolio of $14.5 million. In the agreement, which includes customary terms and conditions, Dubuque Bank and Trust Company provided interim servicing of the loans until the transfer date, which was August 1, 2019.
- On May 3, 2019, Heartland completed the sale of two branches of Illinois Bank & Trust. The sale included loans of $1.2 million and deposits of $11.4 million. Heartland recorded a net gain of $340,000 in the second quarter of 2019, which consisted of a gain of $519,000 and write-off of $179,000 of core deposit intangibles.
- On May 17, 2019, Heartland completed the sale of one branch of Citywide Banks. The sale included loans of $8.4 million and deposits of $24.4 million. Heartland recorded a net gain of $1.6 million in the second quarter of 2019, which consisted of a gain of $1.8 million and write-off of $174,000 of core deposit intangibles.
- On May 31, 2019, Heartland completed the sale of two branch locations of Dubuque Bank and Trust Company, which operated as First Community Bank, in Keokuk, Iowa. The sale included loans of $17.5 million and deposits of $72.0 million. Heartland recorded a gain of $4.2 million in the second quarter of 2019.

Through the end of 2019, approximately $14 million of the net gains from the divestitures were invested in talent, process improvement, and technology upgrades that management believes are necessary to support future organic and acquired growth, improve efficiency and ultimately provide a superior customer experience and enhance profitability. Three of the most significant investments in technology and process improvement were:

- a project called Operation Customer Compass, which was focused gaining efficiencies through streamlined and automated processes.
- an upgrade to the existing customer relationship management system to the Salesforce Platform, which is an industry leader for relationship management, and,
- the implementation of nCino, a premier commercial loan origination system.

The integration between nCino and Salesforce improved back office functions and shortened the sales cycle, and these two projects were completed in 2020.

RESULTS OF OPERATIONS

Net Interest Margin and Net Interest Income

Heartland's management monitors and manages net interest income and net interest margin and shares the results with investors because they are indicators of Heartland's profitability and growth of earning assets.

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 net interest income to average earning assets.

Our success in maintaining competitive net interest margin despite the low-interest rate environment has been the result of an increase in average earning assets and a favorable deposit mix. Also contributing to our ability to maintain net interest margin has been the amortization of purchase accounting discounts associated with acquisitions completed since 2015. For the years ended December 31, 2020, 2019 and 2018, our net interest margin included 12 basis points, 18 basis points and 22 basis points, respectively, of purchase accounting discount amortization.

See "Analysis of Average Balances, Tax-Equivalent Yields and Rates" for a description of our use of net interest income and net interest margin on a fully tax-equivalent basis, which is not defined by GAAP, and a reconciliation of annualized net interest margin on a fully tax-equivalent basis to GAAP.

Net interest margin, expressed as a percentage of average earning assets, was 3.65% (3.69% on a fully tax-equivalent basis) during 2020, compared to 4.00% (4.04% on a fully tax-equivalent basis) during 2019 and 4.26% (4.32% on a fully tax-equivalent basis) during 2018.

Total interest income and average earning asset changes for 2020 compared to 2019 were:

- Total interest income increased $22.3 million or 4% to $536.6 million from $514.3 million due to an increase in average earning assets, which was partially offset by a decrease in the average rate on earning assets.
- Total interest income on a tax-equivalent basis (non-GAAP) was $542.1 million compared to $519.3 million, which was an increase of $22.8 million or 4%.
- Average earning assets increased $2.64 billion or 24% to $13.48 billion from $10.85 billion, which was primarily attributable to recent acquisitions, increases in securities and loan growth, including PPP loans.
- The average rate on earning assets decreased 77 basis points to 4.02% compared to 4.79%, which was primarily due to recent decreases in market interest rates and the lower yield on PPP loans, which was 3.25%.

Total interest expense and average interest bearing liability changes for 2020 compared to 2019 were:

- Total interest expense decreased $35.7 million or 44% to $44.9 million compared to $80.6 million.
- The average rate paid on Heartland's interest bearing liabilities decreased to 0.54% compared to 1.14%, which was primarily due to recent decreases in market interest rates.
- Average interest bearing deposits increased $1.16 billion or 17% to $7.81 billion from $6.65 billion, which was primarily attributable to recent acquisitions and deposit growth, including deposits from government stimulus payments and other COVID-19 relief programs.
- The average rate paid on Heartland's interest bearing deposits decreased 57 basis points to 0.39% compared to 0.96%, which was primarily attributable to recent decreases in market interest rates.
- Average borrowings increased $135.9 million or 34% to $538.2 million from $402.3 million. The average interest rate paid on Heartland's borrowings was 2.71% compared to 4.19%.

Net interest income changes for 2020 compared to 2019 were:

- Net interest income totaled $491.7 million compared to $433.7 million, which was an increase of $58.0 million or 13%.
- Net interest income on a tax equivalent basis (non-GAAP) totaled $497.2 million compared to $438.7 million, which was an increase of $58.5 million or 13%.

Total interest income and average earning asset changes for 2019 compared to 2018 were:

- Total interest income increased $48.5 million or 10% to $514.3 million from $465.8 million.
- Total interest income on a tax-equivalent basis was $519.3 million, an increase of $47.2 million or 10% from $472.0 million.
- Average earning assets increased $1.13 billion or 12% to $10.85 billion compared to $9.72 billion, which was primarily attributable to acquisitions completed during 2019 and 2018.
- The average rate earned on average earning assets was 4.79% during 2019 compared to 4.86% during 2018, which was a decrease of seven basis points.

Total interest expense and average interest bearing liability changes for 2019 compared to 2018 were:

- Total interest expense increased $28.7 million or 55% during 2019 to $80.6 million from $51.9 million during 2018.
- The average interest rate paid on Heartland's interest bearing liabilities was 1.14% in 2019 compared to 0.83% in 2018.
- Average interest bearing deposits increased $807.5 million or 14% to $6.65 billion from $5.84 billion.
- The average rate paid on Heartland's interest bearing deposits increased to 0.96% from 0.61%, which was primarily attributable to the full year impact of the 2018 Federal Funds rate increases partially offset by the impact of the three Federal Funds rate cuts in the second half of 2019.

Net interest income changes for 2019 compared to 2018 were:

- Net interest income totaled $433.7 million compared to $414.0 million, which was an increase of $19.8 million or 5%.
- Net interest income on a tax equivalent basis (non-GAAP) totaled $438.7 million compared to $420.2 million, which was an increase of $18.5 million or 4%.

Management believes net interest margin in dollars will continue to increase as the amount of earning assets grows, however net interest margin as a percentage of average earning assets may decrease because of interest rate changes. The Federal

Reserve has indicated it will closely assess economic data and be patient before moving ahead with any additional changes to the Federal Funds rate; therefore, the timing and magnitude of any such changes are uncertain and will depend on domestic and global economic conditions.

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 assets 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. 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, "Derivative Financial Instruments" 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 21%. 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. Deposits held for sale are included in each respective deposit category.

	For the Year Ended December 31,								
	2020			2019			2018		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate	Average Balance	Interest	Rate
Earning Assets									
Securities:									
Taxable	$ 3,901,202	$ 98,263	2.52 %	$ 2,522,365	$ 73,147	2.90 %	$ 1,999,321	$ 54,131	2.71 %
Nontaxable[1]	424,199	15,802	3.73	313,197	12,491	3.99	439,894	17,873	4.06
Total securities	4,325,401	114,065	2.64	2,835,562	85,638	2.95	2,439,215	72,004	2.95
Interest bearing deposits with other banks and other short-term investments	225,024	924	0.41	313,373	6,695	2.14	197,562	3,698	1.87
Federal funds sold	107	—	—	138	4	2.90	430	—	—
Loans:[2][3]									
Commercial and industrial[1]	2,437,183	118,513	4.86	2,445,552	127,796	5.23	2,169,841	123,634	5.70
PPP loans	779,183	25,285	3.25	—	—	—	—	—	—
Owner occupied commercial real estate	1,480,109	72,215	4.88	1,337,910	74,853	5.59	1,222,651	61,289	5.01
Non-owner occupied commercial real estate	1,589,932	78,178	4.92	1,173,233	73,067	6.23	1,097,350	62,311	5.68
Real estate construction	1,007,086	46,785	4.65	947,933	52,668	5.56	731,870	38,271	5.23
Agricultural and agricultural real estate	538,646	25,713	4.77	563,944	29,625	5.25	563,277	28,427	5.05
Residential real estate	793,821	38,210	4.81	862,663	42,876	4.97	888,760	44,351	4.99
Consumer	410,013	22,190	5.41	429,856	26,036	6.06	466,490	38,063	8.16
Less: allowance for credit losses	(104,892)	—	—	(64,224)	—	—	(59,340)	—	—
Net loans	8,931,081	427,089	4.78	7,696,867	426,921	5.55	7,080,899	396,346	5.60
Total earning assets	13,481,613	542,078	4.02 %	10,845,940	519,258	4.79 %	9,718,106	472,048	4.86 %
Nonearning Assets	1,300,992			1,175,977			1,054,191		
Total Assets	**$14,782,605**			**$12,021,917**			**$10,772,297**		
Interest Bearing Liabilities[4]									
Savings	$ 6,718,413	$ 16,560	0.25 %	$ 5,530,503	$ 47,069	0.85 %	$ 4,779,977	$ 25,123	0.53 %
Time deposits	1,088,185	13,727	1.26	1,115,785	16,665	1.49	1,058,769	10,544	1.00
Short-term borrowings	155,467	610	0.39	126,337	1,748	1.38	142,295	1,696	1.19
Other borrowings	382,733	13,986	3.65	275,982	15,118	5.48	272,545	14,503	5.32
Total interest bearing liabilities	8,344,798	44,883	0.54 %	7,048,607	80,600	1.14 %	6,253,586	51,866	0.83 %
Noninterest Bearing Liabilities[4]									
Noninterest bearing deposits	4,554,479			3,384,341			3,265,532		
Accrued interest and other liabilities	169,450			115,573			75,224		
Total noninterest bearing liabilities	4,723,929			3,499,914			3,340,756		
Stockholders' Equity	**1,713,878**			**1,473,396**			**1,177,955**		
Total Liabilities and Equity	**$14,782,605**			**$12,021,917**			**$10,772,297**		
Net interest income, fully tax-equivalent (non-GAAP)[1]		**$ 497,195**			**$ 438,658**			**$ 420,182**	
Net interest spread[1]			**3.48 %**			**3.65 %**			**4.03 %**
Net interest income, fully tax-equivalent (non-GAAP) to total earning assets			**3.69 %**			**4.04 %**			**4.32 %**

(1) Computed on a tax-equivalent basis using an effective tax rate of 21%.

(2) Nonaccrual loans and loans held for sale are included in the average loans outstanding.

(3) In conjunction with the adoption of ASU 2016-13, Heartland reclassified loan balances to more closely align with FDIC codes. All prior period balances have been adjusted.

(4) Includes deposits held for sale.

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.

	For the Years Ended December 31,					
	2020 Compared to 2019 Change Due to			2019 Compared to 2018 Change Due to		
	Volume	Rate	Net	Volume	Rate	Net
Earning Assets/Interest Income						
Investment securities:						
Taxable	$ 35,749	$ (10,633)	$ 25,116	$ 14,953	$ 4,063	$ 19,016
Nontaxable[1]	4,181	(870)	3,311	(5,059)	(323)	(5,382)
Interest bearing deposits	(1,493)	(4,278)	(5,771)	2,415	582	2,997
Federal funds sold	(1)	(3)	(4)	—	4	4
Loans[1][2]	63,383	(63,215)	168	34,195	(3,620)	30,575
Total earning assets	**101,819**	**(78,999)**	**22,820**	**46,504**	**706**	**47,210**
Liabilities/Interest Expense						
Interest bearing deposits[3]:						
Savings	8,443	(38,952)	(30,509)	4,439	17,507	21,946
Time deposits	(403)	(2,535)	(2,938)	595	5,526	6,121
Short-term borrowings	333	(1,471)	(1,138)	(203)	255	52
Other borrowings	4,801	(5,933)	(1,132)	185	430	615
Total interest bearing liabilities	**13,174**	**(48,891)**	**(35,717)**	**5,016**	**23,718**	**28,734**
Net interest income	**$ 88,645**	**$ (30,108)**	**$ 58,537**	**$ 41,488**	**$ (23,012)**	**$ 18,476**

(1) Computed on a tax-equivalent basis using an effective tax rate of 21%.

(2) Nonaccrual loans and loans held for sale are included in average loans outstanding.

(3) Includes deposits held for sale.

PROVISION FOR CREDIT LOSSES

A provision for credit losses is charged to expense to provide, in Heartland management's opinion, an appropriate allowance for credit losses. The following table shows the components of Heartland's provision for credit losses for the years ended December 31, 2020, 2019 and 2018, in thousands:

	For the Years Ended December 31,		
	2020	2019	2018
Provision for credit losses-loans	$ 65,745	$ 16,657	$ 24,013
Provision for credit losses-unfunded commitments[1]	1,428	—	—
Provision for credit losses-held to maturity securities[2]	(107)	—	—
Total provision expense	**$ 67,066**	**$ 16,657**	**$ 24,013**

(1) Prior to the adoption of ASU 2016-13, the provision for unfunded commitments was immaterial and therefore, prior periods are not presented.

(2) Prior to the adoption of ASU 2016-13, there was no requirement to record provision for credit losses for held to maturity securities.

The provision for credit losses was $67.1 million during 2020 compared to $16.7 million during 2019 and $24.0 million during 2018. Loans covered by the allowance totaled $10.02 billion as of December 31, 2020, compared to $6.57 billion as of December 31, 2019, and $5.73 billion as of December 31, 2018.

Provision expense for credit losses for loans increased $49.1 million during 2020 to $65.7 million compared to $16.7 million for the year ended December 31, 2019. The increase in 2020 was primarily attributable to a deteriorated economic outlook due

to the COVID-19 pandemic. The following items contributed to the remainder of the increase during 2020:

- Provision expense of $11.6 million was recorded for one owner-occupied commercial real estate fracking sand company that was individually assessed for allowance for credit losses.
- Provision expense of $5.9 million was recorded for one commercial and industrial loan that was fully charged off.
- Heartland recorded $9.6 million of provision expense for non-PCD loans acquired in the fourth quarter.

Provision expense decreased $7.4 million or 31% during 2019 primarily due to the reduction of net charge offs. Net charge-offs totaled $8.2 million in 2019 compared to $17.7 million in 2018, which was a reduction of $9.5 million or 54%. In 2018, two impaired commercial loans from acquired portfolios totaling $5.8 million required provision expense of $4.0 million. Additionally, provision expense was positively impacted by the sale of the Citizens' Finance loan portfolios in 2019. In 2019, a provision benefit of $631,000 was recorded at Citizens Finance Parent Co. compared to provision expense of $2.2 million in 2018.

At December 31, 2020, the allowance for credit losses for loans was 1.31% of total loans and 149.37% of nonperforming loans compared to 0.84% of loans and 87.28% of nonperforming loans at December 31, 2019, and 0.84% of loans and 85.27% of nonperforming loans at December 31, 2018.

Given the size of Heartland's loan portfolio, the level of organic loan growth, changes in credit quality and the variability that can occur in the factors, such as economic conditions, considered when determining the appropriateness of the allowance for credit losses, Heartland's provision for credit losses will vary from year to year. For additional details on the specific factors considered in establishing the allowance for credit losses, refer to the discussion under the captions "Critical Accounting Policies," "Provision for Credit Losses" and "Allowance for Credit Losses" in Item 7 of this Annual Report on Form 10-K, and the information in Note 1, "Basis of Presentation," and Note 6, "Allowance for Credit Losses" to the consolidated financial statements contained herein.

Heartland believes the allowance for credit losses as of December 31, 2020, was at a level commensurate with the overall risk exposure of the loan portfolio. However, if current economic conditions resulting from COVID-19 continue or further deteriorate, 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 credit losses. Due to the uncertainty of future economic conditions resulting from the COVID-19 pandemic, the provision for credit losses could remain elevated.

NONINTEREST INCOME

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

	For the Years Ended December 31,			% Change	
	2020	**2019**	**2018**	**2020/2019**	**2019/2018**
Service charges and fees	$ 47,467	$ 52,157	$ 48,706	(9)%	7 %
Loan servicing income	2,977	4,843	7,292	(39)	(34)
Trust fees	20,862	19,399	18,393	8	5
Brokerage and insurance commissions	2,756	3,786	4,513	(27)	(16)
Securities gains, net	7,793	7,659	1,085	2	606
Unrealized gain on equity securities, net	640	525	212	22	148
Net gains on sale of loans held for sale	28,515	15,555	21,450	83	(27)
Valuation allowance on servicing rights	(1,778)	(911)	(46)	(95)	(1,880)
Income on bank owned life insurance	3,554	3,785	2,793	(6)	36
Other noninterest income	7,505	9,410	4,762	(20)	98
Total noninterest income	$ 120,291	$ 116,208	$ 109,160	4 %	6 %

Noninterest income was $120.3 million in 2020 compared to $116.2 million in 2019, an increase of $4.1 million or 4%. This increase is the result of higher net gains on sale of loans held for sale, which was partially offset by reduced service charges and fees, loan servicing income and other noninterest income. During 2019, noninterest income was $116.2 million compared to $109.2 million in 2018, an increase of $7.0 million or 6%. This increase is the result of higher service charges and fees, securities gains, net and other noninterest income, the effect of which was partially offset by reduced loan servicing income and net gains on sale of loans held for sale.

Service Charges and Fees

The following table summarizes the changes in service charges and fees for the years ended indicated, in thousands:

	For the Years Ended December 31,			% Change	
	2020	2019	2018	2020/2019	2019/2018
Service charges and fees on deposit accounts	$ 14,441	$ 12,790	$ 11,291	13 %	13 %
Overdraft fees	9,166	11,543	10,796	(21)	7
Customer service fees	177	331	330	(47)	—
Credit card fee income	16,026	15,594	11,893	3	31
Debit card income	7,657	11,899	14,396	(36)	(17)
Total service charges and fees	$ 47,467	$ 52,157	$ 48,706	(9)%	7 %

Total service charges and fees were $47.5 million in 2020, which was a decrease of $4.7 million or 9% from $52.2 million in 2019. The reduction was primarily attributable to lower debit card income and overdraft fees, the effects of which were partially offset by increased service charges and fees on deposit accounts. Total service charges and fees in 2019 were $52.2 million, which was an increase of $3.5 million or 7% from $48.7 million in 2018.

Service charges and fees on deposit accounts totaled $14.4 million during 2020 compared to $12.8 million during 2019 and $11.3 million during 2018. The increases in service charges and fees on deposit accounts are primarily attributable to a larger customer base.

Overdraft fees totaled $9.2 million during 2020, $11.5 million during 2019 and $10.8 million during 2018. The decrease in overdraft fees for 2020 was primarily attributable to reduced customer activity due to the COVID-19 pandemic. The increase in overdraft fees for 2019 were primarily attributable to a larger customer base.

Credit card fee income totaled $16.0 million during 2020 compared to $15.6 million during 2019 and $11.9 million in 2018. These increases resulted primarily from efforts to increase the level of commercial credit card services provided at the Banks, including recently acquired Banks. Heartland has focused on expanding its card payment solution for businesses. As an example, Heartland introduced an expense management service that provides business customers the ability to more efficiently manage their card-based spending.

Interchange revenue from activity on bank debit cards, along with surcharges on ATM activity, resulted in debit card income of $7.7 million during 2020, $11.9 million during 2019 and $14.4 million during 2018. The decrease in 2020 was primarily attributable to reduced volume due to the COVID-19 pandemic and the impact of the Durbin Amendment, which restricts the interchange fees to those which are "reasonable and proportionate" for certain debit card issuers and limits the ability of networks and issuers to restrict debit card transaction routing. The Durbin Amendment, which was effective for Heartland on July 1, 2019, also negatively impacted the interchange revenue recorded during the second half of 2019, resulting in the decrease in debit card income in 2019 compared to 2018.

Loan Servicing Income

The following tables show the changes in loan servicing income for the years indicated, in thousands:

	For the Years Ended December 31,			% Change	
	2020	2019	2018	2020/2019	2019/2018
Commercial and agricultural loan servicing fees(1)	$ 3,287	$ 3,110	$ 3,229	6 %	(4)%
Residential mortgage servicing fees(2)	1,726	4,901	9,931	(65)	(51)
Mortgage servicing rights amortization	(2,036)	(3,168)	(5,868)	(36)	(46)
Total loan servicing income	$ 2,977	$ 4,843	$ 7,292	(39)%	(34)%

(1) Includes servicing fees for commercial, commercial real estate, agricultural and agricultural real estate loans and amortization of capitalized commercial servicing rights.

(2) Heartland's mortgage servicing portfolio totaled $743.3 million, $616.7 million and $4.10 billion as of December 31, 2020, 2019 and 2018, respectively.

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 $3.0 million for 2020 compared to $4.8 million for 2019 and $7.3 million for 2018.

Loan servicing income related to the servicing of commercial and agricultural loans totaled $3.3 million during 2020 compared to $3.1 million during 2019 and $3.2 million during 2018.

Fees collected for the servicing of mortgage loans, primarily for GSEs, were $1.7 million during 2020 compared to $4.9 million during 2019 and $9.9 million during 2018. Included in and offsetting loan servicing income is the amortization of capitalized servicing rights, which was $2.0 million during 2020 compared to $3.2 million during 2019 and $5.9 million during 2018. The decreases in mortgage loan servicing income and the amortization of servicing rights in 2020 and 2019 were primarily due to the sale of Dubuque Bank and Trust Company's mortgage servicing portfolio on April 30, 2019.

The portfolio of mortgage loans serviced by Heartland, primarily for GSEs, totaled $743.3 million at December 31, 2020, compared to $616.7 million at December 31, 2019, and $4.10 billion at December 31, 2018. The decrease in the mortgage servicing portfolio in 2020 and 2019 was primarily attributable to the sale of the mortgage servicing portfolio of Dubuque Bank and Trust Company previously discussed. Note 8, "Goodwill, Core Deposit Intangibles and Other Intangible Assets," to the consolidated financial statements contains a discussion of our servicing rights.

Net Gains on Sale of Loans Held for Sale

Net gains on sale of loans held for sale totaled $28.5 million during 2020 compared to $15.6 million during 2019 and $21.5 million during 2018. These gains result primarily from the gain or loss on sales of mortgage loans into the secondary market, related fees and fair value marks on the associated derivatives. The increase during 2020 was primarily due to an increase in residential mortgage loan refinancing activity in response to recent declines in mortgage interest rates. Due to the closure of Heartland's legacy mortgage lending business in early 2019, net gains on sales of residential mortgage loans primarily reflected First Bank & Trust mortgage production in 2020 and 2019.

Other Noninterest Income

Other noninterest income was $7.5 million during 2020 compared to $9.4 million during 2019 and $4.8 million during 2018, which was a decrease of $1.9 million or 20% during 2020 and an increase of $4.6 million or 98% during 2019. Commercial swap fee income decreased $1.3 million or 55% to $1.1 million during 2020 compared to an increase of $1.4 million or 142% to $2.4 million for 2019. The increase in 2019 included $768,000 of swap fee income related to one large commercial loan at Dubuque Bank and Trust Company. Also included in other noninterest income for 2020 was $854,000 of death benefits on bank owned life insurance compared to $1.3 million in 2019. Additionally in 2019, Heartland recorded $266,000 of noninterest income for a recovery on an acquired loan that was charged off prior to acquisition and $375,000 of other noninterest income for the gain on extinguishment of debt. There were no similar items recorded in 2020.

NONINTEREST EXPENSES

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

	For the Years Ended December 31,			% Change	
	2020	2019	2018	2020/2019	2019/2018
Salaries and employee benefits	$ 202,668	$ 200,341	$ 195,362	1 %	3 %
Occupancy	26,554	25,429	25,328	4	—
Furniture and equipment	12,514	12,013	11,927	4	1
Professional fees	54,068	47,697	41,414	13	15
Advertising	5,235	9,825	9,516	(47)	3
Core deposit intangibles and customer relationship intangibles amortization	10,670	11,972	9,355	(11)	28
Other real estate and loan collection expenses	1,340	1,035	3,038	29	(66)
(Gain)/loss on sales/valuations of assets, net	5,101	(19,422)	1,845	126	(1,153)
Acquisition, integration and restructuring costs	5,381	6,580	7,564	(18)	(13)
Partnership investment in tax credit projects	3,801	8,030	4,233	(53)	90
Other noninterest expenses	43,631	45,661	44,306	(4)	3
Total noninterest expenses	$ 370,963	$ 349,161	$ 353,888	6 %	(1)%

Noninterest expenses totaled $371.0 million in 2020 compared to $349.2 million in 2019, a $21.8 million or 6% increase, with the most significant increases in professional fees and losses on sales/valuations of assets, net, which were partially offset by decreases in advertising, acquisition, integration and restructuring costs and partnership investment in tax credit projects. Noninterest expenses totaled $349.2 million in 2019 compared to $353.9 million in 2018, a $4.7 million or 1% decrease, with the most significant increases in professional fees and core deposit intangibles and customer relationship intangibles amortization, which were offset by net gains on sales/valuations of assets.

Salaries and Employee Benefits

The largest component of noninterest expense, salaries and employee benefits, increased $2.3 million or 1% to $202.7 million in 2020 and $5.0 million or 3% to $200.3 million in 2019. Full-time equivalent employees totaled 2,013 on December 31, 2020, compared to 1,908 on December 31, 2019, and 2,045 on December 31, 2018. The increase in full-time equivalent employees as of December 31, 2020 was primarily due to the acquisitions completed in the fourth quarter of 2020. The reduction in full-time equivalent employees in 2019 was primarily attributable to the closure of Heartland's legacy mortgage operations, the sale of the Citizen's Finance loan portfolios and the efficiency opportunities realized from Operation Customer Compass.

Professional Fees

Professional fees increased $6.4 million or 13% to $54.1 million during 2020 and $6.3 million or 15% to $47.7 million during 2019. Included in professional fees for 2020 was $5.7 million of FDIC insurance assessments compared to $860,000 in 2019. The increase for 2020 was due to the expiration of small bank credits, which were applied to FDIC assessments for the year ended December 31, 2019. Professional fees recorded in 2019 related to Heartland's strategic initiatives totaled $4.7 million. The remainder of the increases for 2019 were primarily attributable to the services provided to Heartland by third-party advisors, including services performed related to mergers and acquisitions, model validation expenses and advisory services associated with the increased level of regulation resulting from Heartland having assets over $10 billion.

Advertising

Advertising expense decreased $4.6 million or 47% to $5.2 million during 2020 and increased $309,000 or 3% to $9.8 million during 2019. The decrease for the year ended December 31, 2020 was primarily attributable to a reduction of in-person customer events and an overall managed reduction in marketing spend in response to operational environment changes caused by the COVID-19 pandemic.

Core Deposit Intangibles and Customer Relationship Intangibles Amortization

Core deposit intangibles and customer relationship intangibles amortization totaled $10.7 million during 2020 compared to $12.0 million during 2019 and $9.4 million in 2018, which was a decrease of $1.3 million or 11% and an increase of $2.6 million or 28%. Included in core deposit intangibles and customer relationship intangibles amortization in 2019 were write-offs totaling $682,000 related to the branch sales at Illinois Bank & Trust, Citywide Banks and Wisconsin Bank & Trust. No comparable transactions were recorded in 2020. The remainder of the changes for the years ended December 31, 2020 and 2019 were attributable to recent acquisitions.

Net Gains/Losses on Sales/Valuations of Assets

Net losses on sales/valuations of assets totaled $5.1 million during 2020 compared to gains of $19.4 million during 2019 and losses of $1.8 million during 2018. During the second half of 2020, Heartland recorded $3.5 million of fixed asset write-downs related to eight branch consolidations. In 2019, Heartland recorded $24.5 million of gains associated with the branch sales and the sale of the mortgage servicing rights portfolio previously discussed. Excluding these sales, net losses of $5.1 million were recorded in 2019, of which $4.6 million related to write-downs and disposals of fixed assets related to closed branch locations.

Acquisition, Integration and Restructuring Costs

Acquisition, integration and restructuring costs totaled $5.4 million, $6.6 million and $7.6 million in 2020, 2019 and 2018, respectively. In 2020, the acquisition, integration and restructuring costs consisted primarily of professional fees and furniture and equipment expenses associated with the acquisitions completed in the fourth quarter. In 2019, the restructuring expenses consisted of severance and retention payments for legacy mortgage and Citizens' Finance Co. employees, software discontinuation fees and expected lease buyouts.

Partnership Investment in Tax Credit Projects

Partnership investment in tax credit projects totaled $3.8 million, $8.0 million and $4.2 million for the years ended December 31, 2020, 2019 and 2018, respectively. The expense is dependent upon the number of tax credit projects placed in service during the year.

Excluding the items noted above, increases in all other noninterest expense categories for the years ended December 31, 2020, and 2019, were primarily attributable to recent acquisitions.

EFFICIENCY RATIO

One of Heartland's top priorities has been to improve its efficiency ratio, on a fully tax-equivalent basis (non-GAAP), with the goal of reducing it to below 57%. The efficiency ratio, fully tax-equivalent (non-GAAP), improved during 2020 to 56.65% compared to 62.50% for 2019 and 62.59% for 2018. The process improvement and automation opportunities realized from Operation Customer Compass contributed to the lower efficiency ratio. Branch closures and consolidations also contributed to the improved efficiency ratio, and management continues to review branch locations for additional optimization opportunities. Additionally, systems conversions of newly acquired entities are completed as soon as possible after the closing of the transaction to optimize cost savings.

See "Selected Financial Data" in Item 6 of this Annual Report on Form 10-K for a description of the calculation of the efficiency ratio on a fully tax-equivalent basis, which is a non-GAAP financial measure.

INCOME TAXES

Heartland's effective tax rate was 20.7% for 2020 compared to 19.0% for 2019 and 19.4% for 2018. The following items impacted Heartland's 2020, 2019 and 2018 tax calculations:

- Solar energy tax credits of $2.3 million, $4.0 million and $2.9 million.
- Federal low-income housing tax credits of $780,000, $1.1 million and $1.2 million.
- Historic rehabilitation tax credits of $1.1 million, $1.8 million and $0.
- New markets tax credits of $300,000, $0 and $0.
- Tax-exempt interest income as a percentage of pre-tax income of 11.8%, 10.1% and 16.1%.
- The tax-equivalent adjustment for this tax-exempt interest income was $5.5 million, $4.9 million and $6.2 million.
- Tax benefits of $617,000, $1.9 million and $0 related to the release of valuation allowances on deferred tax assets.

FINANCIAL CONDITION

Heartland's total assets were $17.91 billion at December 31, 2020, an increase of $4.70 billion or 36% since December 31, 2019. Included in this increase, at fair value, were $1.97 billion of assets acquired in the AimBank transaction and $419.7 million of assets acquired in the Johnson Bank branch transaction. Heartland's total assets were $13.21 billion at December 31, 2019, an increase of $1.80 billion or 16% compared to $11.41 billion at December 31, 2018. Included in this increase, at fair value, were $766.2 million of assets acquired in the Blue Valley Ban Corp. transaction and $495.7 million of assets acquired in the Rockford Bank and Trust Company transaction.

LENDING ACTIVITIES

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

In conjunction with the adoption of ASU 2016-13, Heartland reclassified loan balances to more closely align with FDIC codes. All prior periods shown in this Annual Report on Form 10-K have been adjusted.

Heartland originates commercial and industrial loans and owner occupied commercial real estate loans for a wide variety of business purposes, 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 if warranted by the overall financial condition of the borrower. Terms of commercial business loans generally range from one to five years. Commercial loans are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The risks in the commercial and industrial portfolio include the unpredictability of the cash flow of the borrowers and the variability in the value of the collateral securing the loans. Owner occupied commercial real estate loans are dependent upon the cash flow of the borrowers and the collateral value of the real estate.

Heartland originated $1.20 billion of PPP loans during 2020, and Heartland acquired $53.1 million of PPP loans in the AimBank transaction. At December 31, 2020, Heartland had $957.8 million of PPP loans outstanding, which was net of $19.3 million of unamortized deferred fees. Under the CARES Act, PPP loans are 100% SBA guaranteed, and borrowers may be eligible to have an amount up to the entire principal balance forgiven and paid by the SBA. PPP loans also carry a zero risk rating for regulatory capital purposes and the Federal Reserve has made available a liquidity facility to facilitate funding of PPP loans held by banks. Because these loans are 100% guaranteed by the SBA, there is no allowance recorded related to the PPP loans.

Non-owner occupied commercial real estate loans provide financing for various non-owner occupied or income producing properties. Real estate construction loans are generally short-term or interim loans that provide financing for acquiring or developing commercial income properties, multi-family projects or single-family residential homes. The collateral that Heartland requires for most of these loans is based upon the discounted market value of the collateral. Non-owner occupied commercial real estate loans are typically dependent, in large part, on sufficient income from the properties securing the loans to cover the operating expenses and debt service. Real estate construction loans involve additional risks because funds are advanced based upon estimates of costs and the estimated value of the completed project. Additionally, real estate construction loans have a greater risk of default in a weaker economy because the source of repayment is reliant on the successful and timely sale of the project. Personal guarantees are frequently required as a tertiary form of repayment. In addition, when underwriting loans for commercial real estate, careful consideration is given to the property's operating history, future operating projections, current and projected occupancy, location and physical condition.

Agricultural and agricultural real estate 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 and agricultural real estate loans present unique credit risks relating to adverse weather conditions, loss of livestock due to disease or other reasons, declines in market prices for agricultural products and the impact of government regulations. The ultimate repayment of agricultural and agricultural real estate loans is dependent upon the profitable operation or management of the agricultural entity. Loans secured by farm equipment, livestock or crops may not provide an adequate source of repayment because of damage or depreciation. In underwriting agricultural and agricultural real estate loans, lending personnel work closely with their customers to review budgets and cash flow projections for crop production for the ensuing year. These budgets and cash flow projections are monitored closely during the year and reviewed with the customers at least annually. Lending personnel work closely with governmental agencies, including the U.S. Small Business Administration and U.S. Department of Agriculture's Rural Development Business and Industry Program Farm Service Agency, to help agricultural customers obtain credit enhancement products, such as loan guarantees, longer-term funding or interest assistance, to reduce risk.

Residential real estate loans are originated for the purchase or refinancing of single family residential properties. Residential real estate loans are dependent upon the borrower's ability to repay the loan and the underlying collateral value. During the fourth quarter of 2018, Heartland entered into arrangements with third parties to offer residential real estate loans to customers in many of its markets. In addition, the acquisition in 2018 of First Bank & Trust in Lubbock, Texas, included its wholly owned mortgage subsidiary, PrimeWest Mortgage Corporation, which was merged into First Bank & Trust in April 2020. First Bank & Trust provides mortgage loans to customers in Texas and has expanded to also serve the mortgage needs of customers in many of Heartland's markets. First Bank & Trust services the loans it sells into the secondary market.

Consumer lending includes motor vehicle, home improvement, home equity and small personal credit lines. Consumer loans typically have shorter terms, lower balances, higher yields and higher risks of default than one-to-four-family residential mortgage loans. Consumer loan collections are dependent on the borrower's continuing financial stability and are therefore more likely to be affected by adverse personal circumstances. Risk is reduced through underwriting criteria, which include credit verification, appraisals, a review of the borrower's financial condition, and personal cash flows. A security interest, with title insurance when necessary, is taken in the underlying real estate.

At December 31, 2020, $234.4 million or 57% of the consumer loan portfolio were in home equity lines of credit ("HELOCs") compared to $247.1 million or 56% at December 31, 2019. Under our policy guidelines for the underwriting of these lines of credit, the customer may generally receive advances of up to 80% of the value of the property.

The Banks 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 Banks may make loans to borrowers possessing subprime characteristics if there are mitigating factors present that reduce the potential default risk of the loan.

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

	As of December 31,									
	2020		2019		2018		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Loans receivable held to maturity:										
Commercial and industrial	$ 2,534,799	25.29 %	$ 2,530,809	30.24 %	$2,134,840	28.81 %	$ 1,797,146	28.12 %	$ 1,439,919	26.90 %
Paycheck Protection Program ("PPP")	957,785	9.56	—	—	—	—	—	—	—	—
Owner occupied commercial real estate	1,776,406	17.72	1,472,704	17.60	1,273,762	17.20	1,042,882	16.32	861,206	16.09
Non-owner occupied commercial real estate	1,921,481	19.17	1,495,877	17.88	1,269,056	17.13	1,190,374	18.62	921,948	17.23
Real estate construction	863,220	8.61	1,027,081	12.27	843,463	11.39	641,471	10.04	517,918	9.68
Agricultural and agricultural real estate	714,526	7.13	565,837	6.76	580,810	7.84	511,869	8.01	490,589	9.17
Residential real estate	840,442	8.39	832,277	9.95	887,984	11.99	791,551	12.38	729,907	13.64
Consumer	414,392	4.13	443,332	5.30	417,782	5.64	416,171	6.51	390,232	7.29
Total loans receivable held to maturity	10,023,051	100.00 %	8,367,917	100.00 %	7,407,697	100.00 %	6,391,464	100.00 %	5,351,719	100.00 %
Allowance for credit losses	(131,606)		(70,395)		(61,963)		(55,686)		(54,324)	
Loans receivable, net	$ 9,891,445		$ 8,297,522		$7,345,734		$ 6,335,778		$ 5,297,395	

Loans held for sale totaled $57.9 million at December 31, 2020, and $26.7 million at December 31, 2019, which were primarily residential mortgage loans. Loans held for sale totaled $119.8 million at December 31, 2018, which included $96.0 million of loans to be sold in conjunction with the pending branch sales and Citizens' loan portfolios.

The table below sets forth the remaining maturities of loans held to maturity by category as of December 31, 2020, in thousands. Maturities are based upon contractual dates.

		Over 1 Year Through 5 Years		Over 5 Years		
	One Year or Less	Fixed Rate	Floating Rate	Fixed Rate	Floating Rate	Total
Commercial and industrial	$ 889,000	$ 625,782	$ 327,848	$ 476,893	$ 215,276	$ 2,534,799
PPP	657	957,128	—	—	—	957,785
Owner occupied commercial real estate	288,469	498,389	234,636	250,479	504,433	1,776,406
Non-owner occupied commercial real estate	277,241	713,950	340,043	173,615	416,632	1,921,481
Real estate construction	316,104	229,650	163,740	49,446	104,280	863,220
Agricultural and agricultural real estate	278,683	183,012	70,453	80,979	101,399	714,526
Residential real estate	106,540	145,057	79,864	215,611	293,370	840,442
Consumer	50,160	18,388	84,649	15,603	245,592	414,392
Total	$ 2,206,854	$ 3,371,356	$1,301,233	$1,262,626	$1,880,982	$10,023,051

Total loans

Total loans held to maturity were $10.02 billion at December 31, 2020, compared to $8.37 billion at year-end 2019, an increase of $1.66 billion or 20%. This change includes $1.24 billion of total loans held to maturity acquired at fair value in the fourth quarter in the AimBank and Johnson Bank branch transactions, which included $53.1 million of PPP loans. Excluding the loans acquired in the AimBank and Johnson Bank branch transactions and legacy PPP loans of $904.7 million, total loans held to maturity organically decreased $487.3 million or 6% since December 31, 2019.

Total loans held to maturity were $8.37 billion at December 31, 2019, compared to $7.41 billion at year-end 2018, an increase of $960.2 million or 13%. Excluding $32.1 million of loans that were reclassified as held for sale in conjunction with the branch sales and the Citizens transaction and $896.0 million of loans acquired from Blue Valley Ban Corp. and Rockford Bank and Trust Company in 2019, total loans held to maturity organically increased $96.3 million or 1% since year-end 2018.

The table below shows the changes in loan balances by loan category for the years indicated, in thousands:

	As of December 31,			% Change	
	2020	2019	2018	2020/2019	2019/2018
Commercial and industrial	$ 2,534,799	$ 2,530,809	$ 2,134,840	— %	19 %
PPP	957,785	—	—	100	—
Owner occupied commercial real estate	1,776,406	1,472,704	1,273,762	21	16
Non-owner occupied commercial real estate	1,921,481	1,495,877	1,269,056	28	18
Real estate construction	863,220	1,027,081	843,463	(16)	22
Agricultural and agricultural real estate	714,526	565,837	580,810	26	(3)
Residential real estate	840,442	832,277	887,984	1	(6)
Consumer	414,392	443,332	417,782	(7)	6
Total	$ 10,023,051	$ 8,367,917	$ 7,407,697	20 %	13 %

Commercial and industrial loans

Commercial and industrial loans, which totaled $2.53 billion at December 31, 2020, increased $4.0 million or less than 1% from $2.53 billion at year-end 2019. Commercial and industrial loans increased $396.0 million or 19% to $2.53 billion at December 31, 2019 from $2.13 billion at year-end 2018. Changes to commercial and industrial loans for the years ended December 31, 2020 and 2019 were:

- Excluding $186.8 million of loans acquired in the AimBank and Johnson Bank branch transactions, loans organically decreased $182.8 million or 7% since December 31, 2019.
- Excluding $12.7 million of loans classified as held for sale during the first quarter of 2019 and $296.0 million of loans acquired in the Blue Valley Ban Corp. and Rockford Bank and Trust Company transactions, loans organically increased $112.7 million or 5% since year-end 2018.

PPP loans

At December 31, 2020, Heartland had $957.8 million of PPP loans outstanding, which was net of $19.3 million of unamortized deferred fees, and included $53.1 million of loans acquired in the AimBank transaction. Under the CARES Act, PPP loans are 100% SBA guaranteed and borrowers may be eligible to have an amount up to the entire principal balance forgiven and paid by the SBA. PPP loans also carry a zero risk rating for regulatory capital purposes, and the Federal Reserve has made available a liquidity facility to facilitate funding of PPP loans held by banks.

Owner occupied commercial real estate loans

Owner occupied commercial real estate loans totaled $1.78 billion at December 31, 2020, which was an increase of $303.7 million or 21% from $1.47 billion at year-end 2019. Owner occupied commercial real estate loans increased $198.9 million or 16% to $1.47 billion at December 31, 2019 from $1.27 billion at December 31, 2018. Changes to owner occupied real estate loans for the years ended December 31, 2020 and 2019 were:

- Excluding $182.1 million of loans acquired in the AimBank and Johnson Bank branch transactions, loans organically increased $121.6 million or 8% since December 31, 2019.
- Excluding $593,000 of loans transferred to held for sale in the first quarter of 2019 and $159.3 million of loans acquired in the Blue Valley Ban Corp. and Rockford Bank and Trust Company transactions, loans organically increased $40.2 million or 3% since year-end 2018.

Non-owner occupied commercial real estate loans

Non-owner occupied commercial real estate loans totaled $1.92 billion at December 31, 2020, which was an increase of $425.6 million or 28% from $1.50 billion at year-end 2019. Non-owner occupied commercial real estate loans totaled $1.50 billion at December 31, 2019, which was an increase of $226.8 million or 18% from $1.27 billion at year-end 2018. Changes to non-owner occupied commercial real estate loans for the years ended December 31, 2020 and 2019 were:

- Excluding $218.7 million of loans acquired in the AimBank and Johnson Bank branch transactions, loans organically increased $206.9 million or 14% since December 31, 2019.
- Excluding $90,000 of loans transferred to held for sale in the first quarter of 2019 and $232.3 million of loans acquired in the Blue Valley Ban Corp. and Rockford Bank and Trust Company transactions, loans organically decreased $5.4 million or less than 1% since year-end 2018.

Real estate construction loans
Real estate construction loans totaled $863.2 million at December 31, 2020, which was a decrease of $163.9 million or 16% from $1.03 billion at year-end 2019. Real estate construction loans totaled $1.03 billion at December 31, 2019, which was an increase of $183.6 million or 22% from $843.5 million at December 31, 2018. Changes to real estate construction loans for the years ended December 31, 2020 and 2019 were:

- Excluding $100.9 million of loans acquired in the AimBank and Johnson Bank branch transactions, loans organically decreased $264.8 million or 26% since December 31, 2019.
- Excluding $520,000 of loans transferred to held for sale in the first quarter of 2019 and $74.7 million of loans acquired in the Blue Valley Ban Corp. and Rockford Bank and Trust Company transactions, loans organically increased $109.5 million or 13% since year end 2018.

The organic increases in owner-occupied and non-owner occupied commercial real estate loans during 2020 were primarily the result of real estate construction loans moving to permanent financing.

Agricultural and agricultural real estate loans
Agricultural and agricultural real estate loans totaled $714.5 million at December 31, 2020, which was an increase of $148.7 million or 26% from $565.8 million at December 31, 2019. Agricultural and agricultural real estate loans totaled $565.8 million at December 31, 2019, which was a decrease of $15.0 million or 3% from $580.8 million at December 31, 2018. Changes to agricultural and agricultural real estate loans for the years ended December 31, 2020 and 2019 were:

- Excluding $247.5 million of loans acquired in the AimBank transaction, loans organically decreased $98.8 million or 17% since December 31, 2019.
- Excluding $6.6 million of loans transferred to held for sale in the first quarter of 2019 and $3.2 million of loans acquired in the Blue Valley Ban Corp. and Rockford Bank and Trust Company transactions, loans organically decreased $11.6 million or 2% since year-end 2018.

The organic decreases in the agricultural and agricultural real estate loans during 2020 and 2019 were primarily attributable to scheduled paydowns.

Residential real estate loans
Residential real estate loans totaled $840.4 million at December 31, 2020, which was an increase of $8.2 million or 1% from $832.3 million at December 31, 2019. Residential real estate loans totaled $832.3 million at December 31, 2019, which was a decrease of $55.7 million or 6% from $888.0 million at year-end 2018. Changes to residential real estate loans for the years ended December 31, 2020 and 2019 were:

- Excluding $197.3 million of loans acquired in the AimBank and Johnson Bank branch transactions, loans organically decreased $189.2 million or 23% since December 31, 2019.
- Excluding $7.2 million of loans transferred to held for sale in the first quarter of 2019 and $92.8 million of loans acquired in the Blue Valley Ban Corp. and Rockford Bank and Trust Company transactions, loans organically decreased $141.3 million or 16% since year-end 2018.

Consumer loans
Consumer loans totaled $414.4 million at December 31, 2020, which was a decrease of $28.9 million or 7% from $443.3 million at December 31, 2019. Consumer loans totaled $443.3 million at December 31, 2019, which was an increase of $25.6 million or 6% from $417.8 million at year-end 2018. Changes to consumer loans for the years ended December 31, 2020 and 2019 were:

- Excluding $51.4 million of loans acquired in the AimBank and Johnson Bank branch transactions, loans organically decreased $80.3 million or 18% since December 31, 2019.
- Excluding $4.4 million of loans transferred to held for sale in the first quarter of 2019 and $37.7 million of loans acquired in the Blue Valley Ban Corp. and Rockford Bank and Trust Company transactions, loans organically decreased $7.8 million or 2% since year-end 2018.

The organic decreases in 2020 and 2019 in the residential real estate and consumer loans portfolios were primarily the result of customers refinancing loans due to the recent decreases in residential mortgage interest rates.

The continued economic disruption resulting from the COVID-19 pandemic will make it difficult for some customers to repay the principal and interest on their loans, and the Banks have been working with customers to modify the terms of certain

existing loans. The following table shows the total loans exposure as of December 31, 2020, to customer segment profiles that Heartland believes will be more heavily impact by COVID-19, dollars in thousands:

Industry	Total Exposure[(1)]	% of Total Gross Exposure[(1)]
Lodging	$ 539,434	4.38 %
Retail trade	465,980	3.78
Retail properties	422,794	3.43
Restaurants and bars	266,053	2.16
Oil and gas	122,256	0.99
Total	**$ 1,816,517**	**14.74 %**

(1) Total loans outstanding and unfunded commitments excluding PPP loans

Although repayment risk exists on all loans, different factors influence repayment risk for each type of loan. The primary risks associated with commercial, commercial real estate and agricultural loans are the quality of the borrower's management and the health of national and regional economies. Additionally, repayment of commercial real estate, real estate construction 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 Banks to follow tested and prudent loan policies and underwriting practices, which include: (i) making loans on a sound and collectible basis; (ii) verifying 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) appropriately documenting each loan and augmenting government guaranteed lending programs and adequate insurance.

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, testing loan ratings assigned by loan officers, identifying potential problem loans and monitoring the adequacy of the allowance for credit losses at the Banks. An integral part of our loan review program is a loan rating system, under which a rating is assigned to each loan within the portfolio based on the borrower's financial position, repayment ability, collateral position and repayment history.

ALLOWANCE FOR CREDIT LOSSES

On January 1, 2020, Heartland adopted ASU 2016-13, "*Financial Instruments - Credit Losses (Topic 326),"* which replaces the incurred loss methodology with a current expected credit loss ("CECL") methodology. Additionally, ASU 2016-13 required an allowance for unfunded commitments to be calculated using a CECL methodology. Heartland's CECL methodology is comprised of three parts: a quantitative calculation, a qualitative calculation, and an economic forecasting component.

The process utilized by Heartland to determine the appropriateness of the allowance for credit losses is considered a critical accounting practice for Heartland and has been updated to be in accordance with CECL as of January 1, 2020. All prior periods are presented in accordance with prior GAAP. The allowance for credit losses represents management's estimate of lifetime losses in the existing loan portfolio. For additional details on the specific factors considered in determining the allowance for credit losses, refer to the critical accounting policies section of this Annual Report on Form 10-K for the year ended December 31, 2020 and Note 1, "Basis of Presentation," of the consolidated financial statements included in this Annual Report on Form 10-K.

Total Allowance for Lending Related Credit Losses

The following table shows, in thousands, the components of Heartland's total allowance for lending related credit losses, which includes the allowance for credit losses for loans and the allowance for unfunded commitments, as of the dates indicated:

	December 31, 2020		January 1, 2020[1]		December 31, 2019[2]	
	Amount	% of Allowance	Amount	% of Allowance	Amount	% of Allowance
Quantitative	$ 102,398	69.71 %	$ 82,829	85.99 %	$ 41,694	59.23 %
Qualitative	29,101	19.81	11,468	11.91	28,701	40.77
Economic forecast	15,387	10.48	2,021	2.10	—	—
Total	$ 146,886	100.00 %	$ 96,318	100.00 %	$ 70,395	100.00 %

(1) January 1, 2020 is included to show the impact of the adoption of ASU 2016-13 on the components of the allowance for lending related credit losses.

(2) The allowance for unfunded commitments was immaterial prior to the adoption of ASU 2016-13 and therefore not included in prior periods.

Heartland's quantitative allowance totaled $82.8 million or 86% of the total allowance for lending related credit losses on January 1, 2020, and $41.7 million or 59% of the allowance for loan losses at December 31, 2019. The increase in the quantitative component on January 1, 2020, was primarily attributable to the addition of $1.80 billion of previously acquired loans to the allowance calculation as required under CECL.

The quantitative allowance of Heartland's total allowance for lending related credit losses increased $19.6 million to $102.4 million or 70% of the total allowance at December 31, 2020 compared to $82.8 million or 86% of the total allowance at January 1, 2020. The quantitative allowance increased $17.5 million for loans acquired in the AimBank and Johnson Bank branch transactions in the fourth quarter of 2020.

Heartland's qualitative allowance totaled $11.5 million or 12% of the total allowance for lending related credit losses on January 1, 2020, compared to $28.7 million or 41% of the allowance for credit losses at December 31, 2019, which was the result of the change in methodology to an expected loss model from an incurred loss model.

The qualitative allowance component of Heartland’s total allowance for lending related credit losses increased to $29.1 million or 20% of the total allowance at December 31, 2020, compared to $11.5 million or 12% on January 1, 2020. As described in Note 1, "Basis of Presentation," of the consolidated financial statements included in this Annual Report on Form 10-K, in determining the appropriate level of this qualitative component, management assesses several risk factors including an overall assessment of "other external factors." At the end of the first quarter of 2020, in making its assessment, management increased the level of other external factors risk from the initial day 1 (January 1, 2020) assessment of moderate to high, which remained high at December 31, 2020. This level reflects the uncertainty of both the economic forecasting and quantitative allowance component results given the high level of market and economic volatility that have existed due to the COVID-19 pandemic. While several of the qualitative factors increased, the change in the other external factors was the primary driver of the overall increase in the qualitative allowance for the year ended December 31, 2020.

Economic forecasting was not required prior to January 1, 2020. Heartland has access to various third-party economic forecast scenarios provided by Moody's, which are updated quarterly in Heartland's methodology. Heartland’s initial January 1, 2020 allowance calculation utilized a two-year reasonable and supportable forecast period which resulted in an economic forecasting allowance of $2.0 million or 2% of the total allowance for lending related credit losses.

At December 31, 2020, Heartland utilized Moody's December 7, 2020, baseline forecast scenario, which was the most currently available forecast and included the potential impact of COVID-19. At March 31, 2020, due to the economic deterioration and uncertainty associated with COVID-19, the reasonable and supportable forecast period was reduced to one year. At year-end 2020, Heartland continued to use a one year forecast period, which resulted in an allowance of $15.4 million or 10% of the total allowance for lending related credit losses at December 31, 2020.

Allowance for Credit Losses-Loans

The table below presents the changes in the allowance for credit losses for loans for the years ended December 31, 2020 and 2019, in thousands:

	For the Year Ended December 31,	
	2020	2019
Balance at beginning of period	$ 70,395	$ 61,963
Impact of ASU 2016-13 adoption on January 1, 2020	12,071	—
Adjusted balance January 1, 2020	82,466	61,963
Allowance for purchased credit deteriorated loans	12,313	—
Provision for credit losses	65,745	16,657
Recoveries on loans previously charged off	3,804	5,365
Charge-offs on loans	(32,722)	(13,590)
Balance at end of period	**$ 131,606**	**$ 70,395**
Allowance for credit losses for loans as a percent of loans	1.31 %	0.84 %
Allowance for credit losses for loans a percentage of non-performing loans	149.37 %	87.28 %

The allowance for credit losses for loans totaled $131.6 million and $70.4 million at December 31, 2020, and December 31, 2019, respectively. The allowance for credit losses for loans at December 31, 2020, was 1.31% of loans compared to 0.84% of loans at December 31, 2019. The following items impacted Heartland's allowance for credit losses for loans for the year ended December 31, 2020:

- The allowance for credit losses for loans increased $12.1 million after the adoption of CECL on January 1, 2020.
- Provision expense totaled $65.7 million, which included $9.6 million of provision expense for loans acquired in the fourth quarter of 2020.
- Net charge offs totaled $28.9 million or 0.32% of average loans outstanding, which included $13.9 million of charge offs related to two individually assessed loans with principal balances of $17.1 million.

The following items impacted Heartland's allowance for credit losses for loans, which was an incurred loss model, for the year ended December 31, 2019:

- Provision expense totaled $16.7 million.
- Net charge offs totaled $8.2 million or 0.11% of average loans outstanding.

The table below summarizes activity in the allowance for credit losses for loans for the years indicated, including amounts of loans charged off, amounts of recoveries, additions to the allowance charged to income and the ratio of net charge-offs to average loans outstanding, in thousands:

	As of December 31,				
	2020	2019	2018	2017	2016
Balance at beginning of year	$ 70,395	$ 61,963	$ 55,686	$ 54,324	$ 48,685
Impact of ASU 2016-13 adoption on January 1, 2020	12,071	—	—	—	—
Adjusted balance	82,466	61,963	55,686	54,324	48,685
Allowance for purchased credit deteriorated loans	12,313	—	—	—	—
Charge-offs:					
Commercial and industrial	14,974	7,129	10,119	7,081	1,532
PPP	—	—	—	—	—
Owner occupied commercial real estate	13,671	119	176	368	981
Non-owner occupied commercial real estate	45	21	19	195	629
Real estate construction	105	156	285	150	1,059
Agricultural and agricultural real estate	1,201	2,633	153	1,986	—
Residential real estate	515	458	488	1,029	515
Consumer	2,211	3,074	10,045	7,062	6,678
Total charge-offs	32,722	13,590	21,285	17,871	11,394
Recoveries:					
Commercial and industrial	1,277	2,462	797	692	912
PPP	—	—	—	—	—
Owner occupied commercial real estate	205	178	90	531	228
Non-owner occupied commercial real estate	30	201	261	340	221
Real estate construction	220	255	723	207	2,666
Agricultural and agricultural real estate	971	529	—	—	32
Residential real estate	108	139	87	492	191
Consumer	993	1,601	1,591	1,408	1,089
Total recoveries	3,804	5,365	3,549	3,670	5,339
Net charge-offs[1]	28,918	8,225	17,736	14,201	6,055
Provision for credit losses	65,745	16,657	24,013	15,563	11,694
Balance at end of year	$131,606	$ 70,395	$ 61,963	$ 55,686	$ 54,324
Net charge-offs to average loans	0.32 %	0.11 %	0.25 %	0.24 %	0.11 %

(1) Includes net charge-offs (recoveries) at Citizens Finance Parent Co. of $(631) for 2019, $6,397 for 2018, $4,673 for 2017 and $4,280 for 2016.

Net charge offs could be elevated in future periods if customers' ability to repay loans continues to be adversely impacted by prolonged economic disruptions caused by the COVID-19 pandemic.

The table below shows our allocation of the allowance for credit losses for loans by types of loans, in thousands:

	As of December 31,									
	2020		2019		2018		2017		2016	
	Amount	Loan Category to Gross Loans Receivable	Amount	Loan Category to Gross Loans Receivable	Amount	Loan Category to Gross Loans Receivable	Amount	Loan Category to Gross Loans Receivable	Amount	Loan Category to Gross Loans Receivable
Commercial and industrial	$ 38,818	25.29 %	$ 34,207	30.24 %	$ 29,958	28.81 %	$ 23,255	28.12 %	$ 21,281	26.90 %
PPP	—	9.56	—	—	—	—	—	—	—	—
Owner occupied commercial real estate	20,001	17.72	7,921	17.60	6,247	17.20	5,401	16.32	5,517	16.09
Non-owner occupied commercial real estate	20,873	19.17	7,584	17.88	7,182	17.13	6,709	18.62	7,579	17.23
Real estate construction	20,080	8.61	8,677	12.27	6,707	11.39	4,607	10.04	4,645	9.68
Agricultural and agricultural real estate	7,129	7.13	5,680	6.76	4,916	7.84	4,260	8.01	3,028	9.17
Residential real estate	11,935	8.39	1,504	9.95	1,813	11.99	2,310	12.38	2,257	13.64
Consumer	12,770	4.13	4,822	5.30	5,140	5.64	9,144	6.51	9,017	7.29
Total allowance for credit losses for loans	$131,606		$ 70,395		$ 61,963		$ 55,686		$ 53,324	

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

Allowance for Unfunded Commitments

The following table shows, in thousands, the changes in Heartland's allowance for unfunded commitments for the year ended December 31, 2020:

	For the Year Ended December 31, 2020
Balance at beginning of year(1)	$ 248
Impact of ASU 2016-13 adoption on January 1, 2020	13,604
Adjusted balance at January 1, 2020	13,852
Provision for credit losses	1,428
Balance at end of year	$ 15,280

(1) Prior to the adoption of ASU 2016-13, the allowance for unfunded commitments was immaterial, and therefore prior periods have not been shown in this table.

Heartland's allowance for unfunded commitments totaled $13.9 million after the adoption of CECL on January 1, 2020. Prior to January 1, 2020, the allowance for unfunded commitments was immaterial. Heartland recorded a benefit to provision for credit losses for unfunded commitments of $894,000 during 2020, and $2.3 million of provision for credit losses related to unfunded loan commitments related to the acquisitions completed in the fourth quarter of 2020. At December 31, 2020, the allowance for unfunded commitments was $15.3 million, and Heartland had $3.26 billion of unfunded loan commitments.

CREDIT QUALITY AND NONPERFORMING ASSETS

Heartland's internal rating system for the credit quality of its loans is a series of grades reflecting management's risk assessment, based on its analysis of the borrower's financial condition. The "pass" category consists of all loans that are not in the "nonpass" category and categorized into a range of loan grades that reflect increasing, though still acceptable, risk. Movement of risk through the various grade levels in the pass category is monitored for early identification of credit deterioration. For more information on this internal rating system, see Note 5, "Loans" of Heartland’s consolidated financial statements in this Annual Report on Form 10-K.

Heartland's nonpass loans totaled $1.08 billion or 10.8% of total loans as of December 31, 2020 compared to $556.8 million or 6.6% of total loans as of December 31, 2019. The increase in nonpass loans was primarily attributable to nonpass loans

acquired in the fourth quarter of 2020 and downgrades in the legacy portfolio due to the COVID-19 pandemic. As of December 31, 2020, Heartland's nonpass loans consisted of approximately 56% watch loans and 44% substandard loans. The percent of nonpass loans on nonaccrual status as of December 31, 2020 was 8%. Included in Heartland's nonpass loans at December 31, 2020 were $77.1 million of nonpass PPP loans as a result of risk ratings on related credits. Heartland's risk rating methodology assigns a risk rating to the whole lending relationship. Heartland has no allowance recorded related to the PPP loans because of the 100% SBA guarantee.

As of December 31, 2019, Heartland's nonpass loans were comprised of approximately 60% watch loans and 40% substandard loans. The percent of nonpass loans on nonaccrual status as of December 31, 2019, was 14%.

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 0.23% at December 31, 2020, compared to 0.33% at December 31, 2019, and 0.21% at December 31, 2018.

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

	As of December 31,				
	2020	**2019**	**2018**	**2017**	**2016**
Nonaccrual loans	$ 87,386	$ 76,548	$ 71,943	$ 62,581	$ 64,299
Loans contractually past due 90 days or more	720	4,105	726	830	86
Total nonperforming loans	88,106	80,653	72,669	63,411	64,385
Other real estate	6,624	6,914	6,153	10,777	9,744
Other repossessed assets	240	11	459	411	663
Total nonperforming assets	$ 94,970	$ 87,578	$ 79,281	$ 74,599	$ 74,792
Restructured loans(1)	$ 2,370	$ 3,794	$ 4,026	$ 6,617	$ 10,380
Nonperforming loans to total loans receivable	0.88 %	0.96 %	0.98 %	0.99 %	1.20 %
Nonperforming assets to total loans receivable plus repossessed property	0.95 %	1.05 %	1.07 %	1.17 %	1.39 %
Nonperforming assets to total assets	0.53 %	0.66 %	0.69 %	0.76 %	0.91 %

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

The performing troubled debt restructured loans above do not include any loan modifications initially made under COVID-19 modification programs.

The tables below summarize the changes in Heartland's nonperforming assets, including other real estate owned ("OREO") during 2020 and 2019, in thousands:

	Nonperforming Loans	**Other Real Estate Owned**	**Other Repossessed Assets**	**Total Nonperforming Assets**
December 31, 2019	$ 80,653	$ 6,914	$ 11	$ 87,578
Loan foreclosures	(3,789)	3,511	278	—
Net loan charge offs	(28,918)	—	—	(28,918)
New nonperforming loans	63,151	—	—	63,151
Acquired nonperforming assets	11,662	1,119	—	12,781
Reduction of nonperforming loans(1)	(34,653)	—	—	(34,653)
OREO/Repossessed sales proceeds	—	(3,876)	(37)	(3,913)
OREO/Repossessed assets write-downs, net	—	(1,044)	(12)	(1,056)
Net activity at Citizens Finance Parent Co.	—	—	—	—
December 31, 2020	$ 88,106	$ 6,624	$ 240	$ 94,970

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

	Nonperforming Loans	Other Real Estate Owned	Other Repossessed Assets	Total Nonperforming Assets
December 31, 2018	$ 72,669	$ 6,153	$ 459	$ 79,281
Loan foreclosures	(8,287)	8,066	221	—
Net loan charge offs	(8,225)	—	—	(8,225)
New nonperforming loans	49,571	—	—	49,571
Acquired nonperforming assets	2,130	1,362	—	3,492
Reduction of nonperforming loans[(1)]	(27,205)	—	—	(27,205)
OREO/Repossessed sales proceeds	—	(7,660)	(184)	(7,844)
OREO/Repossessed assets write-downs, net	—	(1,007)	(39)	(1,046)
Net activity at Citizens Finance Parent Co.	—	—	(446)	(446)
December 31, 2019	$ 80,653	$ 6,914	$ 11	$ 87,578

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

Nonperforming loans were $88.1 million or 0.88% of total loans at December 31, 2020, compared to $80.7 million or 0.96% of total loans at December 31, 2019. Excluding $11.7 million of acquired nonperforming loans, nonperforming loans decreased $4.2 million or 5% from year-end 2019.

Approximately 54%, or $47.4 million, of Heartland's nonperforming loans at December 31, 2020, had individual loan balances exceeding $1.0 million, the largest of which was $7.3 million. At December 31, 2019, approximately 52%, or $41.9 million, of Heartland's nonperforming loans had individual loan balances exceeding $1.0 million, the largest of which was $7.5 million. The portion of Heartland's nonresidential real estate nonperforming loans covered by government guarantees was $14.6 million at December 31, 2020, compared to $18.1 million at December 31, 2019.

COVID-19 payment deferral and loan modification programs could delay the recognition of net charge-offs, delinquencies and nonaccrual status for loans that would have otherwise moved into past due or nonaccrual status.

Other real estate owned

Other real estate owned was $6.6 million at December 31, 2020, compared to $6.9 million at December 31, 2019, and $6.2 million at December 31, 2018. Liquidation strategies have been identified for all the assets held in other real estate owned. Management continues to market these properties through a systematic 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 $3.9 million in 2020 compared to $7.7 million in 2019 and $11.6 million in 2018.

Troubled debt restructured loans

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.

We had an aggregate balance of $6.2 million in restructured loans at December 31, 2020, of which $3.8 million were classified as nonaccrual and $2.4 million were accruing according to the restructured terms. At December 31, 2019, we had an aggregate balance of $7.6 million in restructured loans, of which $3.8 million were classified as nonaccrual and $3.8 million were accruing according to the restructured terms.

During 2020, TDR treatments were updated due to COVID-19 and the CARES Act. Under the CARES Act, banking institutions are not required to classify modifications as a TDR if the following three conditions are met:

- The deferral was related to COVID-19;

- The deferral was executed on a loan that was not more than 30 days past due as of December 31, 2019; and
- The deferral was executed between March 1, 2020 and the later of December 31, 2020 or the last day of the Declaration of National Emergency.

Heartland has adopted the CARES Act rule for TDR classification and has enhanced its procedures for deferral monitoring.

As of December 31, 2020, approximately $1.21 billion of loans have been modified under COVID-19 relief programs, which included $143.7 million of modifications made by AimBank prior to the acquisition by Heartland. Of the loans modified by Heartland, approximately $938.9 million returned to contractual payments, $83.3 million were still in original deferral status and $39.5 million were granted additional deferrals. These modifications are not classified as TDRs as of December 31, 2020.

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 35% of Heartland's total assets at December 31, 2020, compared to 26% at December 31, 2019, and 24% at December 31, 2018. Whenever possible, management intends to use a portion of the proceeds from maturities, paydowns and sales of securities to fund loan growth and paydown borrowings. Total securities carried at fair value as of December 31, 2020, were $6.13 billion, an increase of $2.82 billion or 85% since December 31, 2019. The increase includes $267.9 million of securities acquired in 2020. Total securities carried at fair value as of December 31, 2019, were $3.31 billion, an increase of $862.1 million or 35% since December 31, 2018. The increase includes $127.5 million of securities acquired in 2019.

The table below presents the composition of the securities portfolio, including securities carried at fair value, held to maturity net of allowance for credit losses and other, by major category, in thousands:

	As of December 31,					
	2020		2019		2018	
	Amount	% of Portfolio	Amount	% of Portfolio	Amount	% of Portfolio
U.S. treasuries	$ 2,026	0.03 %	$ 8,503	0.25 %	$ 25,415	0.94 %
U.S. agencies	166,779	2.65	184,676	5.38	84,671	3.12
Obligations of states and political subdivisions	1,724,066	27.40	798,514	23.24	611,257	22.51
Mortgage-backed securities - agency	1,355,270	21.54	766,726	22.32	446,584	16.44
Mortgage-backed securities - non-agency	1,449,116	23.03	430,497	12.53	294,071	10.83
Commercial mortgage-backed securities - agency	174,153	2.77	68,865	2.00	401,155	14.77
Commercial mortgage-backed securities - non-agency	252,767	4.02	436,325	12.70	482,898	17.78
Asset-backed securities	1,069,266	16.99	691,579	20.13	323,855	11.93
Corporate bonds	3,742	0.06	—	—	—	—
Equity securities	19,629	0.31	18,435	0.54 %	17,086	0.63
Other securities	75,253	1.20	31,321	0.91 %	28,396	1.05
Total securities	$ 6,292,067	100.00 %	$ 3,435,441	100.00 %	$ 2,715,388	100.00 %

Heartland's securities portfolio had an expected modified duration of 5.52 years as of December 31, 2020, compared to 6.17 years as of December 31, 2019, and 4.01 years as of December 31, 2018.

At December 31, 2020, we had $75.3 million of other securities, including capital stock in the various Federal Home Loan Banks ("FHLB") of which the Banks are members. All securities classified as other are held at cost.

The table below presents the contractual maturities for the debt securities classified as available for sale at December 31, 2020, by major category, 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.

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		Mortgage and asset-backed and equity securities		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. treasuries	$ 1,004	2.43 %	$ 1,022	1.70 %	$ —	—	$ —	— %	$ —	— %	$ 2,026	2.06 %
U.S. agencies	—	—	2,647	2.02	89,137	2.04	74,995	2.29	—	—	166,779	2.15
Obligations of states and political subdivisions	2,620	2.64	23,265	3.19	81,366	3.12	1,527,976	5.24	—	—	1,635,227	5.10
Mortgage-backed securities - agency	—	—	—	—	—	—	—	—	1,355,270	1.26	1,355,270	1.26
Mortgage-backed securities - non-agency	—	—	—	—	—	—	—	—	1,449,116	3.29	1,449,116	3.29
Commercial mortgage-backed securities - agency	—	—	—	—	—	—	—	—	174,153	1.29	174,153	1.29
Commercial mortgage-backed securities - non-agency	—	—	—	—	—	—	—	—	252,767	3.89	252,767	3.89
Asset-backed securities	—	—	—	—	—	—	—	—	1,069,266	1.55	1,069,266	1.55
Corporate bonds	—	—	318	4.05	3,424	4.36	—	—	—	—	3,742	4.33
Equity securities	—	—	—	—	—	—	—	—	19,629	—	19,629	—
Total	$ 3,624	2.58 %	$ 27,252	3.03 %	$173,927	2.59 %	$1,602,971	5.10 %	$ 4,320,201	2.17 %	$6,127,975	2.96 %

The table below presents the contractual maturities for the debt securities classified as held to maturity at December 31, 2020, by major category, 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.

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Obligations of states and political subdivisions	$ 1,933	3.65 %	$ 24,129	4.54 %	$ 54,329	5.15 %	$ 8,499	5.01 %	$ 88,890	4.94 %
Total	$ 1,933	3.65 %	$ 24,129	4.54 %	$ 54,329	5.15 %	$ 8,499	5.01 %	$ 88,890	4.94 %

The 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 intent and ability to hold these investments until a market price recovery or to maturity and does not believe it will be required to sell the securities before maturity, no credit losses were recognized on these securities during the year ended December 31, 2020. See Note 4, "Securities" of the consolidated financial statements for further discussion regarding unrealized losses on our securities portfolio.

DEPOSITS

Total deposits were $14.98 billion as of December 31, 2020, compared to $11.04 billion at December 31, 2019, an increase of $3.94 billion or 36%, which included $2.09 billion of deposits acquired at fair value in the AimBank and Johnson Bank branch transactions. The mix of total deposits remains favorable, with demand deposits representing 38% at December 31, 2020, and 32% at December 31, 2019. Savings deposits represented 54% at December 31, 2020 compared to 57% at December 31, 2019.

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:

	For the Years Ended December 31,								
	2020			2019			2018		
	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	$ 4,554,479	36.85 %	— %	$ 3,384,341	33.74 %	— %	$3,265,532	35.87 %	— %
Savings	6,718,413	54.35	0.25	5,530,503	55.14	0.85	4,779,977	52.50	0.53
Time deposits	1,088,185	8.80	1.26	1,115,785	11.12	1.49	1,058,769	11.63	1.00
Total deposits	$12,361,077	100.00 %		$10,030,629	100.00 %		$9,104,278	100.00 %	

Total Average Deposits

- Total average deposits increased $2.33 billion or 23% during 2020 to $12.36 billion, which included approximately $153.9 million of deposits acquired in 2020.
- Excluding acquired deposits, total average deposits increased $2.18 billion or 22% during 2020.
- Total average deposits increased $926.4 million or 10% during 2019 to $10.03 billion, which includes approximately $432.7 million of deposits acquired in 2019.
- Excluding acquired deposits, total average deposits increased $493.7 million or 5% during 2019.
- In 2020, 44% of our total average deposits were from our Midwestern markets, 29% were from our Southwestern markets, and 27% were from our Western markets.

Average Demand Deposits

- Average demand deposits increased $1.17 billion or 35% to $4.55 billion during 2020.
- Excluding acquired demand deposits of approximately $57.3 million, average demand deposits increased $1.11 billion or 33% during 2020.
- Average demand deposits increased $118.8 million or 4% to $3.38 billion during 2019.
- Exclusive of approximately $112.0 million of demand deposits acquired in 2019, average demand deposits increased $6.8 million or less than 1%.

Average Savings Deposits

- Average savings deposits increased $1.19 billion or 21% to $6.72 billion during 2020.
- Excluding acquired savings deposits of approximately $72.0 million, average savings deposits increased $1.12 billion or 20% during 2020.
- Average savings deposit balances increased by $750.5 million or 16% to $5.53 billion during 2019.
- Excluding approximately $240.0 million of average savings deposits acquired in 2019, average savings deposits increased $510.9 million or 11%.

Average Time Deposits

- Average time deposits decreased $27.6 million or 2% to $1.09 billion during 2020.
- Excluding acquired time deposits of approximately $24.6 million, average time deposits decreased $52.2 million or 5% during 2020.
- Average time deposits increased $57.0 million or 5% to $1.12 billion during 2019.
- Exclusive of approximately $81.1 million of time deposits acquired in 2019, average time deposits decreased $24.1 million or 2%.

Excluding acquisitions, 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 Banks 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 with only certificate of deposit accounts. 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. Average brokered time deposits as a percentage of total average deposits were less than 1% during 2020, 2019 and 2018.

The following table sets forth the amount and maturities of time deposits of $100,000 or more at December 31, 2020, in thousands:

	December 31, 2020
3 months or less	$ 222,473
Over 3 months through 6 months	187,921
Over 6 months through 12 months	209,625
Over 12 months	154,227
Total	$ 774,246

SHORT-TERM BORROWINGS

Short-term borrowings, which Heartland defines as borrowings with an original maturity of one year or less, were as follows as of December 31, 2020, 2019, and 2018 in thousands:

	As of December 31,			% Change	
	2020	2019	2018	2020/2019	2019/2018
Retail repurchase agreements	$118,293	$ 84,486	80,124	40 %	5 %
Federal funds purchased	2,100	2,450	35,400	(14)	(93)
Advances from the FHLB	—	81,198	100,838	(100)	(19)
Advances from the federal discount window	35,000	—	—	100	—
Other short-term borrowings	12,479	14,492	10,648	(14)	36
Total	$167,872	$182,626	$227,010	(8)%	(20)%

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 Banks own FHLB stock in one of the Chicago, Dallas, Des Moines, San Francisco or Topeka FHLBs, enabling them to borrow funds from their respective FHLB for short- or long-term purposes under a variety of programs. As of December 31, 2020, the amount of short-term borrowings was $167.9 million compared to $182.6 million at year-end 2019, a decrease of $14.8 million or 8%.

All of the Banks provide retail repurchase agreements to their customers as a cash management tool, which sweep 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 $118.3 million at December 31, 2020, compared to $84.5 million at December 31, 2019, an increase of $33.8 million or 40%.

Federal funds purchased totaled $2.1 million at December 31, 2020, $2.5 million at December 31, 2019, and $35.4 million at December 31, 2018, which was a decrease of $350,000 or 14% and $33.0 million or 93%, respectively.

Short-term FHLB advances were $0 at December 31, 2020, compared to $81.2 million at December 31, 2019. Short-term advances from the federal discount window totaled $35.0 million at December 31, 2020 compared to $0 at December 31, 2019. Heartland used short-term borrowings to purchase securities in anticipation of expected cash flow from PPP loan forgiveness, which is expected to occur over the next several quarters.

Heartland renewed its revolving credit line agreement with an unaffiliated bank on June 14, 2020. This revolving credit line agreement, which has $45.0 million of borrowing capacity, is included in short-term borrowings, and the primary purpose of this credit line agreement is to provide liquidity to Heartland. Heartland had no advances on this line during 2020 or 2019, and no balance was outstanding on this line at December 31, 2020, and December 31, 2019.

The following table reflects average amounts outstanding and weighted average interest rates for our short-term borrowings as of December 31, 2020, 2019, and 2018, in thousands:

	As of and For the Year Ended December 31,		
	2020	2019	2018
Balance at end of period	$ 167,872	$ 182,626	$ 227,010
Maximum month-end amount outstanding	380,360	226,096	229,890
Average month-end amount outstanding	157,348	128,098	152,391
Weighted average interest rate at year-end	0.18 %	1.21 %	1.96 %
Weighted average interest rate for the year	0.39 %	1.38 %	1.19 %

OTHER BORROWINGS

The outstanding balances of other borrowings, which Heartland defines as borrowings with an original maturity date of more than one year, are shown in the table below, net of discount and issuance costs amortization, in thousands, as of December 31, 2020 and 2019:

	As of December 31,		% Change
	2020	2019	2020/2019
Advances from the FHLB	$ 1,018	$ 2,835	(64)%
Paycheck Protection Program Liquidity Fund	188,872	—	100
Trust preferred securities	146,323	145,343	1
Note payable to unaffiliated bank	44,417	51,417	(14)
Contracts payable for purchase of real estate and other assets	1,983	1,892	5
Subordinated notes	74,429	74,286	—
Total	$457,042	$275,773	66 %

Other borrowings include all debt arrangements Heartland and its subsidiaries have entered into with original maturities that extend beyond one year, as listed in the table above. As of December 31, 2020, the amount of other borrowings was $457.0 million, an increase of $181.3 million or 66% from $275.8 million as of year-end 2019.

Each of the Banks was approved in 2020 by their respective Federal Reserve Bank to borrow from the Paycheck Protection Program Liquidity Fund ("PPPLF"). As of December 31, 2020, $188.9 million was outstanding. Heartland anticipates limited additional utilization of the PPPLF through 2021.

A schedule of Heartland's trust preferred offerings outstanding as of December 31, 2020, is as follows, in thousands:

	Amount Issued	Issuance Date	Interest Rate	Interest Rate as of 12/31/20[1]		Maturity Date	Callable Date
Heartland Financial Statutory Trust IV	$ 10,310	03/17/2004	2.75% over LIBOR	2.98 %	(2)	03/17/2034	03/17/2021
Heartland Financial Statutory Trust V	20,619	01/27/2006	1.33% over LIBOR	1.57		04/07/2036	04/07/2021
Heartland Financial Statutory Trust VI	20,619	06/21/2007	1.48% over LIBOR	1.70	(3)	09/15/2037	03/15/2021
Heartland Financial Statutory Trust VII	18,042	06/26/2007	1.48% over LIBOR	1.71	(4)	09/01/2037	03/01/2021
Morrill Statutory Trust I	9,182	12/19/2002	3.25% over LIBOR	3.50		12/26/2032	03/26/2021
Morrill Statutory Trust II	8,865	12/17/2003	2.85% over LIBOR	3.08		12/17/2033	03/17/2021
Sheboygan Statutory Trust I	6,615	09/17/2003	2.95% over LIBOR	3.18		09/17/2033	03/17/2021
CBNM Capital Trust I	4,458	09/10/2004	3.25% over LIBOR	3.47		12/15/2034	03/15/2021
Citywide Capital Trust III	6,494	12/19/2003	2.80% over LIBOR	3.01		12/19/2033	04/23/2021
Citywide Capital Trust IV	4,353	09/30/2004	2.20% over LIBOR	2.41		09/30/2034	05/23/2021
Citywide Capital Trust V	11,973	05/31/2006	1.54% over LIBOR	1.76		07/25/2036	03/15/2021
OCGI Statutory Trust III	3,004	06/27/2002	3.65% over LIBOR	3.89	(5)	09/30/2032	03/30/2021
OCGI Capital Trust IV	5,399	09/23/2004	2.50% over LIBOR	2.72	(6)	12/15/2034	03/15/2021
BVBC Capital Trust II	7,238	04/10/2003	3.25% over LIBOR	3.46		04/24/2033	04/24/2021
BVBC Capital Trust III	9,226	07/29/2005	1.60% over LIBOR	1.85		09/30/2035	03/30/2021
Total trust preferred offerings	146,397						
Less: deferred issuance costs	(74)						
	$ 146,323						

(1) Effective weighted average interest rate as of December 31, 2020, was 3.40% 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, 2020, 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, 2020, was 3.87% due to an interest rate swap transaction as discussed in Note 12 to Heartland's consolidated financial statements.

(4) Effective interest rate as of December 31, 2020, was 3.83% due to an interest rate swap transaction as discussed in Note 12 to Heartland's consolidated financial statements.

(5) Effective interest rate as of December 31, 2020, was 5.53% 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, 2020, was 4.37% due to an interest rate swap transaction as discussed in Note 12 to Heartland's consolidated financial statements.

Heartland has a non-revolving credit facility with an unaffiliated bank, which provides a borrowing capacity of up to $55.0 million. At December 31, 2020, $44.4 million was outstanding on this non-revolving credit line compared to $51.4 million outstanding at December 31, 2019. At December 31, 2020, Heartland had $6.5 million available on this non-revolving credit facility, of which no balance was drawn.

In 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 were used for general corporate purposes. For regulatory purposes, $44.7 million of the subordinated notes qualified as Tier 2 capital as of December 31, 2020.

CAPITAL RESOURCES

The Federal Reserve has adopted capital adequacy guidelines that are used to assess the adequacy of capital in supervising a bank holding company. Under Basel III, Heartland must hold a conservation buffer above the adequately capitalized risk-based capital ratios; however the transition provision related to the conservation buffer have been extended indefinitely.

The most recent notification from the FDIC categorized Heartland and each of its banks as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the categorization of any of these entities.

Heartland's capital ratios are calculated in accordance with Federal Reserve Board instructions and are required regulatory financial measures. The following table illustrates Heartland's capital ratios and the Federal Reserve's current capital adequacy guidelines for the dates indicated, in thousands. The table also indicates the fully-phased in capital conservation buffer, but the requirements to comply have been extended indefinitely.

	Total Capital (to Risk-Weighted Assets)	Tier 1 Capital (to Risk-Weighted Assets)	Common Equity Tier 1 (to Risk-Weighted Assets)	Tier 1 Capital (to Average Assets)
December 31, 2020	**14.71 %**	**11.85 %**	**10.92 %**	**9.02 %**
Minimum capital requirement	8.00 %	6.00 %	4.50 %	4.00 %
Well capitalized requirement	10.00 %	8.00 %	6.50 %	5.00 %
Minimum capital requirement, including fully-phased in capital conservation buffer	10.50 %	8.50 %	7.00 %	N/A
Risk-weighted assets	$ 11,819,037	$ 11,819,037	$ 11,819,037	N/A
Average assets	N/A	N/A	N/A	$ 15,531,884
December 31, 2019	**13.75 %**	**12.31 %**	**10.88 %**	**10.10 %**
Minimum capital requirement	8.00 %	6.00 %	4.50 %	4.00 %
Well capitalized requirement	10.00 %	8.00 %	6.50 %	5.00 %
Minimum capital requirement, including fully-phased in capital conservation buffer (2019)	10.50 %	8.50 %	7.00 %	N/A
Risk-weighted assets	$ 10,098,515	$ 10,098,515	$ 10,098,515	N/A
Average assets	N/A	N/A	N/A	$ 12,318,135
December 31, 2018	**13.72 %**	**12.16 %**	**10.66 %**	**9.73 %**
Minimum capital requirement	8.00 %	6.00 %	4.50 %	4.00 %
Well capitalized requirement	10.00 %	8.00 %	6.50 %	5.00 %
Minimum capital requirement, including fully-phased in capital conservation buffer (2019)	10.50 %	8.50 %	7.00 %	N/A
Risk-weighted assets	$ 8,756,130	$ 8,756,130	$ 8,756,130	N/A
Average assets	N/A	N/A	N/A	$ 10,946,440

Heartland elected not to utilize the regulatory transition relief issued by federal regulatory authorities in the first quarter of 2020, which allowed banking institutions to delay the impact of CECL on regulatory capital because the impact on the capital ratios of Heartland and its subsidiary banks was not significant.

At December 31, 2020, retained earnings that could be available for the payment of dividends to meet the most restrictive minimum capital requirements totaled $736.5 million. Retained earnings that could be available for the payment of dividends to Heartland from its Banks totaled approximately $500.9 million at December 31, 2020, under the capital requirements to remain well capitalized. These dividends are the principal source of funds to pay dividends on Heartland's common and preferred stock and to pay interest and principal on its debt.

On December 4, 2020, Heartland completed the acquisition of AimBank, headquartered in Levelland, Texas in a transaction valued at approximately $264.5 million, which was paid by delivery of 5,185,045 shares of Heartland common stock and cash of $47.3 million, subject to certain hold-back provisions.

On May 10, 2019, Heartland completed the acquisition of Blue Valley Ban Corp. and its wholly-owned subsidiary, Bank of Blue Valley, headquartered in Overland Park, Kansas. Under the terms of the definitive merger agreement, Heartland acquired Blue Valley Ban Corp. in a transaction valued at approximately $92.3 million, which was paid by delivery of 2,060,258 shares of Heartland common stock.

On November 30, 2019, Heartland's Illinois Bank & Trust subsidiary acquired substantially all of the assets and assumed substantially all of the deposits and other certain liabilities of Rockford Bank and Trust Company in an all-cash transaction valued at approximately $46.6 million.

On August 8, 2019, Heartland filed a universal shelf registration statement with the SEC to register debt or equity securities. This shelf registration statement, which was effective immediately, provided Heartland with the ability to raise capital, subject to market conditions and SEC rules and limitations, if Heartland's board of directors decided to do so. This registration statement permitted Heartland, from time to time, in one or more public offerings, to offer debt securities, subordinated notes, common stock, preferred stock, rights or any combination of these securities. The amount of securities that may have been offered was not specified in the registration statement, and the terms of any future offerings were to be established at the time of the offering.

On June 26, 2020, Heartland issued and sold 4.6 million depositary shares, each representing a 1/400th interest in a share of 7.00% Fixed-Rate Reset Non-Cumulative Perpetual Preferred Stock, Series E. The depositary shares are listed on The Nasdaq Global Select Market under the symbol "HTLFP." If declared, dividends are paid quarterly in arrears at a rate of 7.00% per annum beginning on October 15, 2020. For the dividend period beginning on the first reset date of July 15, 2025, and for dividend periods beginning every fifth anniversary thereafter, each a reset date, the rate per annum will be reset based on a recent five-year treasury rate plus 6.675%. The earliest redemption date for the preferred shares is July 15, 2025. Dividends payable on common shares are subject to quarterly dividends payable on these outstanding preferred shares at the applicable dividend rate. The net proceeds of $110.7 million are being used for general corporate purposes, which include organic and acquired growth, financing investments, capital expenditures, investments in wholly-owned subsidiaries as regulatory capital and repayment of debt.

Common stockholders' equity was $1.97 billion at December 31, 2020, compared to $1.58 billion at year-end 2019. Book value per common share was $46.77 at December 31, 2020, compared to $43.00 at year-end 2019. 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, reflected an unrealized gain of $76.8 million and $969,000 at December 31, 2020, and December 31, 2019, respectively.

COMMITMENTS, CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

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 Banks 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 Banks to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. At December 31, 2020, and December 31, 2019, commitments to extend credit aggregated $3.26 billion and $2.97 billion, and standby letters of credit aggregated $73.2 million and $79.5 million, respectively.

The following table summarizes our significant contractual obligations and other commitments as of December 31, 2020, in thousands:

		Payments Due By Period			
	Total	Less than One Year	One to Three Years	Three to Five Years	More than Five Years
Contractual obligations:					
Time certificates of deposit	$ 1,271,391	$ 999,121	$ 222,614	$ 39,314	$ 10,342
Long-term debt obligations	457,042	24,656	194,867	80,544	156,975
Operating lease obligations	25,337	6,275	8,937	4,068	6,057
Purchase obligations	24,024	6,633	12,207	5,184	—
Other long-term liabilities	5,482	305	159	86	4,932
Total contractual obligations	$ 1,783,276	$ 1,036,990	$ 438,784	$ 129,196	$ 178,306
Other commitments:					
Lines of credit	$ 3,258,626	$ 2,538,708	$ 385,758	$ 136,685	$ 197,475
Standby letters of credit	73,205	64,997	6,320	1,059	829
Total other commitments	$ 3,331,831	$ 2,603,705	$ 392,078	$ 137,744	$ 198,304

On a consolidated basis, Heartland maintains a large balance of short-term securities that, when combined with cash from operations, Heartland believes are adequate to meet its funding obligations.

The ability of Heartland to pay dividends to its stockholders is dependent upon dividends paid by its subsidiaries. The Banks 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 $500.9 million as of December 31, 2020.

We continue to explore opportunities to expand our footprint of independent community banks, and these acquisitions may be financed from dividends collected from our subsidiaries, the issuance of equity or debt securities, drawing on our existing lines of credit or other sources of funding. 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," to the consolidated financial statements for additional information on our derivative financial instruments.

Off-Balance Sheet Arrangements

We also 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, and are described in Note 15, "Commitments," to the consolidated financial statements for additional information on these commitments.

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. For COVID-19 trends and uncertainties impacting Heartland's liquidity, see the discussion of "Liquidity and Interest Rate Risks" under Item 1A, Risk Factors.

At December 31, 2020, Heartland had $337.9 million of cash and cash equivalents, time deposits in other financial institutions of $3.1 million and securities carried at fair value of $6.13 billion.

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.

Heartland's short-term borrowing balances are dependent on commercial cash management and smaller correspondent bank relationships and, as a result, will normally fluctuate. Management believes these balances, on average, to be stable sources of funds; however, Heartland intends to rely on deposit growth and additional FHLB and discount window borrowings as needed in the future.

Additional funding is provided by long-term debt and short-term borrowings. In the event of short-term liquidity needs, Heartland's banks may purchase federal funds from each other or from correspondent banks and may also borrow from the Federal Reserve Bank. As of December 31, 2020, Heartland had $167.9 million of short-term borrowings outstanding.

As of December 31, 2020, Heartland had $457.0 million of long-term debt outstanding, and it is an important funding source because of its multi-year borrowing structure. Additionally, the subsidiary banks' FHLB memberships give them the ability to borrow funds for short-term and long-term purposes under a variety of programs, and at December 31, 2020, Heartland had $1.56 billion of borrowing capacity under these programs. Under the PPPLF, Heartland had $788.2 million of borrowing capacity as of December 31, 2020. Additionally, at December 31, 2020, Heartland had $1.29 billion of borrowing capacity at the Federal Reserve Banks' discount window.

On a consolidated basis, Heartland maintains a large balance of short-term securities that, when combined with cash from operations, Heartland believes are adequate to meet its funding obligations.

At the parent company level, routine funding requirements consist primarily of dividends paid to stockholders, debt service on revolving credit arrangements and trust preferred securities issuances, repayment requirements under other debt obligations and payments for acquisitions. The parent company obtains the funding to meet these obligations from dividends paid by its bank subsidiaries and the issuance of debt and equity securities.

As of December 31, 2020, the parent company had cash of $84.7 million. Additionally, Heartland has a revolving credit agreement and non-revolving credit line with an unaffiliated bank, which is renewed annually, most recently on June 14, 2020. Heartland's revolving credit agreement has $45.0 million of maximum borrowing capacity, of which none was outstanding at December 31, 2020. At December 31, 2020, $6.5 million was available on the non-revolving credit line. These credit agreements contain specific financial covenants, all of which Heartland complied with as of December 31, 2020.

The ability of Heartland to pay dividends to its stockholders is dependent upon dividends paid to Heartland 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 at Heartland's bank subsidiaries, certain portions of their retained earnings are not available for the payment of dividends.

Heartland has filed a universal shelf registration statement with the SEC that provides Heartland the ability to raise both debt and capital, subject to SEC rules and limitations, if Heartland's board of directors decides to do so. This registration statement expires in August 2022.

EFFECTS OF INFLATION

Consolidated financial data included in this report has been prepared in accordance with U.S. GAAP. 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 Heartland's bank subsidiaries and, on a consolidated basis, by Heartland's executive management and board of directors. At least quarterly, a detailed review of the balance sheet risk profile is performed for Heartland and each of its bank subsidiaries. Included in these reviews are interest rate sensitivity analyses, which simulate changes in net interest income in response to various interest rate scenarios. These analyses consider current portfolio rates, existing maturities, repricing opportunities and market interest rates, in addition to prepayments and growth under different interest rate assumptions. Selected strategies are modeled prior to implementation to determine their effect on Heartland's interest rate risk profile and net interest income.

The core interest rate risk analysis utilized by Heartland examines the balance sheet under increasing and decreasing interest rate 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 methodology 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, 2020, and 2019, provided the results below, in thousands.

	2020		2019	
	Net Interest Margin	% Change From Base	Net Interest Margin	% Change From Base
Year 1				
Down 100 Basis Points	$ 506,247	(1.07)%	$ 420,402	(2.67)%
Base	511,697		433,232	
Up 200 Basis Points	540,625	5.65 %	458,911	4.31 %
Year 2				
Down 100 Basis Points	485,312	(5.16)%	400,891	(5.72)%
Base	501,288	(2.03)%	431,503	1.68 %
Up 200 Basis Points	562,247	9.88 %	483,419	11.08 %

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 relating to the commitment. 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 loan is made or the letter of credit is issued.

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, 2020	2019
ASSETS			
Cash and due from banks	3	$ 219,243	$ 206,607
Interest bearing deposits with other banks and other short-term investments		118,660	172,127
Cash and cash equivalents		337,903	378,734
Time deposits in other financial institutions		3,129	3,564
Securities:			
Carried at fair value (cost of $6,024,225 at December 31, 2020, and cost of $3,311,433 at December 31, 2019)	4	6,127,975	3,312,796
Held to maturity, at cost (fair value of $100,041 at December 31, 2020, and $100,484 at December 31, 2019)	4	88,839	91,324
Other investments, at cost	4	75,253	31,321
Loans held for sale		57,949	26,748
Loans receivable:	5		
Held to maturity		10,023,051	8,367,917
Allowance for credit losses	5, 6	(131,606)	(70,395)
Loans receivable, net		9,891,445	8,297,522
Premises, furniture and equipment, net	7	219,595	197,558
Premises, furniture and equipment held for sale	2	6,499	2,967
Other real estate, net		6,624	6,914
Goodwill	2, 8	576,005	446,345
Core deposit intangibles and customer relationship intangibles, net	8	42,383	48,688
Servicing rights, net	8	6,052	6,736
Cash surrender value on life insurance		187,664	171,625
Other assets		281,024	186,755
TOTAL ASSETS		**$ 17,908,339**	**$ 13,209,597**
LIABILITIES AND EQUITY			
LIABILITIES:			
Deposits:	9		
Demand		$ 5,688,810	$ 3,543,863
Savings		8,019,704	6,307,425
Time		1,271,391	1,193,043
Total deposits		14,979,905	11,044,331
Short-term borrowings	10	167,872	182,626
Other borrowings	11	457,042	275,773
Accrued expenses and other liabilities		224,289	128,730
TOTAL LIABILITIES		**15,829,108**	**11,631,460**
STOCKHOLDERS' EQUITY:	16, 17, 18		
Preferred stock (par value $1 per share; authorized 6,104 shares; none issued or outstanding at both December 31, 2020, and December 31, 2019)		—	—
Series A Junior Participating preferred stock (par value $1 per share; authorized 16,000 shares; none issued or outstanding at both December 31, 2020, and December 31, 2019)		—	—
Series B Fixed-Rate Reset Cumulative Perpetual Preferred Stock (par value $1 per share; 81,698 shares authorized at both December 31, 2020, and December 31, 2019, none issued or outstanding at both December 31, 2020, and December 31, 2019)		—	—
Series C Senior Non-Cumulative Perpetual Preferred Stock (par value $1 per share; 81,698 shares authorized at both December 31, 2020, and December 31, 2019, none issued or outstanding at both December 31, 2020, and December 31, 2019)		—	—
Series D Senior Non-Cumulative Perpetual Convertible Preferred Stock (par value $1 per share; 3,000 shares authorized at both December 31, 2020, and December 31, 2019; no shares issued or outstanding at December 31, 2020, and December 31, 2019)		—	—
Series E Fixed-Rate Reset Non-Cumulative Perpetual Preferred Stock (par value $1 per share; 11,500 shares authorized at December 31, 2020, and none authorized at December 31, 2019; issued and outstanding 11,500 shares at December 31, 2020, and none issued or outstanding at December 31, 2019)		110,705	—
Common stock (par value $1 per share; 60,000,000 shares authorized at both December 31, 2020 and December 31, 2019; issued 42,093,862 shares at December 31, 2020, and 36,704,278 shares at December 31, 2019)		42,094	36,704
Capital surplus		1,062,083	839,857
Retained earnings		791,630	702,502
Accumulated other comprehensive income (loss)		72,719	(926)
TOTAL STOCKHOLDERS' EQUITY		**2,079,231**	**1,578,137**
TOTAL LIABILITIES AND EQUITY		**$ 17,908,339**	**$ 13,209,597**

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, 2020	2019	2018
INTEREST INCOME:				
Interest and fees on loans	5	$ 424,941	$ 424,615	$ 393,871
Interest on securities:				
Taxable		98,263	73,147	54,131
Nontaxable		12,484	9,868	14,120
Interest on federal funds sold		—	4	—
Interest on interest bearing deposits in other financial institutions		924	6,695	3,698
TOTAL INTEREST INCOME		**536,612**	**514,329**	**465,820**
INTEREST EXPENSE:				
Interest on deposits	9	30,287	63,734	35,667
Interest on short-term borrowings		610	1,748	1,696
Interest on other borrowings (includes $(1,820), $170, and $179 of interest expense (benefit) related to derivatives reclassified from accumulated other comprehensive income (loss) for the years ended December 31, 2020, 2019, and 2018, respectively)	11, 12	13,986	15,118	14,503
TOTAL INTEREST EXPENSE		**44,883**	**80,600**	**51,866**
NET INTEREST INCOME		**491,729**	**433,729**	**413,954**
Provision for credit losses	5, 6	67,066	16,657	24,013
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES		**424,663**	**417,072**	**389,941**
NONINTEREST INCOME:				
Service charges and fees	21	47,467	52,157	48,706
Loan servicing income	8	2,977	4,843	7,292
Trust fees	21	20,862	19,399	18,393
Brokerage and insurance commissions	21	2,756	3,786	4,513
Securities gains, net (includes $7,592, $7,659, and $1,085 of net security gains reclassified from accumulated other comprehensive income (loss) for the years ended December 31, 2020, 2019, and 2018, respectively)	4	7,793	7,659	1,085
Unrealized gain on equity securities, net	4	640	525	212
Net gains on sale of loans held for sale		28,515	15,555	21,450
Valuation allowance on servicing rights	8	(1,778)	(911)	(46)
Income on bank owned life insurance		3,554	3,785	2,793
Other noninterest income		7,505	9,410	4,762
TOTAL NONINTEREST INCOME		**120,291**	**116,208**	**109,160**
NONINTEREST EXPENSES:				
Salaries and employee benefits	14, 16	202,668	200,341	195,362
Occupancy	15, 23	26,554	25,429	25,328
Furniture and equipment	7	12,514	12,013	11,927
Professional fees		54,068	47,697	41,414
Advertising		5,235	9,825	9,516
Core deposit intangibles and customer relationship intangibles amortization	8	10,670	11,972	9,355
Other real estate and loan collection expenses		1,340	1,035	3,038
(Gain) loss on sales/valuations of assets, net		5,101	(19,422)	1,845
Acquisition, integration and restructuring costs		5,381	6,580	7,564
Partnership investment in tax credit projects		3,801	8,030	4,233
Other noninterest expenses		43,631	45,661	44,306
TOTAL NONINTEREST EXPENSES		**370,963**	**349,161**	**353,888**
INCOME BEFORE INCOME TAXES		**173,991**	**184,119**	**145,213**
Income taxes (includes $2,376, $1,890, and $165 of income tax expense reclassified from accumulated other comprehensive income (loss) for the years ended December 31, 2020, 2019, and 2018, respectively)	13	36,053	34,990	28,215
NET INCOME		**137,938**	**149,129**	**116,998**
Preferred dividends		(4,451)	—	(39)
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS		**$ 133,487**	**$ 149,129**	**$ 116,959**
EARNINGS PER COMMON SHARE - BASIC	1	**$ 3.58**	**$ 4.14**	**$ 3.54**
EARNINGS PER COMMON SHARE - DILUTED	1	**$ 3.57**	**$ 4.14**	**$ 3.52**
CASH DIVIDENDS DECLARED PER COMMON SHARE		**$ 0.80**	**$ 0.68**	**$ 0.59**

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,		
	2020	**2019**	**2018**
NET INCOME	**$ 137,938**	**$ 149,129**	**$ 116,998**
OTHER COMPREHENSIVE INCOME (LOSS)			
Securities:			
Net change in unrealized gain (loss) on securities	109,972	52,557	(9,568)
Reclassification adjustment for net gains realized in net income	(7,592)	(7,659)	(1,085)
Income taxes	(26,578)	(11,429)	2,731
Other comprehensive income (loss) on securities	75,802	33,469	(7,922)
Derivatives used in cash flow hedging relationships:			
Net change in unrealized gain (loss) on derivatives	(904)	(3,639)	816
Reclassification adjustment for net (gains) losses on derivatives realized in net income	(1,820)	170	431
Income taxes	567	723	(220)
Other comprehensive income (loss) on cash flow hedges	(2,157)	(2,746)	1,027
Other comprehensive income (loss)	73,645	30,723	(6,895)
TOTAL COMPREHENSIVE INCOME	**$ 211,583**	**$ 179,852**	**$ 110,103**

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	Total Equity
Balance at January 1, 2018	**$ 938**	**$ 29,953**	**$ 503,709**	**$ 481,331**	**$ (24,474)**	**$ —**	**$ 991,457**
Comprehensive income (loss)				116,998	(6,895)		110,103
Reclassification of unrealized net gain on equity securities				280	(280)		—
Cash dividends declared:							
Series D Preferred,$52.50 per share				(39)			(39)
Common, $0.59 per share				(19,318)			(19,318)
Redemption of Series D preferred stock	(938)						(938)
Purchase of 1,761 shares of treasury stock						(97)	(97)
Issuance of 4,525,904 shares of common stock		4,524	234,881			97	239,502
Stock based compensation			4,505				4,505
Balance at December 31, 2018	**$ —**	**$ 34,477**	**$ 743,095**	**$ 579,252**	**$ (31,649)**	**$ —**	**$1,325,175**
Balance at January 1, 2019	**$ —**	**$ 34,477**	**$ 743,095**	**$ 579,252**	**$ (31,649)**	**$ —**	**$1,325,175**
Comprehensive income (loss)				149,129	30,723		179,852
Cumulative effect adjustment from the adoption of ASU 2016-02 on January 1, 2019				(1,272)			(1,272)
Cash dividends declared:							
Common, $0.68 per share				(24,607)			(24,607)
Issuance of 2,226,779 shares of common stock		2,227	90,692				92,919
Stock based compensation			6,070				6,070
Balance at December 31, 2019	**$ —**	**$ 36,704**	**$ 839,857**	**$ 702,502**	**$ (926)**	**$ —**	**$1,578,137**
Balance at January 1, 2020	**$ —**	**$ 36,704**	**$ 839,857**	**$ 702,502**	**$ (926)**	**$ —**	**$1,578,137**
Cumulative effect adjustment from the adoption of ASU 2016-13 on January 1, 2020				(14,891)			(14,891)
Adjusted balance on January 1, 2020	—	36,704	839,857	687,611	(926)	—	1,563,246
Comprehensive income (loss)				137,938	73,645		211,583
Cash dividends declared:							
Preferred, $386.94 per share				(4,451)			(4,451)
Common, $0.80 per share				(29,468)			(29,468)
Issuance of 11,500 shares of Series E preferred stock	110,705						110,705
Issuance of 5,389,584 shares of common stock		5,390	214,816				220,206
Stock based compensation			7,410				7,410
Balance at December 31, 2020	**$ 110,705**	**$ 42,094**	**$1,062,083**	**$ 791,630**	**$ 72,719**	**$ —**	**$2,079,231**

See accompanying notes to consolidated financial statements.

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

	For the Years Ended December 31,		
	2020	**2019**	**2018**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 137,938	$ 149,129	$ 116,998
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	27,289	30,797	30,791
Provision for credit losses	67,066	16,657	24,013
Net amortization of premium on securities	16,042	20,326	25,142
Provision for deferred taxes	(10,910)	(414)	2,760
Securities gains, net	(7,793)	(7,659)	(1,085)
Unrealized gain on equity securities, net	(640)	(525)	(212)
Stock based compensation	7,410	6,070	4,505
(Gain) loss on sales/valuations of assets, net	5,101	(8,394)	2,208
Loans originated for sale	(621,507)	(384,603)	(646,019)
Proceeds on sales of loans held for sale	615,439	396,290	714,259
Net gains on sales of loans held for sale	(25,133)	(14,661)	(16,404)
(Increase) decrease in accrued interest receivable	(9,971)	1,301	(3,368)
(Increase) decrease in prepaid expenses	(3,504)	(8,566)	2,364
Increase (decrease) in accrued interest payable	(2,915)	421	(2)
Gain on extinguishment of debt	—	(375)	—
Capitalization of servicing rights	(3,484)	(1,011)	(5,160)
Valuation adjustment on servicing rights	1,778	911	46
Net excess tax (expense) benefit from stock based compensation	(93)	266	674
Other, net	(1,745)	(34,786)	(8,760)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**190,368**	**161,174**	**242,750**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of time deposits in other financial institutions	—	(258)	(1,000)
Proceeds from the sale of securities available for sale	1,097,378	1,628,467	727,895
Proceeds from the sale of securities held to maturity	1,056	—	—
Proceeds from the sale, maturity of and principal paydowns on other investments	8,506	10,325	1,618
Proceeds from the redemption of time deposits in other financial institutions	—	—	8,767
Proceeds from the maturity of and principal paydowns on securities available for sale	567,884	402,946	237,747
Proceeds from the maturity of and principal paydowns on securities held to maturity	3,458	3,158	15,953
Proceeds from the maturity of time deposits in other financial institutions	585	1,216	6,993
Purchase of securities available for sale	(4,119,814)	(2,577,106)	(1,197,822)
Purchase of other investments	(49,228)	(6,446)	(3,731)
Net increase in loans	(444,146)	(90,749)	(132,401)
Purchase of bank owned life insurance policies	(292)	(28)	(2,228)
Proceeds from bank owned life insurance policies	606	1,402	—
Proceeds from sale of mortgage servicing rights	—	35,017	—
Capital expenditures and investments	(18,542)	(17,928)	(12,742)
Net cash and cash equivalents received in acquisitions	641,315	76,071	212,197
Net cash expended in divestitures	—	(49,264)	—
Proceeds from sale of equipment	5,895	903	2,972
Proceeds on sale of OREO and other repossessed assets	3,913	8,304	11,562
NET CASH USED BY INVESTING ACTIVITIES	**(2,301,426)**	**(573,970)**	**(124,220)**

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

	For the Years Ended December 31,		
	2020	**2019**	**2018**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in demand deposits	1,367,903	51,178	8,052
Net increase in savings accounts	735,968	680,641	318,697
Net decrease in time deposit accounts	(254,540)	(81,251)	(221,980)
Proceeds on short-term revolving credit line	—	—	25,000
Repayments on short-term revolving credit line	—	—	(25,000)
Net increase (decrease) in short-term borrowings	40,137	(51,314)	(158,519)
Proceeds from short term FHLB advances	516,545	512,085	462,940
Repayments of short term FHLB advances	(597,742)	(546,725)	(402,102)
Proceeds from other borrowings	314,397	50	30,131
Repayments of other borrowings	(134,244)	(20,693)	(59,157)
Proceeds from issuance of preferred stock	110,705	—	—
Payment for the redemption of debt	—	(2,125)	—
Purchase of treasury stock	—	—	(97)
Proceeds from issuance of common stock	3,004	661	489
Dividends paid	(31,906)	(24,607)	(19,357)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	**2,070,227**	**517,900**	**(40,903)**
Net increase (decrease) in cash and cash equivalents	(40,831)	105,104	77,627
Cash and cash equivalents at beginning of year	378,734	273,630	196,003
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 337,903**	**$ 378,734**	**$ 273,630**
Supplemental disclosures:			
Cash paid for income/franchise taxes	$ 33,402	$ 37,609	$ 17,085
Cash paid for interest	47,798	80,238	51,868
Loans transferred to OREO	3,511	8,066	7,866
Transfer of premises from premises, furniture and equipment held for sale to premises, furniture and equipment, net	855	4,306	81
Purchases of securities available for sale, accrued, not paid	—	11,106	—
Transfer of premises from premises, furniture and equipment, net to premises, furniture and equipment held for sale	8,134	4,655	7,660
Securities transferred from held to maturity to available for sale	—	148,030	—
Conversion/redemption of Series D preferred stock to common stock	—	—	938
Securities transferred from available for sale to held to maturity	462	—	—
Loans transferred to held for sale	—	32,111	96,027
Deposits transferred to held for sale	—	76,968	106,409
Dividends declared, not paid	2,013	—	—
Stock consideration granted for acquisitions	217,202	92,258	238,075

See accompanying notes to consolidated financial statements.

HEARTLAND FINANCIAL USA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ONE
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations **-** Heartland Financial USA, Inc. ("Heartland") is a multi-bank holding company with locations in Iowa, Illinois, Wisconsin, New Mexico, Arizona, Colorado, Montana, Minnesota, Kansas, Missouri, Texas and California. The principal services of Heartland, which are provided through its subsidiaries, are FDIC-insured deposit accounts and related services, and loans to businesses and individuals. The loans consist primarily of commercial and industrial, owner-occupied commercial real estate, non-owner occupied commercial real estate, real estate construction, agricultural and agricultural real estate, residential real estate and consumer loans.

Principles of Presentation **-** The consolidated financial statements include the accounts of Heartland and its subsidiaries: Dubuque Bank and Trust Company; Illinois Bank & Trust; Wisconsin Bank & Trust; New Mexico Bank & Trust; Arizona Bank & Trust; Rocky Mountain Bank; Citywide Banks; Minnesota Bank & Trust; Bank of Blue Valley; Premier Valley Bank; First Bank & Trust; Citizens Finance Parent Co.; DB&T Insurance, Inc.; DB&T Community Development Corp.; Heartland Community Development, Inc.; Heartland Financial USA, Inc. Insurance Services; Citizens Finance Co.; Citizens Finance of Illinois Co.; 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, CBNM Capital Trust I, Citywide Capital Trust III, Citywide Capital Trust IV, Citywide Capital Trust V, OCGI Statutory Trust III, OCGI Capital Trust IV, BVBC Capital Trust II, and BVBC Capital Trust III. All of Heartland's subsidiaries are wholly-owned as of December 31, 2020.

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

Business Combinations **-** Heartland applies the acquisition method of accounting in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 805, Business Combinations. Under the acquisition method, Heartland recognizes assets acquired, including identified intangible assets, and the liabilities assumed in acquisitions at fair value as of the acquisition date, with the acquisition-related transaction costs expensed in the period incurred. Determining the fair value of assets acquired and liabilities assumed often involves estimates based on third-party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques that may include estimates of attrition, inflation, asset growth rates, discount rates, multiples of earnings or other relevant factors. In addition, the determination of the useful lives over which an intangible asset will be amortized is subjective.

Cash and Cash Equivalents **-** For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest bearing deposits held at the Federal Reserve Bank, federal funds sold to other banks and other short-term investments. Generally, federal funds are purchased and sold for one-day periods.

Trading Securities **-** Trading securities represent those securities Heartland intends to actively trade and are stated at fair value with changes in fair value reflected in noninterest income. Heartland had no trading securities at both December 31, 2020 and 2019.

Available for Sale ("AFS") Debt Securities and Equity Securities **-** Available for sale securities consist of those securities not classified as held to maturity or trading, which management intends to hold for indefinite periods of time or that may be sold in response to changes in interest rates, prepayments or other similar factors. Available for sale securities are stated at fair value with any unrealized gain or loss, net of applicable income tax, reported as a separate component of stockholders' equity. Security premiums and discounts are amortized/accreted using the interest method over the period from the purchase date to the expected maturity or call date of the related security.

Heartland reviews the investment securities portfolio at the security level on a quarterly basis for potential credit losses, which takes into consideration numerous factors, and the relative significance of any single factor can vary by security. Some factors Heartland may consider include changes in security ratings, financial condition of the issuer, as well as security and industry specific economic conditions. In addition, with regard to debt securities, Heartland may also evaluate payment structure,

whether there are defaulted payments or expected defaults, prepayment speeds and the value of any underlying collateral. For certain debt securities in unrealized loss positions, Heartland prepares cash flow analyses to compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security.

Realized securities gains or losses on securities sales (using specific identification method) and declines in value judged to be other-than-temporary are included in impairment loss on securities in the consolidated statements of income.

Equity securities include Community Reinvestment Act mutual funds with readily determinable fair values and are carried at fair value. Certain equity securities do not have readily determinable fair values, such as Federal Reserve Bank stock and Federal Home Loan Bank stock, which are held for debt and regulatory purposes and are carried at cost minus impairment, if any, plus or minus changes resulting from observable price changes for the identical or similar investment of the same issuer. Heartland has not recorded any impairment or other adjustments to the carrying amount of these investments during 2020.

Allowance for Credit Losses on AFS Debt Securities - AFS debt securities in unrealized loss positions are evaluated for credit related loss at least quarterly. The decline in fair value of an AFS debt security due to credit loss results in recording an allowance for credit losses to the extent the fair value is less than the amortized cost basis. Declines in fair value that have not been recorded through an allowance for credit losses, such as declines due to changes in market interest rates, are recorded through other comprehensive income, net of applicable taxes. Although these evaluations involve significant judgment, an unrealized loss in the fair value of a debt security is generally considered to not be related to credit when the fair value of the security is below the carrying value primarily due to changes in risk-free interest rates, there has not been significant deterioration in the financial condition of the issuer, and Heartland does not intend to sell nor does it believe it will be required to sell the security before the recovery of its cost basis. Heartland had no allowance for credit losses on AFS debt securities recorded at December 31, 2020.

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

Allowance for Credit Losses on Held to Maturity Debt Securities - Heartland measures expected credit losses on held to maturity debt securities on a collective basis based on security type. The estimate of expected credit losses considers historical credit information that is adjusted for current conditions and supportable forecasts. Heartland's held to maturity debt securities consist primarily of investment grade obligations of states and political subdivisions. The forecast and forecast period used in the calculation of the allowance for credit losses for loans is used in calculating the allowance for credit losses on held to maturity debt securities..

Loans Held to Maturity - Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost, which is the principal amount outstanding, net of cumulative charge-offs, unamortized net deferred loan origination fees and costs and unamortized premiums or discounts on purchased loans. Heartland has a loan policy which establishes the credit risk appetite, lending standards and underwriting criteria designed so that Heartland may extend credit in a prudent and sound manner. The Heartland board of directors reviews and approves the loan policy on a regular basis. A reporting system supplements the review process by providing management and the board with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and nonperforming loans and potential problem loans.

Heartland originates commercial and industrial loans and owner occupied commercial real estate loans for a wide variety of business purposes, including lines of credit for capital and operating purposes and term loans for real estate and equipment purchases. Non-owner occupied commercial real estate loans provide financing for various non-owner occupied or income producing properties. Real estate construction loans are generally short-term or interim loans that provide financing for acquiring or developing commercial income properties, multi-family projects or single-family residential homes. Agricultural and agricultural real estate loans provide financing for capital improvements and farm operations, as well as livestock and machinery purchases. Residential real estate loans are originated for the purchase or refinancing of single family residential properties. Consumer loans include loans for motor vehicles, home improvement, home equity and personal lines of credit.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Heartland’s policy is to discontinue the accrual of interest income on any loan when, in the opinion of management, there is a reasonable doubt as to the timely collection of the interest and principal, normally when a loan is 90 days past due. When interest accruals are deemed uncollectible, interest credited to income in the current year is reversed and

interest accrued in prior years is charged to the allowance for credit losses. A loan can be restored to accrual status if the borrower has resumed paying the full amount of the scheduled contractual interest and principal payments on the loan, and (1) all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within a reasonable period of time, and (2) there is a sustained period of repayment performance (generally a minimum of six months) by the borrower in accordance with the scheduled contractual terms.

***Acquired Loans* -** On January 1, 2020, Heartland adopted ASU 2016-13, "*Financial Instruments - Credit Losses (Topic 326)*," and loans acquired after January 1, 2020 are presented under ASC Topic 326 while loans acquired before January 1, 2020, continue to be reported in accordance with previously applicable GAAP. Heartland adopted ASU 2016-13 using the prospective transition approach for loans purchased with credit deterioration ("PCD") that were previously classified as purchased credit impaired ("PCI") and accounted for under ASC 310-30. In accordance with ASC 326, Heartland did not reassess whether PCI loans met the criteria of PCD loans as of the adoption date. Heartland has acquired loans through acquisitions, some of which have experienced more than insignificant deterioration in credit quality since origination and are classified as PCD loans. Heartland considers the following criteria in determining PCD loans:

- watch, substandard and non-accrual loans;
- loans delinquent more than 30 days as of the acquisition date;
- loans that have experienced more than one 30-59 day delinquency;
- loans that have experienced any delinquency of more than 60 days;
- loan with a TDR status as of the acquisition date;
- loans with a Coronavirus Disease 2019 ("COVID-19") modification as of the acquisition date;
- loans in high-risk industries based on macroeconomic conditions and local market conditions of the acquired entity on acquisition date.

An allowance for credit losses on PCD loans is determined using the same allowance methodology as described below for loans held to maturity. The allowance for credit losses determined on a collective basis is allocated to individual loans. The sum of the PCD loan purchase price and allowance for credit loss becomes the initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Any subsequent changes to the credit quality of PCD loans are recognized in net income by adjusting the allowance for credit losses through provision expense.

At acquisition, for purchased loans not defined as PCD loans ("non-PCD"), the purpose of the loan (e.g., business, agricultural or personal), the type of borrower (e.g., business or individual) and the type of collateral for the loan (e.g., commercial real estate, residential real estate, general business assets or unsecured) of each loan are considered in order to assign purchased loans into one of the following eight loan pools: commercial and industrial, Paycheck Protection Program ("PPP"), owner occupied commercial real estate, non-owner occupied commercial real estate, real estate construction, agricultural and agricultural real estate, residential real estate and consumer.

For non-PCD loans, the premium or discount, if any, representing the excess of the amount of reasonably estimable and probable discounted future cash collections over the purchase price, is accreted into interest income using the interest method over the weighted average remaining contractual life of the loan pool. Because Heartland uses the pool method as described above, no adjustment is made to the discount of an individual loan on the specific date of a credit event with respect to such loan. Additionally, the premium or discount accretion is suspended on loans that subsequently become nonperforming.

An allowance for credit losses for non-PCD loans is established through recognition of provision expense in net income using the same methodology as other loans held to maturity.

Allowance for Credit Losses for Loans - As noted previously, Heartland adopted ASU 2016-13 on January 1, 2020, and thus for 2020 follows the current expected credit losses methodology. Prior periods have been reported in accordance with previously applicable GAAP, which followed the incurred credit losses methodology. The following policies noted are under the current expected credit losses methodology. A summary of Heartland's previous policies under the incurred credit losses methodology follows at the end of this section.

The allowance for credit losses is a valuation account that is deducted from the loans held to maturity amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Provisions for credit losses for loans and recoveries on loan previously charged-off by Heartland are added back to the allowance.

Heartland's allowance model is designed to consider the current contractual term of the loan, defined as starting as of the most recent renewal date and ending at maturity date.

Management's estimation of expected credit losses is based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts, including expected defaults and prepayments. Historical loss experience is generally the starting point for estimating expected credit losses. Adjustments are made to historical loss experience to reflect differences in asset-specific risk characteristics, such as underwriting standards, portfolio mix or asset terms and differences in economic conditions, both current conditions and reasonable and supportable forecasts. If Heartland is not able to make or obtain reasonable and supportable forecasts for the entire life of the financial asset, it is required to estimate expected credit losses for the remaining life using an approach that reverts to historical credit loss information. The components of the allowance for credit losses are described more specifically below.

Quantitative Factors

The quantitative component of the allowance for credit losses is measured using historical loss experience using a look back period, currently over the most recent 12 years, on a pool basis for loans with similar risk characteristics. Heartland utilizes third-party software to calculate the expected credit losses using two separate methodologies. For certain commercial and agricultural loans, the expected credit losses are calculated through a transition matrix model derived probability of default and loss given default methodology. The transition matrix model determines the life of loan probability of default using the historical transitions of loans between risk ratings and through default. The probability of default and loss given default methodology have been developed using Heartland's historical loss experience over the look back period. For smaller commercial and agricultural loans, residential real estate loans and consumer loans, a lifetime average historical loss rate is established for each pool of loans based upon an average loss rate calculated using Heartland historical loss experience over the look back-period.

The risks in the commercial and industrial loan portfolio include the unpredictability of the cash flow of the borrowers and the variability in the value of the collateral securing the loans. Owner occupied commercial real estate loans are dependent upon the cash flow of the borrowers and the collateral value of the real estate. Non-owner occupied commercial real estate loans are typically dependent, in large part, on sufficient income from the properties securing the loans to cover the operating expenses and debt service. Real estate construction loans involve additional risks because funds are advanced based upon estimates of costs and the estimated value of the completed project. Additionally, real estate construction loans have a greater risk of default in a weaker economy because the source of repayment is reliant on the successful and timely sale of the project. Agricultural and agricultural real estate loans are dependent upon the profitable operation or management of the farm property securing the loan. Loans secured by farm equipment, livestock or crops may not provide an adequate source of repayment because of damage or depreciation. Residential real estate loans are dependent upon the borrower's ability to repay the loan and the underlying collateral value. Consumer loans are dependent upon the borrower's personal financial circumstances and continued financial stability.

If a loan no longer shares similar risk characteristics with other loans in the pool, it is evaluated on an individual basis and is not included in the collective evaluation. Lending relationships with $500,000 or more of total exposure and are on nonaccrual are individually assessed using a collateral dependency calculation. A loan is collateral-dependent when the debtor is experiencing financial difficulty and repayment is expected to be provided substantially through the sale or operation of the collateral. The impairment will be recognized by creating a specific reserve against the loan with a corresponding charge to provision expense. In most cases, the specific reserve will be charged off in the same quarter as the loss is probable. In some cases, when Heartland believes certain loans do not share the same risk characteristics with other loans in the pool, the standard allows for these loans to be individually assessed. All individually assessed loan calculations are completed at least semi-annually.

Qualitative Factors

Heartland's allowance methodology also has a qualitative component, the purpose of which is to provide management with a means to take into consideration changes in current conditions that could potentially have an effect, up or down, on the level of recognized loan losses, that, for whatever reason, fail to show up in the quantitative analysis performed in determining its base loan loss rates.

Heartland utilizes the following qualitative factors:

- changes in lending policies and procedures
- changes in the nature and volume of loans
- experience and ability of management

- changes in the credit quality of the loan portfolio
- risk in acquired portfolios
- concentrations of credit
- other external factors

The qualitative adjustments are based on the comparison of the current condition to the average condition over the look back period. The adjustment amount can be either positive or negative depending on whether or not the current condition is better or worse than the historical average. Heartland incorporates the adjustments for changes in current conditions using an overlay approach. The adjustments are applied as a percentage adjustment in addition to the calculated historical loss rates of each pool. These adjustments reflect the extent to which Heartland expects current conditions to differ from the conditions that existed for the period over which historical information was evaluated. Heartland utilizes an anchoring approach to determine the minimum and maximum amount of qualitative allowance for credit losses, which is determined by comparing the highest and lowest historical rate to the average loss rate to calculate the rate for the adjustment.

Economic Forecasting
The allowance for credit losses estimate incorporates a reasonable and supportable forecast of various macro-economic indices over the remaining life of Heartland’s assets. Heartland utilizes an overlay approach for its economic forecasting component, similar to the method utilized for the qualitative factors. The length of the reasonable and supportable forecast period is a judgmental determination based on the level to which the entity can support its forecast of economic conditions that drive its estimate of expected loss. Heartland compares forecasted macro-economic indices, such as unemployment and gross domestic product, to the economic conditions that existed over Heartland's look back period.

Heartland uses Moody's baseline economic forecast scenario, which is updated quarterly in Heartland's methodology. The economic forecast reverts to the historical mean immediately at the end of the reasonable and supportable forecast period. For Heartland's January 1, 2020 calculation, a two-year reasonable and supportable forecast period was used. Because of the economic uncertainty associated with COVID-19, Heartland utilized a one-year reasonable and supportable forecast period for the calculation of the December 31, 2020 allowance for credit losses.

It is expected that actual economic conditions will, in many circumstances, turn out differently than forecasted because the ultimate outcomes during the forecast period may be affected by events that were unforeseen, such as economic disruption and fiscal or monetary policy actions, which are exacerbated by longer forecasting periods. This uncertainty would be relevant to the entity’s confidence level as to the outcomes being forecasted. That is, an entity is likely less confident in the ultimate outcome of events that will occur at the end of the forecast period as compared to the beginning. As a result, actual future economic conditions may not be an effective indicator of the quality of management’s forecasting process, including the length of the forecast period.

Under the incurred credit losses methodology utilized in the prior periods, the allowance for loan losses was maintained at a level estimated by management to provide for known and inherent risks in the loan portfolio. The allowance for loan losses was based upon a continuing review of past loan loss experience, current economic conditions, volume growth, the underlying collateral value of the loans and other relevant factors. Loans which were deemed uncollectible were charged-off and deducted from the allowance for loan losses. Provisions for loan losses and recoveries on loans previously charged-off by Heartland were added to the allowance for loan losses.

The incurred credit losses methodology included the establishment of a dual risk rating system, which allowed for the utilization of a probability of default and loss given default for certain commercial and agricultural loans in the calculation of the allowance for loan losses. The probability of default and loss given default methodology was developed using Heartland’s default and loss experience over historical observation periods. Heartland's incurred credit losses methodology also utilized loss emergence periods, which represented the average amount of time from the point that a loss was incurred to the point at which the loss was confirmed. The loss rates used in the allowance calculation were periodically re-evaluated and adjusted to reflect changes in historical loss levels or other risks. In addition to past loss experience, management also utilized certain qualitative factors in our incurred credit losses methodology including the overall composition of the loan portfolio, general economic conditions, types of loans, loan collateral values, and trends in loan delinquencies and non-performing assets.

***Troubled Debt Restructured Loans* -** Loans are considered troubled debt restructured loans ("TDR") if concessions have been granted to borrowers that are experiencing financial difficulty. The concessions granted generally involve the modification of terms of the loan, such as changes in payment schedule or interest rate, which generally would not otherwise be considered. TDRs can involve loans remaining on nonaccrual, moving to nonaccrual, or continuing on accrual status, depending on the

individual facts and circumstances of the borrower. Nonaccrual TDRs are included and treated consistently with all other nonaccrual loans. In addition, all accruing TDRs are reported and accounted for as impaired loans. Generally, TDRs remain on nonaccrual until the customer has attained a sustained period of repayment performance under the modified loan terms (generally a minimum of six months). However, performance prior to the restructuring, or significant events that coincide with the restructuring, are considered in assessing whether the borrower can meet the new terms and whether the loan should be returned to or maintained on accrual status. If the borrower's ability to meet the revised payment schedule is not reasonably assured, the loan remains on nonaccrual status.

During 2020, TDR treatments were updated due to COVID-19 and the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") regulation. Under the CARES Act, banking institutions are not required to classify modifications as TDR's if the following three conditions are met: 1) the deferral was related to COVID-19, 2) executed on a loan that was not more than 30 days past due as of December 31, 2019, and 3) executed between March 1, 2020 and the later of December 31, 2020 or the last day of the Declaration of National Emergency. Heartland has adopted the CARES Act rule for TDR classification and has enhanced its procedures for deferral monitoring.

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

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

At December 31, 2020 and 2019, loans held for sale primarily consisted of 1-4 family residential mortgages.

Allowance for Credit Losses on Unfunded Loan Commitments - Heartland estimates expected credit losses over the contractual term of the loan for the unfunded portion of the loan commitment that is not unconditionally cancellable by Heartland using the same allowance methodology for credit losses for loans described above. Management uses an estimated average utilization rate to determine the exposure at default. The allowance for unfunded commitments is recorded in the Accrued Expenses and Other Liabilities section of the consolidated balance sheets.

***Mortgage Servicing and Transfers of Financial Assets* -** Heartland regularly sells residential mortgage loans to others, primarily government sponsored entities, on a non-recourse basis. Sold loans are not included in the accompanying consolidated balance sheets. Heartland generally retains the right to service the sold loans for a fee. Heartland's First Bank and Trust subsidiary serviced mortgage loans primarily for government sponsored entities with aggregate unpaid principal balance of $743.3 million and $616.7 million, at December 31, 2020 and 2019, respectively.

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

***Premises, Furniture and Equipment Held for Sale* -** Premises, furniture and equipment are stated at the estimated fair value less disposal costs. Subsequent write-downs and gains or losses on the sales are recorded to loss on sales/valuation of assets, net.

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

***Goodwill* -** Goodwill represents the excess of the purchase price of acquired subsidiaries' net assets over their fair value at the purchase date. Heartland assesses goodwill for impairment annually, and more frequently if events occur which may indicate

possible impairment, and assesses goodwill at the reporting unit level, also giving consideration to overall enterprise value as part of that assessment.

In evaluating goodwill for impairment, Heartland first assesses qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount. If Heartland concludes that it is more likely than not that the fair value of a reporting unit is more than its carrying value, then no further testing of goodwill assigned to the reporting unit is required. However, if Heartland concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying value, then Heartland performs a quantitative goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment to recognize, if any. In addition, the income tax effects of tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. A goodwill impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized cannot exceed the total amount of goodwill allocated to that reporting unit.

Due to the COVID-19 pandemic and economic conditions, an interim quantitative assessment of goodwill was performed during the second quarter of 2020, and no goodwill impairment was identified. The impairment testing involved estimating the fair value of reporting units using a combination of discounted cash flows and market-based approaches. Depending on the specific approach, significant assumptions included the discount rate used for cash flows, long-term growth rate, forecasted cash flow projections and control premiums and multiples.

Core Deposit Intangibles and Customer Relationship Intangibles, Net - Core deposit intangibles are amortized over 8 to 18 years on an accelerated basis. Customer relationship intangibles are amortized over 22 years on an accelerated basis. Annually, Heartland reviews these intangible assets for events or circumstances that may indicate a change in the recoverability of the underlying basis.

Servicing Rights, Net - Mortgage and commercial servicing rights associated with loans originated and sold, where servicing is retained, are initially capitalized at fair value and recorded on the consolidated statements of income as a component of gains on sale of loans held for sale. The values of these capitalized servicing rights are amortized as an offset to the loan servicing income earned in relation to the servicing revenue expected to be earned.

The carrying values of these rights are reviewed quarterly for impairment based on the calculation of their fair value as performed by an outside third party. For purposes of measuring impairment, the rights are stratified into certain risk characteristics including loan type and loan term. As of December 31, 2020, a valuation allowance of $422,000 was required on Heartland's mortgage servicing rights with an original term of 15 years, and a valuation allowance of $1.4 million was required on Heartland's mortgage servicing rights with an original term of 30 years. At December 31, 2019, a valuation allowance of $114,000 was required on Heartland's mortgage servicing rights with an original term of 15 years, and a valuation allowance of $797,000 was required on Heartland's mortgage servicing rights with an original term of 30 years.

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

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

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

Derivative Financial Instruments - Heartland uses derivative financial instruments as part of its interest rate risk management, which includes interest rate swaps, certain interest rate lock commitments and forward sales of securities related to mortgage banking activities. FASB ASC Topic 815 establishes accounting and reporting standards for derivative instruments, including

certain derivative instruments embedded in other contracts, and for hedging activities. As required by ASC 815, Heartland records all derivatives on the consolidated balance sheets at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. To qualify for hedge accounting, Heartland must comply with the detailed rules and documentation requirements at the inception of the hedge, and hedge effectiveness is assessed at inception and periodically throughout the life of each hedging relationship. Hedge ineffectiveness, if any, is measured periodically throughout the life of the hedging relationship.

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

Heartland has fair value hedging relationships at December 31, 2020. Heartland uses hedge accounting in accordance with ASC 815, with the unrealized gains and losses, representing the change in fair value of the derivative and the change in fair value of the risk being hedged on the related loan, being recorded in the consolidated statements of income. The ineffective portions of the unrealized gains or losses, if any, are recorded in interest income and interest expense in the consolidated statements of income. Heartland uses statistical regression to assess hedge effectiveness, both at the inception of the hedge as well as on a continual basis. The regression analysis involves regressing the periodic change in fair value of the hedging instrument against the periodic changes in the fair value of the asset being hedged due to changes in the hedge risk.

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

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

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

> *Level 1* — Valuation is based upon quoted prices for identical instruments in active markets.
>
> *Level 2* — Valuation is based upon quoted prices for similar instruments in active markets, or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
>
> *Level 3* — Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants

would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

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

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

Earnings Per Share - Basic earnings per share is determined using net income available to common stockholders and weighted average common shares outstanding. Diluted earnings per share is computed by dividing net income available to common stockholders by the weighted average common shares and assumed incremental common shares issued. Amounts used in the determination of basic and diluted earnings per share for the years ended December 31, 2020, 2019 and 2018, are shown in the table below, dollars and number of shares in thousands, except per share data:

	2020	2019	2018
Net income attributable to Heartland	$ 137,938	$ 149,129	$ 116,998
Preferred dividends	(4,451)	—	(39)
Net income available to common stockholders	$ 133,487	$ 149,129	$ 116,959
Weighted average common shares outstanding for basic earnings per share	37,269	35,991	33,012
Assumed incremental common shares issued upon vesting of restricted stock units	88	71	201
Weighted average common shares for diluted earnings per share	37,357	36,062	33,213
Earnings per common share — basic	$ 3.58	$ 4.14	$ 3.54
Earnings per common share — diluted	$ 3.57	$ 4.14	$ 3.52

Subsequent Events - Heartland has evaluated subsequent events that may require recognition or disclosure through the filing date of this Annual Report on Form 10-K with the SEC.

Effect of New Financial Accounting Standards -

ASU 2016-13

On January 1, 2020, Heartland adopted Accounting Standards Update ("ASU") 2016-13, "*Financial Instruments - Credit Losses (Topic 326),",* which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. Also on January 1, 2020, Heartland adopted ASU 2019-04, *"Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments,"* which amended certain provisions contained in ASU 2016-13, particularly by including accrued interest in the definition of amortized cost, as well as by clarifying that loan extension and renewal options in the original or modified contract that are not unconditionally cancelable by the entity should be considered in the entity's determination of expected credit losses. Also on January 1, 2020, Heartland adopted ASU 2019-11, "*Codification Improvements to Topic 326, Financial Instruments - Credit Losses,"* which amended certain aspects of ASU 2016-13.

The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, which includes loans held to maturity and held to maturity debt securities. It also applies to available for sale debt securities and off-balance sheet unfunded loan commitments. Heartland adopted ASU 2016-13 using the modified retrospective method for all financial assets measured at amortized cost basis and off-balance sheet unfunded loan commitments. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP.

Heartland's adoption of ASU 2016-13 resulted in an increase of $12.1 million to the allowance for credit losses related to loans, which included the addition of $6.0 million of purchased credit impaired discount on previously acquired loans and a cumulative-effect adjustment to retained earnings totaling $4.6 million, net of taxes of $1.5 million. Heartland adopted ASU 2016-13 using the prospective transition approach for PCD loans that were previously classified as PCI and accounted for under ASC 310-30. In accordance with ASC 326, Heartland did not reassess whether PCI loans met the criteria of PCD loans as of the adoption date.

The adoption of ASU 2016-13 resulted in an increase of $13.6 million to the allowance for unfunded commitments and a cumulative-effect adjustment to retained earnings totaling $10.2 million, net of taxes of $3.4 million.

The adoption of ASU 2016-13 also established an allowance for credit losses for Heartland's held to maturity debt securities of $158,000 and a cumulative-effect adjustment to retained earnings totaling $118,000, net of taxes of $40,000. Heartland did not record an allowance for credit losses for Heartland's available for sale debt securities upon adoption of ASU 2016-13 or at December 31, 2020.

The total result of the adoption of ASU 2016-13 was a cumulative-effect adjustment to Heartland's retained earnings of $14.9 million, net of taxes of $5.0 million.

Heartland elected to not measure an allowance for credit losses on accrued interest as such accrued interest is written off in a timely manner when deemed uncollectible. Any such write-off of accrued interest will reverse previously recognized interest income. Heartland elected to not include accrued interest within the presentation and disclosures of the carrying amount of financial assets held at amortized cost. This election is applicable to the various disclosures included within the consolidated financial statements and notes contained in this Annual Report on Form 10-K.

The adoption of ASU 2019-04 did not have a material impact on Heartland's results of operation or financial condition.

Heartland elected not to utilize the regulatory transition relief issued by federal regulatory authorities in the first quarter of 2020, which allowed banking institutions to delay the impact of CECL on regulatory capital because the impact on the capital ratios of Heartland and its subsidiary banks was not significant.

ASU 2017-04
In January 2017, the FASB issued ASU 2017-04, *"Intangibles - Goodwill and Other (Topic 350)."* The amendments in this ASU simplify the subsequent measurement of goodwill by eliminating step two from the goodwill impairment test. Instead, an entity performs only step one of its quantitative goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and then recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized cannot exceed the total amount of goodwill allocated to that reporting unit. An entity has the option to perform a qualitative assessment for a reporting unit to determine if the quantitative step one impairment test is necessary. This ASU was effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and was applied prospectively. Early adoption was permitted, including in an interim period for impairment tests performed after January 1, 2017. Heartland adopted ASU 2017-04 in the first quarter of 2020.

Heartland used this approach to evaluate its goodwill during the second quarter of 2020, as an unprecedented deterioration in economic conditions triggered by the COVID-19 pandemic caused a significant decline in stock market valuations, including Heartland's common stock price. Based on this goodwill impairment assessment, Heartland concluded that its goodwill was not impaired.

ASU 2018-13
In August 2018, the FASB issued ASU 2018-13, "*Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement."* ASU 2018-13 eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities are no longer required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy but are required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU 2018-13 was effective for interim and annual reporting periods beginning after December 15, 2019, and early adoption was permitted. Heartland adopted this ASU on January 1, 2020, as required, and because ASU 2018-13 only revised disclosure requirements, the adoption of this ASU did not have a material impact on its results of operations, financial position and liquidity.

ASU 2018-16
In October 2018, the FASB issued ASU 2018-16, "*Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting."* In the United States, eligible benchmark interest rates under Topic 815 are interest rates on direct Treasury obligations of the U.S. government, the London Interbank Offered Rate ("LIBOR") swap rate, and the Overnight Index Swap ("OIS") Rate based on the Fed Funds Effective Rate. When the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, in August 2017, it introduced the Securities Industry and Financial Markets Association ("SIFMA") Municipal Swap Rate as the fourth permissible U.S. benchmark rate. ASU 2018-16 adds the OIS rate based on the Secured Overnight Financing Rate ("SOFR") as a U.S. benchmark interest rate to facilitate the LIBOR to SOFR

transition and provide sufficient lead time for entities to prepare for changes to interest rate risk hedging strategies for both risk management and hedge accounting purposes. ASU 2018-16 became effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years and the financial statement impact immediately upon adoption was immaterial. The future financial statement impact will depend on any new contracts entered into using new benchmark rates, as well as any existing contracts that are migrated from LIBOR to new benchmark interest rates. Heartland has a formal working group that is currently evaluating the impact of the transition from LIBOR as an interest rate benchmark to other potential alternative reference rates, including but not limited to the SOFR. Currently, Heartland has adjustable rate loans, several debt obligations and derivative instruments in place that reference LIBOR-based rates. The transition from LIBOR is expected to take place at the end of 2021, and management will continue to actively assess the related opportunities and risks involved in this transition.

ASU 2019-12
In December 2019, the FASB issued ASU 2019-12, *"Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes."* ASU 2019-12 simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition for deferred tax liabilities for outside basis differences. ASU 2019-12 also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. Heartland adopted this ASU on January 1, 2021, as required, and the adoption did not have a material impact on its results of operations, financial position and liquidity.

ASU 2020-02
In February 2020, the FASB issued ASU 2020-02, *"Financial Instruments - Credit losses (Topic 326) and Leases (Topic 842),"* which incorporates SEC Staff Accounting Bulletin ("SAB") 119 (updated from SAB 102) into the ASC by aligning SEC recommended policies and procedures with ASC 326. ASU 2020-02 was effective immediately for Heartland and had no significant impact on its results of operations, financial position and liquidity.

ASU 2020-03
In March 2020, the FASB issued ASU 2020-03, "*Codification Improvements to Financial Instruments,"* which revised a wide variety of topics in the ASC with the intent to make the ASC easier to understand and apply by eliminating inconsistencies and providing clarifications. ASU 2020-03 was effective immediately upon its release, and the adoption did not have a material impact on Heartland's results of operations, financial position and liquidity.

ASU 2020-04
In March 2020, the FASB issued ASU 2020-04, "*Reference Rate Reform,*" which provides optional expedients and exceptions for applying GAAP to loan and lease agreements, derivative contracts, and other transactions affected by the anticipated transition away from LIBOR toward new interest rate benchmarks. For loan and lease agreements that are modified because of reference rate reform and that meet certain scope guidance (i) modifications of loan agreements should be accounted for by prospectively adjusting the effective interest rate, and the modifications would be considered "minor" with the result that any existing unamortized origination fees/costs would carry forward and continue to be amortized and (ii) modifications of lease agreements should be accounted for as a continuation of the existing agreement, with no reassessments of the lease classification and the discount rate or remeasurements of lease payments that otherwise would be required for modifications not accounted for as separate contracts. ASU 2020-04 also provides numerous optional expedients for derivative accounting. ASU 2020-04 is effective March 12, 2020 through December 31, 2022. An entity may elect to apply ASU 2020-04 for contract modifications as of January 1, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. Once elected for a Topic or an Industry Subtopic within the ASC, ASU 2020-04 must be applied prospectively for all eligible contract modifications for that Topic or Industry Subtopic. Heartland anticipates that ASU 2020-04 will simplify any modifications executed between the selected start date and December 31, 2022 that are directly related to LIBOR transition by allowing prospective recognition of the continuation of the contract, rather than extinguishment of the old contract that would result in writing off unamortized fees/ costs. Management will continue to actively assess the impacts of ASU 2020-04 and the related opportunities and risks involved in the LIBOR transition.

TWO
ACQUISITIONS

Johnson Bank branches
On December 4, 2020, Arizona Bank & Trust ("AB&T"), a wholly-owned subsidiary of Heartland headquartered in Phoenix, Arizona, completed its acquisition of certain assets and assumed substantially all of the deposits and certain other liabilities of

Johnson Bank's Arizona operations, which includes four banking centers. Johnson Bank is a wholly-owned subsidiary of Johnson Financial Group, Inc. headquartered in Racine, Wisconsin. As of the closing date, AB&T acquired, at fair value, total assets of $419.7 million, which included gross loans of $150.7 million, and deposits of $415.5 million.

AIM Bancshares, Inc.
On October 19, 2020, Heartland entered into an Amended and Restated Agreement and Plan of Merger (the "agreement") with First Bank & Trust ("FBT"), Heartland's Texas wholly-owned subsidiary, AIM Bancshares, Inc. ("AIM"), AimBank, a Texas stated chartered bank and wholly-owned subsidiary of AIM, and the shareholder representative of AIM providing for Heartland to acquire AIM and AimBank in a two-step transaction. The transaction closed on December 4, 2020.

Pursuant the agreement, each share of AimBank common stock was converted into the right to receive 207 shares of Heartland common stock and $1,887.16 of cash, subject to certain hold-back provisions of the agreement. Based on the closing price of $41.89 per share of Heartland common stock on December 4, 2020, the aggregate merger consideration received by AimBank stockholders was valued at approximately $264.5 million, which was paid by delivery of Heartland common stock valued at $217.2 million and cash of $47.3 million, subject to certain hold-back provisions of the merger agreement relating to the cash consideration. In addition, holders of in-the-money options to acquire shares of AimBank common stock received aggregate consideration of approximately $4.9 million in exchange for the cancellation of such stock options.

The transaction included, at fair value, total assets of $1.97 billion, including $1.09 billion of gross loans held to maturity, and deposits of $1.67 billion. The transaction was considered a tax-free reorganization with respect to the stock consideration received by the shareholders of AimBank.

The assets and liabilities of AimBank were recorded on the consolidated balance sheet at the estimated fair value on the acquisition date. Loans classified as non-PCD were recorded on acquisition date at fair value based on a discounted cash flow valuation methodology that considers, among other things, projected default rates, loss given defaults and recovery rates.

The following table represents, in thousands, the amounts recorded on the consolidated balance sheet as of December 4, 2020:

	As of December 4, 2020	
Fair value of consideration paid:		
Common stock (5,185,045 shares)	$	217,202
Cash		47,275
Total consideration paid		264,477
Fair value of assets acquired		
Cash and cash equivalents		470,085
Securities:		
Carried at fair value		267,936
Other securities		3,210
Loans held to maturity		1,087,041
Allowance for credit losses for loans		(12,055)
Net loans held to maturity		1,074,986
Premises, furniture and equipment, net		27,867
Other real estate, net		1,119
Core deposit intangibles and customer relationships, net		3,102
Cash surrender value on life insurance		13,418
Other assets		20,159
Total assets		1,881,882
Fair value of liabilities assumed		
Deposits		1,670,715
Short term borrowings		26,306
Other liabilities		11,807
Total liabilities assumed		1,708,828
Fair value of net assets acquired		173,054
Goodwill resulting from acquisition	$	91,423

Heartland recognized $91.4 million of goodwill in conjunction with the acquisition of AimBank which is calculated as the excess of both the consideration exchanged and the liabilities assumed as compared to the fair value of identifiable assets acquired. Goodwill resulted from the expected operational synergies, enhanced market area, cross-selling opportunities and expanded business lines. See Note 8 for further information on goodwill.

Pro Forma Information (unaudited): The following pro forma information represents the results of operations for the years ended December 31, 2020, and 2019, as if the AimBank acquisition occurred on January 1, 2020, and January 1, 2019, respectively:

Dollars in thousands, except per share data (unaudited)	For the Years Ended December 31,			
	2020		2019	
Net interest income	$	557,166	$	491,462
Net income available to common stockholders		167,168		170,010
Basic earnings per share		3.94		4.13
Diluted earnings per share		3.93		4.12

The above pro forma results are presented for illustrative purposes and are not intended to represent or be indicative of the actual results of operations of the merged companies that would have been achieved had the acquisition occurred on January 1, 2020, and January 1, 2019, respectively, nor are they intended to represent or be indicative of future results of operations. The pro forma results do not include expected operating cost savings as a result of the acquisition or adjustments for transaction

costs. The pro forma results also do not include adjustment for income taxes. These pro forma results require significant estimates and judgments particularly with respect to valuation and accretion of income associated with the acquired loans.

Heartland incurred $2.5 million of pre-tax merger related expenses in the year ended December 31, 2020, associated with the AimBank acquisition. The merger expenses are reflected on the consolidated statements of income for the applicable period and are reported primarily in the category of acquisition, integration and restructuring costs.

Rockford Bank and Trust Company

On November 30, 2019, Heartland's Illinois Bank & Trust subsidiary completed its acquisition of substantially all of the assets and substantially all of the deposits and certain other liabilities of Rockford Bank and Trust Company, headquartered in Rockford, Illinois. Rockford Bank and Trust Company was a wholly-owned subsidiary of Moline, Illinois-based QCR Holdings, Inc. As of the closing date, Rockford Bank and Trust Company had, at fair value, total assets of $495.7 million, which included $354.0 million of gross loans held to maturity, and $430.3 million of deposits. The all-cash payment was approximately $46.6 million.

Blue Valley Ban Corp.

On May 10, 2019, Heartland completed the acquisition of Blue Valley Ban Corp. and its wholly-owned subsidiary, Bank of Blue Valley, headquartered in Overland Park, Kansas. Based on Heartland's closing common stock price of $44.78 per share on May 10, 2019, the aggregate consideration paid to Blue Valley Ban Corp. common shareholders was $92.3 million, which was paid by delivery of 2,060,258 shares of Heartland common stock. On the closing date, in addition to this merger consideration, Heartland provided Blue Valley Ban Corp. the funds necessary to repay outstanding debt of $6.9 million, and Heartland assumed $16.1 million of trust preferred securities at fair value. Immediately following the closing of the transaction, Bank of Blue Valley was merged with and into Heartland's wholly-owned Kansas subsidiary, Morrill & Janes Bank and Trust Company, and the combined entity operates under the Bank of Blue Valley brand. As of the closing date, Blue Valley Ban Corp. had, at fair value, total assets of $766.2 million, total loans held to maturity of $542.0 million, and total deposits of $617.1 million. The transaction was a tax-free reorganization with respect to the stock consideration received by the stockholders of Blue Valley Ban Corp.

THREE
CASH AND DUE FROM BANKS

The Heartland banks are required to maintain certain average cash reserve balances as a non-member bank of the Federal Reserve System. On March 15, 2020, the Federal Reserve temporarily suspended the reserve requirement due to the COVID-19 pandemic. The reserve balance requirement at December 31, 2019 was $46.8 million.

FOUR
SECURITIES

The amortized cost, gross unrealized gains and losses and estimated fair values of debt securities available for sale and equity securities with a readily determinable fair value as of December 31, 2020, and December 31, 2019, are summarized in the table below, in thousands:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2020				
U.S. treasuries	$ 1,995	$ 31	$ —	$ 2,026
U.S. agencies	167,048	657	(926)	166,779
Obligations of states and political subdivisions	1,562,631	75,555	(2,959)	1,635,227
Mortgage-backed securities - agency	1,351,964	16,029	(12,723)	1,355,270
Mortgage-backed securities - non-agency	1,428,068	22,688	(1,640)	1,449,116
Commercial mortgage-backed securities - agency	171,451	3,440	(738)	174,153
Commercial mortgage-backed securities - non-agency	253,421	37	(691)	252,767
Asset-backed securities	1,064,255	9,421	(4,410)	1,069,266
Corporate bonds	3,763	8	(29)	3,742
Total debt securities	6,004,596	127,866	(24,116)	6,108,346
Equity securities with a readily determinable fair value	19,629	—	—	19,629
Total	$ 6,024,225	$ 127,866	$ (24,116)	$ 6,127,975
December 31, 2019				
U.S. treasuries	$ 8,466	$ 37	$ —	$ 8,503
U.S. agencies	185,566	671	(1,561)	184,676
Obligations of states and political subdivisions	704,073	12,516	(9,399)	707,190
Mortgage-backed securities - agency	763,733	7,598	(4,605)	766,726
Mortgage-backed securities - non-agency	427,315	4,312	(1,130)	430,497
Commercial mortgage-backed securities - agency	68,019	989	(143)	68,865
Commercial mortgage-backed securities - non-agency	435,195	3,113	(1,983)	436,325
Asset-backed securities	700,631	529	(9,581)	691,579
Corporate bonds	—	—	—	—
Total debt securities	3,292,998	29,765	(28,402)	3,294,361
Equity securities	18,435	—	—	18,435
Total	$ 3,311,433	$ 29,765	$ (28,402)	$ 3,312,796

The amortized cost, gross unrealized gains and losses and estimated fair values of held to maturity securities as of December 31, 2020, and December 31, 2019, are summarized in the table below, in thousands:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Allowance for Credit Losses
December 31, 2020					
Obligations of states and political subdivisions	$ 88,890	$ 11,151	$ —	$ 100,041	$ (51)
Total	$ 88,890	$ 11,151	$ —	$ 100,041	$ (51)
December 31, 2019					
Obligations of states and political subdivisions	$ 91,324	$ 9,160	$ —	$ 100,484	$ —
Total	$ 91,324	$ 9,160	$ —	$ 100,484	$ —

As of December 31, 2020, Heartland had $20.8 million of accrued interest receivable, which is included in other assets on the consolidated balance sheet. Heartland does not consider accrued interest receivable in the carrying amount of financial assets held at amortized cost basis or in the allowance for credit losses calculation.

The amortized cost and estimated fair value of investment securities carried at fair value at December 31, 2020, by contractual maturity are as follows, in thousands. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without penalties.

	December 31, 2020	
	Amortized Cost	Estimated Fair Value
Due in 1 year or less	$ 3,579	$ 3,624
Due in 1 to 5 years	26,507	27,252
Due in 5 to 10 years	168,981	173,927
Due after 10 years	1,536,370	1,602,971
Total debt securities	1,735,437	1,807,774
Mortgage and asset-backed securities	4,269,159	4,300,572
Equity securities with a readily determinable fair value	19,629	19,629
Total investment securities	$ 6,024,225	$ 6,127,975

The amortized cost and estimated fair value of debt securities held to maturity at December 31, 2020, by contractual maturity are as follows, in thousands. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without penalties.

	December 31, 2020	
	Amortized Cost	Estimated Fair Value
Due in 1 year or less	$ 1,933	$ 1,963
Due in 1 to 5 years	24,129	25,871
Due in 5 to 10 years	54,329	60,040
Due after 10 years	8,499	12,167
Total investment securities	$ 88,890	$ 100,041

As of December 31, 2020, securities with a carrying value of $2.12 billion were pledged to secure public and trust deposits, short-term borrowings and for other purposes as required and permitted by law.

Gross gains and losses realized related to sales of securities carried at fair value for the years ended December 31, 2020, 2019 and 2018 are summarized as follows, in thousands:

	2020	2019	2018
Available for Sale Securities sold:			
Proceeds from sales	$ 1,097,378	$ 1,628,467	$ 727,895
Gross security gains	13,208	11,774	3,661
Gross security losses	5,616	4,115	2,576

The following tables summarize, in thousands, the amount of unrealized losses, defined as the amount by which cost or amortized cost exceeds fair value, and the related fair value of investments with unrealized losses in Heartland's securities portfolio as of December 31, 2020, and December 31, 2019. The investments were segregated into two categories: those that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months. The reference point for determining how long an investment was in an unrealized loss position was December 31, 2020, and December 31, 2019, respectively.

Debt securities available for sale	**Less than 12 months**			**12 months or longer**			**Total**		
	Fair Value	**Unrealized Losses**	**Count**	**Fair Value**	**Unrealized Losses**	**Count**	**Fair Value**	**Unrealized Losses**	**Count**
December 31, 2020									
U.S. agencies	$ 2,981	$ (8)	5	$ 99,922	$ (918)	72	$ 102,903	$ (926)	77
Obligations of states and political subdivisions	346,598	(2,959)	49	—	—	—	346,598	(2,959)	49
Mortgage-backed securities - agency	653,793	(12,342)	35	31,012	(381)	3	684,805	(12,723)	38
Mortgage-backed securities - non-agency	378,843	(1,639)	17	1,622	(1)	1	380,465	(1,640)	18
Commercial mortgage-backed securities - agency	46,541	(738)	6	—	—	—	46,541	(738)	6
Commercial mortgage-backed securities - non-agency	100,042	(15)	2	35,428	(676)	3	135,470	(691)	5
Asset-backed securities	141,824	(643)	9	340,452	(3,767)	24	482,276	(4,410)	33
Corporate bonds	1,908	(29)	4	—	—	—	1,908	(29)	4
Total temporarily impaired securities	$1,672,530	$ (18,373)	127	$ 508,436	$ (5,743)	103	$2,180,966	$ (24,116)	230
December 31, 2019									
U.S. agencies	$ 94,774	$ (957)	57	$ 49,555	$ (604)	24	$ 144,329	$ (1,561)	81
Obligations of states and political subdivisions	387,534	(9,399)	50	—	—	—	387,534	(9,399)	50
Mortgage-backed securities - agency	182,614	(1,763)	36	92,928	(2,842)	17	275,542	(4,605)	53
Mortgage-backed securities - non-agency	225,807	(1,130)	6	251	—	1	226,058	(1,130)	7
Commercial mortgage-backed securities - agency	12,509	(128)	4	1,842	(15)	1	14,351	(143)	5
Commercial mortgage-backed securities - non-agency	214,774	(1,544)	19	55,896	(439)	4	270,670	(1,983)	23
Asset-backed securities	501,254	(8,667)	28	40,760	(914)	11	542,014	(9,581)	39
Corporate bonds	—	—		—	—	—	—	—	—
Total temporarily impaired securities	$1,619,266	$ (23,588)	200	$ 241,232	$ (4,814)	58	$1,860,498	$ (28,402)	258

Heartland had no securities held to maturity with unrealized losses at December 31, 2020, or December 31, 2019.

On January 1, 2020, Heartland adopted the amendments within ASU 2016-13, which replaced the legacy GAAP other-than-temporary impairment ("OTTI") model with a credit loss model. The credit loss model under ASC 326-30, applicable to AFS debt securities, requires the recognition of credit losses through an allowance account, but retains the concept from the OTTI model that credit losses are recognized once securities become impaired. See Note 1, "Basis of Presentation," to the consolidated financial statements included herein for a discussion of the impact of the adoption of ASU 2016-13. Heartland reviews the investment securities portfolio at the security level on a quarterly basis for potential credit losses, which takes into consideration numerous factors, and the relative significance of any single factor can vary by security. Some factors Heartland may consider include changes in security ratings, financial condition of the issuer, as well as security and industry specific economic conditions. In addition, with regard to debt securities, Heartland may also evaluate payment structure, whether there are defaulted payments or expected defaults, prepayment speeds and the value of any underlying collateral. For certain debt

securities in unrealized loss positions, Heartland prepares cash flow analyses to compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security.

The remaining unrealized losses on Heartland's mortgage and asset-backed securities are the result of changes in market interest rates or widening of market spreads subsequent to the initial purchase of the securities. The losses are not related to concerns regarding the underlying credit of the issuers or the underlying collateral. It is expected that the securities will not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because Heartland has the intent and ability to hold these investments until a market price recovery or to maturity and does not believe it will be required to sell the securities before maturity, no credit losses were recognized on these securities during the year ended December 31, 2020.

The remaining unrealized losses on Heartland's obligations of states and political subdivisions are the result of changes in market interest rates or widening of market spreads subsequent to the initial purchase of the securities. Management monitors the published credit ratings of these securities and the stability of the underlying municipalities. Because the decline in fair value is attributable to changes in interest rates or widening market spreads due to insurance company downgrades and not underlying credit quality, and because Heartland has the intent and ability to hold these investments until a market price recovery or to maturity and does not believe it will be required to sell the securities before maturity, no credit losses were recognized on these securities during the year ended December 31, 2020.

In the third quarter of 2020, Heartland sold two obligations of states and political subdivisions securities from the held to maturity portfolio. Because the underlying credit quality of the individual securities showed significant deterioration, it was unlikely Heartland would recover the remaining basis of the securities prior to maturity and therefore inconsistent with Heartland's original intent upon purchase and classification of these held to maturity securities. The carrying value of these securities was $855,000, and the associated gross gains were $201,000.

The credit loss model under ASC 326-30, applicable to held to maturity debt securities, requires the recognition of lifetime expected credit losses through an allowance account at the time when the security is purchased. The following table presents, in thousands, the activity in the allowance for credit losses for securities held to maturity by major security type for the quarter and year ended December 31, 2020:

		Obligations of states and political subdivisions
Balance at December 31, 2019	$	—
Impact of ASU 2016-13 adoption on January 1, 2020		158
Adjusted balance at January 1, 2020		158
Provision for credit losses		(107)
Balance at December 31, 2020	$	51

The following table summarizes, in thousands, the carrying amount of Heartland's held to maturity debt securities by investment rating as of December 31, 2020, which are updated quarterly and used to monitor the credit quality of the securities:

Rating		Obligations of states and political subdivisions
AAA	$	—
AA, AA+, AA-		64,385
A+, A, A-		18,353
BBB		4,208
Not Rated		1,944
Total	$	88,890

Included in other securities were shares of stock in each Federal Home Loan Bank (the "FHLB") of Des Moines, Chicago, Dallas, San Francisco and Topeka at an amortized cost of $19.5 million at December 31, 2020 and $16.8 million at December 31, 2019.

The Heartland banks are required to maintain FHLB stock as members of the various FHLBs as required by these institutions. These equity securities are "restricted" in that they can only be sold back to the respective institutions or another member institution at par. Therefore, they are less liquid than other marketable equity securities and their fair value approximates amortized cost. Heartland considers its FHLB stock as a long-term investment that provides access to competitive products and liquidity. Heartland evaluates impairment in these investments based on the ultimate recoverability of the par value and at December 31, 2020, did not consider the investments to be other than temporarily impaired.

FIVE
LOANS

Loans as of December 31, 2020, and December 31, 2019, were as follows, in thousands:

	December 31, 2020	December 31, 2019
Loans receivable held to maturity:		
Commercial and industrial	$ 2,534,799	$ 2,530,809
Paycheck Protection Program ("PPP")	957,785	—
Owner occupied commercial real estate	1,776,406	1,472,704
Non-owner occupied commercial real estate	1,921,481	1,495,877
Real estate construction	863,220	1,027,081
Agricultural and agricultural real estate	714,526	565,837
Residential real estate	840,442	832,277
Consumer	414,392	443,332
Total loans receivable held to maturity	10,023,051	8,367,917
Allowance for credit losses	(131,606)	(70,395)
Loans receivable, net	$ 9,891,445	$ 8,297,522

On January 1, 2020, Heartland adopted ASU 2016-13, "*Financial Instruments - Credit Losses (Topic 326),*" and results for reporting periods beginning after January 1, 2020 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. Additionally, Heartland reclassified its loan categories to align more closely with Federal Deposit Insurance Corporation ("FDIC") reporting requirements and classification codes, and all prior periods have been adjusted. As of December 31, 2020, Heartland had $42.4 million of accrued interest receivable, which is included in other assets on the consolidated balance sheet. Heartland does not consider accrued interest receivable in the allowance for credit losses calculation.

The following table shows the balance in the allowance for credit losses at December 31, 2020, and December 31, 2019, and the related loan balances, disaggregated on the basis of measurement methodology, in thousands. As of December 31, 2020, individually assessed loans include lending relationships with total exposure of $500,000 or more and are nonaccrual and any loans that no longer shares the same risk characteristics of the other loans in the pool. All other loans are collectively evaluated for losses. Loans individually evaluated were considered impaired at December 31, 2019.

	Allowance For Credit Losses			Gross Loans Receivable Held to Maturity		
	Individually Evaluated for Credit Losses	Collectively Evaluated for Credit Losses	Total	Loans Individually Evaluated for Credit Losses	Loans Collectively Evaluated for Credit Losses	Total
December 31, 2020						
Commercial and industrial	$ 4,077	$ 34,741	$ 38,818	$ 16,578	$ 2,518,221	$ 2,534,799
PPP	—	—	—	—	957,785	957,785
Owner occupied commercial real estate	111	19,890	20,001	11,174	1,765,232	1,776,406
Non-owner occupied commercial real estate	3,250	17,623	20,873	13,490	1,907,991	1,921,481
Real estate construction	—	20,080	20,080	—	863,220	863,220
Agricultural and agricultural real estate	1,988	5,141	7,129	15,453	699,073	714,526
Residential real estate	—	11,935	11,935	535	839,907	840,442
Consumer	—	12,770	12,770	—	414,392	414,392
Total	$ 9,426	$ 122,180	$ 131,606	$ 57,230	$ 9,965,821	$10,023,051

	Allowance For Credit Losses			Gross Loans Receivable Held to Maturity		
	Individually Evaluated for Credit Losses	Collectively Evaluated for Credit Losses	Total	Loans Individually Evaluated for Credit Losses	Loans Collectively Evaluated for Credit Losses	Total
December 31, 2019						
Commercial and industrial	$ 6,276	$ 27,931	$ 34,207	$ 31,814	$ 2,498,995	$ 2,530,809
PPP	—	—	—	—	—	—
Owner occupied commercial real estate	352	7,569	7,921	9,468	1,463,236	1,472,704
Non-owner occupied commercial real estate	33	7,551	7,584	1,730	1,494,147	1,495,877
Real estate construction	—	8,677	8,677	685	1,026,396	1,027,081
Agricultural and agricultural real estate	916	4,764	5,680	18,554	547,283	565,837
Residential real estate	176	1,328	1,504	20,678	811,599	832,277
Consumer	419	4,403	4,822	4,123	439,209	443,332
Total	$ 8,172	$ 62,223	$ 70,395	$ 87,052	$ 8,280,865	$ 8,367,917

Heartland had $6.2 million of troubled debt restructured loans at December 31, 2020, of which $3.8 million were classified as nonaccrual and $2.4 million were accruing according to the restructured terms. Heartland had $7.6 million of troubled debt restructured loans at December 31, 2019, of which $3.8 million were classified as nonaccrual and $3.8 million were accruing according to the restructured terms.

The following table provides information on troubled debt restructured loans that were modified during the years ended December 31, 2020, and December 31, 2019, in thousands:

	For the Years Ended					
	December 31, 2020			December 31, 2019		
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial and industrial	1	$ 20	$ 20	1	$ 40	$ 40
PPP	—	—	—	—	—	—
Owner occupied commercial real estate	—	—	—	—	—	—
Non-owner occupied commercial real estate	—	—	—	—	—	—
Real estate construction	—	—	—	—	—	—
Agricultural and agricultural real estate	—	—	—	—	—	—
Residential real estate	2	92	98	6	623	649
Consumer	—	—	—	—	—	—
Total	3	$ 112	$ 118	7	$ 663	$ 689

The pre-modification and post-modification recorded investment represents amounts as of the date of loan modification. The difference between the pre-modification investment and post-modification investment amounts on Heartland's residential real estate troubled debt restructured loans is due to principal deferment collected from government guarantees and capitalized interest and escrow. At December 31, 2020, there were no commitments to extend credit to any of the borrowers with an existing TDR. The tables above do not include any loan modifications made under COVID-19 modification programs.

The following table provides information on troubled debt restructured loans for which there was a payment default during the years ended December 31, 2020, and December 31, 2019, in thousands, that had been modified during the 12-month period prior to the default:

	With Payment Defaults During the Following Periods For the Years Ended			
	December 31, 2020		December 31, 2019	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Commercial and industrial	—	$ —	—	$ —
PPP	—	—	—	—
Owner occupied commercial real estate	—	—	—	—
Non-owner occupied commercial real estate	—	—	—	—
Real estate construction	—	—	—	—
Agricultural and agricultural real estate	—	—	—	—
Residential real estate	1	232	2	210
Consumer	—	—	—	—
Total	1	$ 232	2	$ 210

Heartland's internal rating system is a series of grades reflecting management's risk assessment, based on its analysis of the borrower's financial condition. The "pass" category consists of all loans that are not in the "nonpass" category and categorized into a range of loan grades that reflect increasing, though still acceptable, risk. Movement of risk through the various grade levels in the pass category is monitored for early identification of credit deterioration.

The "nonpass" category consists of watch, substandard, doubtful and loss loans. The "watch" rating is attached to loans where the borrower exhibits negative trends in financial circumstances due to borrower specific or systemic conditions that, if left uncorrected, threaten the borrower's capacity to meet its debt obligations. The borrower is believed to have sufficient financial flexibility to react to and resolve its negative financial situation. These credits are closely monitored for improvement or deterioration.

The "substandard" rating is assigned to loans that are inadequately protected by the current net worth and repaying capacity of the borrower and that may be further at risk due to deterioration in the value of collateral pledged. Well-defined weaknesses jeopardize liquidation of the debt. These loans are still considered collectible; however, a distinct possibility exists that Heartland will sustain some loss if deficiencies are not corrected. Substandard loans may exhibit some or all of the following weaknesses: deteriorating financial trends, lack of earnings, inadequate debt service capacity, excessive debt and/or lack of liquidity.

The "doubtful" rating is assigned to loans where identified weaknesses in the borrowers' ability to repay the loan make collection or liquidation in full, on the basis of existing facts, conditions and values, highly questionable and improbable. These borrowers are usually in default, lack liquidity and capital, as well as resources necessary to remain as an operating entity. Specific pending events, such as capital injections, liquidations or perfection of liens on additional collateral, may strengthen the credit, thus deferring the rating of the loan as "loss" until the exact status of the loan can be determined. The loss rating is assigned to loans considered uncollectible. As of December 31, 2020, and December 31, 2019, Heartland had no loans classified as doubtful and no loans classified as loss.

The following table shows the risk category of loans by loan category and year of origination as of December 31, 2020, in thousands:

	Amortized Cost Basis of Term Loans by Year of Origination							
	2020	**2019**	**2018**	**2017**	**2016**	**2015 and Prior**	**Revolving**	**Total**
Commercial and industrial								
Pass	$ 557,853	$ 340,809	$ 168,873	$ 215,696	$ 101,010	$ 337,834	$ 541,627	$ 2,263,702
Watch	41,574	24,676	19,672	14,262	8,072	2,474	49,432	160,162
Substandard	23,024	16,274	8,897	15,717	9,098	19,537	18,388	110,935
Commercial and industrial total	**$ 622,451**	**$ 381,759**	**$ 197,442**	**$ 245,675**	**$ 118,180**	**$ 359,845**	**$ 609,447**	**$ 2,534,799**
PPP								
Pass	$ 880,709	$ —	$ —	$ —	$ —	$ —	$ —	$ 880,709
Watch	22,533	—	—	—	—	—	—	22,533
Substandard	54,543	—	—	—	—	—	—	54,543
PPP total	**$ 957,785**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 957,785**
Owner occupied commercial real estate								
Pass	$ 400,662	$ 369,401	$ 300,242	$ 167,470	$ 107,234	$ 213,780	$ 33,759	$ 1,592,548
Watch	15,345	13,764	22,488	20,811	8,717	15,282	4,311	100,718
Substandard	15,914	9,522	12,164	14,147	8,580	21,708	1,105	83,140
Owner occupied commercial real estate total	**$ 431,921**	**$ 392,687**	**$ 334,894**	**$ 202,428**	**$ 124,531**	**$ 250,770**	**$ 39,175**	**$ 1,776,406**
Non-owner occupied commercial real estate								
Pass	$ 334,722	$ 411,301	$ 305,456	$ 194,101	$ 108,070	$ 233,153	$ 24,466	$ 1,611,269
Watch	22,826	55,225	24,718	18,724	20,954	45,672	5,114	193,233
Substandard	30,899	15,035	23,290	17,046	9,147	21,060	502	116,979
Non-owner occupied commercial real estate total	**$ 388,447**	**$ 481,561**	**$ 353,464**	**$ 229,871**	**$ 138,171**	**$ 299,885**	**$ 30,082**	**$ 1,921,481**
Real estate construction								
Pass	$ 311,625	$ 309,678	$ 157,171	$ 12,625	$ 6,954	$ 5,110	$ 21,431	$ 824,594
Watch	2,105	26,659	2,403	332	55	388	1,295	33,237
Substandard	196	2,760	2,036	—	39	358	—	5,389
Real estate construction total	**$ 313,926**	**$ 339,097**	**$ 161,610**	**$ 12,957**	**$ 7,048**	**$ 5,856**	**$ 22,726**	**$ 863,220**
Agricultural and agricultural real estate								
Pass	$ 171,578	$ 90,944	$ 62,349	$ 39,252	$ 17,626	$ 37,696	$ 148,456	$ 567,901
Watch	20,500	16,202	8,854	2,448	3,515	3,157	12,282	66,958
Substandard	17,403	7,044	23,519	6,758	3,917	9,952	11,074	79,667
Agricultural and agricultural real estate total	**$ 209,481**	**$ 114,190**	**$ 94,722**	**$ 48,458**	**$ 25,058**	**$ 50,805**	**$ 171,812**	**$ 714,526**
Residential real estate								
Pass	$ 153,017	$ 99,440	$ 118,854	$ 83,534	$ 63,477	$ 244,852	$ 33,467	$ 796,641
Watch	3,986	4,507	2,188	1,896	3,117	8,525	—	24,219
Substandard	980	442	2,507	1,528	884	12,141	1,100	19,582
Residential real estate total	**$ 157,983**	**$ 104,389**	**$ 123,549**	**$ 86,958**	**$ 67,478**	**$ 265,518**	**$ 34,567**	**$ 840,442**
Consumer								
Pass	$ 37,037	$ 27,646	$ 18,811	$ 15,034	$ 4,009	$ 19,483	$ 280,996	$ 403,016
Watch	168	352	647	340	82	646	1,622	3,857
Substandard	481	959	1,884	500	897	1,976	822	7,519
Consumer total	**$ 37,686**	**$ 28,957**	**$ 21,342**	**$ 15,874**	**$ 4,988**	**$ 22,105**	**$ 283,440**	**$ 414,392**
Total pass	$ 2,847,203	$ 1,649,219	$ 1,131,756	$ 727,712	$ 408,380	$ 1,091,908	$ 1,084,202	$ 8,940,380
Total watch	129,037	141,385	80,970	58,813	44,512	76,144	74,056	604,917
Total substandard	143,440	52,036	74,297	55,696	32,562	86,732	32,991	477,754
Total loans	**$ 3,119,680**	**$ 1,842,640**	**$ 1,287,023**	**$ 842,221**	**$ 485,454**	**$ 1,254,784**	**$ 1,191,249**	**$ 10,023,051**

Included in Heartland's nonpass loans at December 31, 2020 were $77.1 million of nonpass PPP loans as a result of risk ratings on related credits. Heartland's risk rating methodology assigns a risk rating to the whole lending relationship. Heartland has no allowance recorded related to the PPP loans because of the 100% SBA guarantee.

The following table presents loans by credit quality indicator at December 31, 2019, in thousands:

	Pass	Nonpass	Total
December 31, 2019			
Commercial and industrial	$ 2,352,131	$ 178,678	$ 2,530,809
Owner occupied commercial real estate	1,369,290	103,414	1,472,704
Non-owner occupied commercial real estate	1,429,760	66,117	1,495,877
Real estate construction	984,736	42,345	1,027,081
Agricultural and agricultural real estate	454,272	111,565	565,837
Residential real estate	790,226	42,051	832,277
Consumer	430,733	12,599	443,332
Total loans receivable held to maturity	$ 7,811,148	$ 556,769	$ 8,367,917

The nonpass category in the table above is comprised of approximately 60% special mention and 40% substandard as of December 31, 2019. The percentage of nonpass loans on nonaccrual status as of December 31, 2019, was 14%. Changes in credit risk are monitored on a continuous basis and changes in risk ratings are made when identified.

As of December 31, 2020, Heartland had $1.7 million of loans secured by residential real estate property that were in the process of foreclosure.

The following table sets forth information regarding Heartland's accruing and nonaccrual loans at December 31, 2020, and December 31, 2019, in thousands:

	Accruing Loans						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Nonaccrual	Total Loans
December 31, 2020							
Commercial and industrial	$ 5,825	$ 2,322	$ 720	$ 8,867	$ 2,504,170	$ 21,762	$ 2,534,799
PPP	1	—	—	1	957,784	—	957,785
Owner occupied commercial real estate	2,815	167	—	2,982	1,759,649	13,775	1,776,406
Non-owner occupied commercial real estate	2,143	2,674	—	4,817	1,902,003	14,661	1,921,481
Real estate construction	2,446	96	—	2,542	859,784	894	863,220
Agricultural and agricultural real estate	1,688	—	—	1,688	694,150	18,688	714,526
Residential real estate	1,675	83	—	1,758	825,047	13,637	840,442
Consumer	807	139	—	946	409,477	3,969	414,392
Total loans receivable held to maturity	$ 17,400	$ 5,481	$ 720	$ 23,601	$ 9,912,064	$ 87,386	$ 10,023,051
December 31, 2019							
Commercial and industrial	$ 5,121	$ 904	$ 3,899	$ 9,924	$ 2,491,110	$ 29,775	$ 2,530,809
PPP	—	—	—	—	—	—	—
Owner occupied commercial real estate	3,487	690	—	4,177	1,461,589	6,938	1,472,704
Non-owner occupied commercial real estate	614	81	—	695	1,493,619	1,563	1,495,877
Real estate construction	5,689	72	—	5,761	1,020,153	1,167	1,027,081
Agricultural and agricultural real estate	3,734	79	26	3,839	541,455	20,543	565,837
Residential real estate	4,166	24	180	4,370	814,840	13,067	832,277
Consumer	2,511	651	—	3,162	436,675	3,495	443,332
Total loans receivable held to maturity	$ 25,322	$ 2,501	$ 4,105	$ 31,928	$ 8,259,441	$ 76,548	$ 8,367,917

Loans delinquent 30 to 89 days as a percent of total loans were 0.23% at December 31, 2020, compared to 0.33% at December 31, 2019. Changes in credit risk are monitored on a continuous basis and changes in risk ratings are made when identified. All individually assessed loans are reviewed at least semi-annually.

Heartland recognized $0 of interest income on nonaccrual loans during the year ended December 31, 2020. As of December 31, 2020, Heartland had $32.5 million of nonaccrual loans with no related allowance.

As of December 31, 2019, the majority of Heartland's impaired loans were those that were nonaccrual, were past due 90 days or more and still accruing or have had their terms restructured in a troubled debt restructuring. The following table presents the unpaid principal balance that was contractually due at December 31, 2019, the outstanding loan balance recorded on the consolidated balance sheet at December 31, 2019, any related allowance recorded for those loans as of December 31, 2019, the average outstanding loan balances recorded on the consolidated balance sheet during the year ended December 31, 2019, and the interest income recognized on the impaired loans during the year ended December 31, 2019, in thousands:

	Unpaid Principal Balance	Loan Balance	Related Allowance Recorded	Year-to-Date Avg. Loan Balance	Year-to-Date Interest Income Recognized
Impaired loans with a related allowance:					
Commercial and industrial	$ 11,727	$ 11,710	$ 6,276	$ 11,757	$ 6
Owner occupied commercial real estate	712	712	352	1,435	22
Non-owner occupied commercial real estate	138	138	33	—	—
Real estate construction	17	17	—	—	—
Agricultural and agricultural real estate	2,751	2,237	916	2,739	—
Residential real estate	1,378	1,378	176	1,116	—
Consumer	998	997	419	1,170	11
Total loans held to maturity	$ 17,721	$ 17,189	$ 8,172	$ 18,217	$ 39
Impaired loans without a related allowance:					
Commercial and industrial	$ 22,525	$ 20,104	$ —	$ 19,141	$ 782
Owner occupied commercial real estate	8,756	8,756	—	8,337	341
Non-owner occupied commercial real estate	1,592	1,592	—	1,515	62
Real estate construction	668	668	—	636	26
Agricultural and agricultural real estate	19,113	16,317	—	16,837	60
Residential real estate	19,382	19,300	—	17,073	280
Consumer	3,135	3,126	—	4,182	45
Total loans held to maturity	$ 75,171	$ 69,863	$ —	$ 67,721	$ 1,596
Total impaired loans held to maturity:					
Commercial and industrial	$ 34,252	$ 31,814	$ 6,276	$ 30,898	$ 788
Owner occupied commercial real estate	9,468	9,468	352	9,772	363
Non-owner occupied commercial real estate	1,730	1,730	33	1,515	62
Real estate construction	685	685	—	636	26
Agricultural and agricultural real estate	21,864	18,554	916	19,576	60
Residential real estate	20,760	20,678	176	18,189	280
Consumer	4,133	4,123	419	5,352	56
Total impaired loans held to maturity	$ 92,892	$ 87,052	$ 8,172	$ 85,938	$ 1,635

The following table sets forth information regarding the PCD loans acquired during 2020 as of the date of acquisition, in thousands:

	Purchase Price	Allowance for Credit Losses	Premium/ (Discount)	Book Value
Commercial and industrial	$ 81,917	$ (1,707)	$ 170	$ 80,380
PPP	—	—	—	—
Owner occupied commercial real estate	74,854	(1,205)	(56)	73,593
Non-owner occupied commercial real estate	134,135	(6,465)	(3,150)	124,520
Real estate construction	19,405	(603)	360	19,162
Agricultural and agricultural real estate	54,584	(1,848)	(413)	52,323
Residential real estate	25,556	(410)	94	25,240
Consumer	2,760	(75)	17	2,702
Total PCD loans	$ 393,211	$ (12,313)	$ (2,978)	$ 377,920

Loans are made in the normal course of business to directors, officers and principal holders of equity securities of Heartland. The terms of these loans, including interest rates and collateral, are similar to those prevailing for comparable transactions and do not involve more than a normal risk of collectability. Changes in such loans during the years ended December 31, 2020 and 2019, were as follows, in thousands:

	2020	2019
Balance at beginning of year	$ 184,568	$ 124,983
Advances	73,412	91,287
Repayments	(42,531)	(31,702)
Balance at end of year	$ 215,449	$ 184,568

SIX
ALLOWANCE FOR CREDIT LOSSES

Changes in the allowance for credit losses for loans for the years ended December 31, 2020, 2019 and 2018 were as follows, in thousands:

	2020	2019	2018
Balance at beginning of year	$ 70,395	$ 61,963	$ 55,686
Impact of the adoption of ASU 2016-13 on January 1, 2020	12,071	—	—
Adjusted balance at January 1, 2020	82,466	61,963	55,686
Allowance for purchased credit deteriorated loans	12,313	—	—
Provision for credit losses	65,745	16,657	24,013
Recoveries on loans previously charged-off	3,804	5,365	3,549
Loans charged-off	(32,722)	(13,590)	(21,285)
Balance at end of year	$ 131,606	$ 70,395	$ 61,963

Changes in the allowance for credit losses for loans by loan category for the years ended December 31, 2020, and December 31, 2019, were as follows, in thousands:

	Balance at 12/31/2019	Impact of ASU 2016-13 adoption on 1/1/2020	Adjusted balance at 1/1/2020	Purchased Credit Deteriorated Allowance	Charge-offs	Recoveries	Provision	Balance at 12/31/2020
Commercial and industrial	$ 34,207	$ (272)	$ 33,935	$ 1,707	$ (14,974)	$ 1,277	$ 16,873	$ 38,818
PPP	—	—	—	—	—	—	—	—
Owner occupied commercial real estate	7,921	(114)	7,807	1,205	(13,671)	205	24,455	20,001
Non-owner occupied commercial real estate	7,584	(2,617)	4,967	6,465	(45)	30	9,456	20,873
Real estate construction	8,677	6,335	15,012	603	(105)	220	4,350	20,080
Agricultural and agricultural real estate	5,680	(387)	5,293	1,848	(1,201)	971	218	7,129
Residential real estate	1,504	4,817	6,321	410	(515)	108	5,611	11,935
Consumer	4,822	4,309	9,131	75	(2,211)	993	4,782	12,770
Total	$ 70,395	$ 12,071	$ 82,466	$ 12,313	$ (32,722)	$ 3,804	$ 65,745	$ 131,606

	12/31/2018	Charge-offs	Recoveries	Provision	12/31/2019
Commercial and industrial	$ 29,958	$ (7,129)	$ 2,462	$ 8,916	$ 34,207
PPP	—	—	—	—	—
Owner occupied commercial real estate	6,247	(119)	178	1,615	7,921
Non-owner occupied commercial real estate	7,182	(21)	201	222	7,584
Real estate construction	6,707	(156)	255	1,871	8,677
Agricultural and agricultural real estate	4,916	(2,633)	529	2,868	5,680
Residential real estate	1,813	(458)	139	10	1,504
Consumer	5,140	(3,074)	1,601	1,155	4,822
Total	$ 61,963	$ (13,590)	$ 5,365	$ 16,657	$ 70,395

Changes in the allowance for credit losses on unfunded commitments for the year ended December 31, 2020, were as follows:

Balance at December 31, 2019	$ 248
Impact of ASU 2016-13 adoption on January 1, 2020	13,604
Adjusted balance at January 1, 2020	13,852
Provision	1,428
Balance at December 31, 2020	$ 15,280

Prior to the adoption of ASU 2016-13, the allowance for credit losses on unfunded commitments was considered immaterial.

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

SEVEN
PREMISES, FURNITURE AND EQUIPMENT

Premises, furniture and equipment, excluding those held for sale, as of December 31, 2020, and December 31, 2019, were as follows, in thousands:

	2020	2019
Land and land improvements	$ 61,930	$ 60,444
Buildings and building improvements	192,702	176,838
Furniture and equipment	69,468	65,617
Total	324,100	302,899
Less accumulated depreciation	(104,505)	(105,341)
Premises, furniture and equipment, net	$ 219,595	$ 197,558

Depreciation expense on premises, furniture and equipment was $11.8 million, $12.0 million and $11.7 million for 2020, 2019 and 2018, respectively. Depreciation expense on buildings and building improvements of $6.5 million, $6.2 million and $5.8 million for the years ended December 31, 2020, 2019, and 2018, respectively, is recorded in occupancy expense on the consolidated statements of income. Depreciation expense on furniture and equipment of $5.3 million, $5.8 million and $6.0 million for the years ended December 31, 2020, 2019, and 2018, respectively, is recorded in furniture and equipment expense on the consolidated statements of income.

EIGHT
GOODWILL, CORE DEPOSIT INTANGIBLES AND OTHER INTANGIBLE ASSETS

Heartland had goodwill of $576.0 million at December 31, 2020, and $446.3 million at December 31, 2019. Heartland conducts its annual internal assessment of the goodwill both at the consolidated level and at its subsidiaries as of September 30. There was no goodwill impairment as of the most recent assessment. Due to the COVID-19 pandemic and economic conditions, an interim quantitative assessment of goodwill was performed during the second quarter of 2020, and no goodwill impairment was identified.

Heartland recorded $91.4 million of goodwill and $3.1 million of core deposit intangibles in connection with the acquisition of AimBank, headquartered in Levelland, Texas on December 4, 2020.

Heartland recorded $38.4 million of goodwill and $1.3 million of core deposit intangibles in connection with the acquisition of certain assets and substantially all of the deposits and certain other liabilities of Johnson Bank's Arizona operations, headquartered in Racine, Wisconsin on December 4, 2020.

Heartland recorded $19.2 million of goodwill and $1.8 million of core deposit intangibles in connection with the acquisition of substantially all of the assets and substantially all of the deposits and certain other liabilities of Rockford Bank and Trust Company, headquartered in Rockford, Illinois on November 30, 2019.

Heartland recorded $35.4 million of goodwill and $11.4 million of core deposit intangibles in connection with the acquisition of Blue Valley Ban Corp., parent company of Bank of Blue Valley, headquartered in Overland Park, Kansas on May 10, 2019.

The core deposit intangibles recorded with the AimBank and Blue Valley Ban Corp. acquisitions are not deductible for tax purposes and are expected to be amortized over a period of 10 years on an accelerated basis.

Goodwill related to the AimBank and Blue Valley Ban Corp. acquisitions resulted from expected operational synergies, increased market presence, cross-selling opportunities, and expanded business lines and is not deductible for tax purposes.

The core deposit intangibles and goodwill recorded with Johnson Bank's Arizona operations and Rockford Bank and Trust Company acquisition of substantially all of the assets and substantially all of the deposits and certain other liabilities, is deductible for tax purposes and the core deposit intangibles are expected to be amortized over a period of 10 years on an accelerated basis for book purposes.

Other intangible assets consist of core deposit intangibles, mortgage servicing rights, customer relationship intangible and commercial servicing rights. The gross carrying amount of other intangible assets and the associated accumulated amortization at December 31, 2020, and December 31, 2019, are presented in the table below, in thousands:

	December 31, 2020			December 31, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizing intangible assets:						
Core deposit intangibles	$ 101,185	$ 58,970	$ 42,215	$ 96,821	$ 48,338	$ 48,483
Customer relationship intangible	1,177	1,009	168	1,177	972	205
Mortgage servicing rights	11,268	6,079	5,189	7,886	2,265	5,621
Commercial servicing rights	7,054	6,191	863	6,952	5,837	1,115
Total	$ 120,684	$ 72,249	$ 48,435	$ 112,836	$ 57,412	$ 55,424

On April 30, 2019, Dubuque Bank and Trust Company closed on the sale of substantially all of its servicing rights portfolio, which contained loans with an unpaid principal balance of $3.31 billion to PNC Bank, N.A. The transaction qualified as a sale, and $20.6 million of mortgage servicing rights were de-recognized on the consolidated balance sheet in 2019. Cash of approximately $36.6 million was received during 2019, and Heartland recorded a gain on the sale of this portfolio of approximately $14.5 million.

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

	Core Deposit Intangibles	Customer Relationship Intangible	Mortgage Servicing Rights	Commercial Servicing Rights	Total
Year ending December 31,					
2021	$ 9,360	$ 35	$ 1,297	$ 251	$ 10,943
2022	7,702	34	1,112	222	9,070
2023	6,739	34	927	162	7,862
2024	5,591	33	741	110	6,475
2025	4,700	32	556	118	5,406
Thereafter	8,123	—	556	—	8,679
Total	$ 42,215	$ 168	$ 5,189	$ 863	$ 48,435

Projections of amortization expense for mortgage servicing rights are based on existing asset balances and the existing interest rate environment as of December 31, 2020. Heartland's actual experience may be significantly different depending upon changes in mortgage interest rates and market conditions. Mortgage loans serviced for others at First Bank & Trust were $743.3 million and $616.7 million as of December 31, 2020, and December 31, 2019, respectively. Custodial escrow balances maintained in connection with the mortgage loan servicing portfolio at First Bank & Trust were approximately $5.7 million and $5.0 million as of December 31, 2020, and December 31, 2019, respectively.

The fair value of Heartland's mortgage servicing rights at First Bank & Trust was estimated at $5.2 million and $5.6 million at December 31, 2020, and December 31, 2019, respectively, and is comprised of loans serviced for the Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC").

Heartland transferred custodial escrow balances totaling $22.9 million to PNC Bank, N.A. in conjunction with the transfer of the mortgage servicing rights portfolio on August 1, 2019.

The fair value of mortgage servicing rights is calculated based upon a discounted cash flow analysis. Cash flow assumptions, including prepayment speeds, servicing costs and escrow earnings of First Bank & Trust's mortgage servicing rights are considered in the calculation. The average constant prepayment rate was 16.20% as of December 31, 2020 compared to 14.20% for the December 31, 2019 valuation. The discount rate was 9.02% for the December 31, 2020 valuations and 9.03% for the December 31, 2019 valuations. The average capitalization rate for 2020 ranged from 76 to 116 basis points compared to a range of 80 to 103 basis points for 2019. Fees collected for the servicing of mortgage loans for others were $1.7 million, $4.9 million and $9.9 million for the years ended December 31, 2020, 2019 and 2018, respectively.

The following table summarizes, in thousands, the changes in capitalized mortgage servicing rights for the twelve months ended December 31, 2020, and December 31, 2019:

	2020	2019
Balance at January 1,	$ 5,621	$ 29,363
Originations	3,383	893
Amortization	(2,037)	(3,168)
Sale of mortgage servicing rights	—	(20,556)
Valuation allowance on servicing rights	(1,778)	(911)
Balance at December 31,	$ 5,189	$ 5,621
Fair value of mortgage servicing rights	$ 5,189	$ 5,621
Mortgage servicing rights, net to servicing portfolio	0.70 %	0.91 %

Heartland's commercial servicing portfolio is comprised of loans guaranteed by the Small Business Administration and United States Department of Agriculture that have been sold with servicing retained by Heartland, which totaled $66.2 million at December 31, 2020, and $82.1 million at December 31, 2019. The commercial servicing rights portfolio is separated into two tranches at the respective Heartland subsidiary, loans with a term of less than 20 years and loans with a term of more than 20 years. Fees collected for the servicing of commercial loans for others were $879,000 and $1.0 million for the years ended December 31, 2020 and 2019, respectively.

The fair value of each commercial servicing rights portfolio is calculated based upon a discounted cash flow analysis. Cash flow assumptions, including prepayment speeds and servicing costs, are considered in the calculation. The range of average constant prepayment rates for the portfolio valuations was 14.95% and 19.25% as of December 31, 2020, compared to 14.25% and 18.08% as of December 31, 2019. The discount rate range was 7.70% and 12.88% for the December 31, 2020 valuations compared to 10.65% and 13.94% for the December 31, 2019 valuations. The capitalization rate ranged from 310 to 445 basis points at both December 31, 2020 and 2019. The total fair value of Heartland's commercial servicing rights portfolios was estimated at $1.3 million as of December 31, 2020, and $1.6 million as of December 31, 2019.

The following table summarizes, in thousands, the changes in capitalized commercial servicing rights for the twelve months ended December 31, 2020, and December 31, 2019:

	2020	2019
Balance at January 1,	$ 1,115	$ 1,709
Originations	102	118
Amortization	(354)	(712)
Balance at December 31,	$ 863	$ 1,115
Fair value of commercial servicing rights	$ 1,288	$ 1,594
Commercial servicing rights, net to servicing portfolio	1.30 %	1.36 %

Mortgage and commercial servicing rights are initially recorded at fair value in net gains on sale of loans held for sale when they are acquired through loan sales. Fair value is based on market prices for comparable servicing contracts, when available, or based on a valuation model that calculates the present value of estimated future net servicing income.

Mortgage and commercial servicing rights are subsequently measured using the amortization method, which requires the asset to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. Servicing rights are evaluated for impairment at each Heartland subsidiary based upon the fair value of the assets as compared to the carrying amount. Impairment is recognized through a valuation allowance for specific tranches to the extent that fair value is less than carrying amount at each Heartland subsidiary. At December 31, 2020, a valuation allowance of $422,000 was required on the mortgage servicing rights 15-year tranche and a $1.4 million valuation allowance was required on the mortgage servicing rights 30-year tranche. At December 31, 2019, a $114,000 valuation allowance was required on the 15-year tranche and a $797,000 valuation was required on the 30-year tranche for mortgage servicing rights. At both December 31, 2020 and December 31, 2019, no valuation allowance was required on commercial servicing rights with an original term of less than 20 years and no valuation allowance was required on commercial servicing rights with an original term of greater than 20 years.

The following table summarizes, in thousands, the book value, the fair value of each tranche of the mortgage servicing rights and any recorded valuation allowance at each respective subsidiary at December 31, 2020, and December 31, 2019:

December 31, 2020	Book Value 15-Year Tranche	Fair Value 15-Year Tranche	Impairment 15-Year Tranche	Book Value 30-Year Tranche	Fair Value 30-Year Tranche	Impairment 30-Year Tranche
First Bank & Trust	1,522	1,100	422	5,445	4,089	1,356
Total	$ 1,522	$ 1,100	$ 422	$ 5,445	$ 4,089	$ 1,356
December 31, 2019						
First Bank & Trust	1,482	1,368	114	5,050	4,253	797
Total	$ 1,482	$ 1,368	$ 114	$ 5,050	$ 4,253	$ 797

The following table summarizes, in thousands, the book value, the fair value of each tranche of the commercial servicing rights and any recorded valuation allowance at each respective subsidiary at December 31, 2020, and December 31, 2019:

	Book Value-Less than 20 Years	Fair Value-Less than 20 Years	Impairment-Less than 20 Years	Book Value-More than 20 Years	Fair Value-More than 20 Years	Impairment-More than 20 Years
December 31, 2020						
Premier Valley Bank	—	7	—	86	143	—
Wisconsin Bank & Trust	87	196	—	690	942	—
Total	$ 87	$ 203	$ —	$ 776	$ 1,085	$ —
December 31, 2019						
Premier Valley Bank	1	13	—	135	161	—
Wisconsin Bank & Trust	128	272	—	851	1,148	—
Total	$ 129	$ 285	$ —	$ 986	$ 1,309	$ —

NINE
DEPOSITS

At December 31, 2020, the scheduled maturities of time certificates of deposit were as follows, in thousands:

2021	$ 999,121
2022	171,429
2023	51,185
2024	23,071
2025	16,243
Thereafter	10,342
	$ 1,271,391

The aggregate amount of time certificates of deposit in denominations of $100,000 or more as of December 31, 2020, and December 31, 2019, were $774.2 million and $695.8 million, respectively. The aggregate amount of time certificates of deposit in denominations of $250,000 or more as of December 31, 2020, and December 31, 2019 were $423.3 million and $329.1 million, respectively.

Interest expense on deposits for the years ended December 31, 2020, 2019, and 2018, was as follows, in thousands:

	2020	2019	2018
Savings and money market accounts	$ 16,560	$ 47,069	$ 25,123
Time certificates of deposit in denominations of $100,000 or more	8,244	9,344	4,789
Other time deposits	5,483	7,321	5,755
Interest expense on deposits	$ 30,287	$ 63,734	$ 35,667

TEN
SHORT-TERM BORROWINGS

Short-term borrowings, which Heartland defines as borrowings with an original maturity of one year or less, as of December 31, 2020, and 2019, were as follows, in thousands:

	2020	2019
Retail repurchase agreements	$ 118,293	$ 84,486
Federal funds purchased	2,100	2,450
Advances from the FHLB	—	81,198
Advances from the federal discount window	35,000	—
Other short-term borrowings	12,479	14,492
Total	$ 167,872	$ 182,626

At December 31, 2020, Heartland had one non-revolving credit facility with an unaffiliated bank, which provided a borrowing capacity not to exceed $55.0 million when combined with the outstanding balance on the amortizing term loan discussed in Note 11. The credit facility is non-revolving at a rate of 2.35% over LIBOR, and any outstanding balance is due on June 14, 2021. Heartland renewed its $45.0 million revolving credit line agreement with the same unaffiliated bank on June 14, 2020. This revolving credit line agreement is included in short-term borrowings, and the primary purpose of this credit line agreement is to provide liquidity to Heartland. Heartland had no advances on this line during 2020, and there was no outstanding balance at both December 31, 2020, and December 31, 2019.

The agreement with the unaffiliated bank for the credit facility contains specific financial covenants, all of which Heartland was in compliance with at December 31, 2020, and December 31, 2019.

All retail repurchase agreements as of December 31, 2020, and 2019, were due within twelve months.

Average and maximum balances and rates on aggregate short-term borrowings outstanding during the years ended December 31, 2020, December 31, 2019 and December 31, 2018, were as follows, in thousands:

	2020	2019	2018
Maximum month-end balance	$ 380,360	$ 226,096	$ 229,890
Average month-end balance	157,348	128,098	152,391
Weighted average interest rate for the year	0.39 %	1.38 %	1.19 %
Weighted average interest rate at year-end	0.18 %	1.21 %	1.96 %

All of Heartland's banks have availability to borrow short-term funds under the Discount Window Program based upon pledged securities with an outstanding balance of $2.12 billion and pledged commercial loans under the Borrower-In Custody of Collateral Program of $355.9 million, which provided $1.29 billion of borrowing capacity. There was $35.0 million of borrowings outstanding at December 31, 2020.

In 2019, two of Heartland's banks had $106.0 million of commercial loans pledged to the Discount Window Program, and no balance was outstanding at December 31, 2019.

ELEVEN
OTHER BORROWINGS

Other borrowings, which Heartland defines as borrowings with an original maturity date of more than one year, outstanding at December 31, 2020 and 2019, are shown in the table below, net of discount and issuance costs amortization, in thousands:

	2020	2019
Advances from the FHLB; weighted average interest rates were 3.03% and 4.08% at December 31, 2020 and 2019, respectively	$ 1,018	$ 2,835
Paycheck Protection Program Liquidity Fund	188,872	—
Trust preferred securities	146,323	145,343
Note payable to unaffiliated bank	44,417	51,417
Contracts payable for purchase of real estate and other assets	1,983	1,892
Subordinated notes	74,429	74,286
Total	$ 457,042	$ 275,773

Each of Heartland's subsidiary banks has been approved by their respective Federal Reserve Bank for the Paycheck Protection Program Liquidity Fund ("PPPLF"), and as of December 31, 2020, $188.9 million was outstanding. Heartland anticipates limited additional utilization of the PPPLF through 2021. Heartland had $788.2 million of remaining PPPLF borrowing capacity at December 31, 2020.

The Heartland banks are members of the FHLB of Des Moines, Chicago, Dallas, San Francisco and Topeka. At December 31, 2020, none of Heartland's FHLB advances had call features. The advances from the FHLB are collateralized by a portion of the Heartland banks' investments in FHLB stock of $13.6 million and $11.3 million at December 31, 2020 and 2019, respectively. In addition, the FHLB advances are collateralized with pledges of one- to four-family residential mortgages, commercial and agricultural mortgages and securities totaling $4.96 billion at December 31, 2020, and $4.11 billion at December 31, 2019. At December 31, 2020, Heartland had $1.56 billion of remaining FHLB borrowing capacity.

At December 31, 2020, Heartland had fifteen wholly-owned trust subsidiaries that were formed to issue trust preferred securities, which includes trust subsidiaries acquired in acquisitions since 2013. The proceeds from the offerings were used to purchase junior subordinated debentures from Heartland and were in turn used by Heartland for general corporate purposes. Heartland has the option to shorten the maturity date to a date not earlier than the callable date. Heartland may not shorten the maturity date without prior approval of the Board of Governors of the Federal Reserve System, if required. Early redemption is permitted under certain circumstances, such as changes in tax or regulatory capital rules. Heartland repurchased and retired $2.6 million of Heartland Statutory Trust VII in 2019. In connection with these offerings of trust preferred securities, the balance of deferred issuance costs included in other borrowings was $74,000 as of December 31, 2020. These deferred costs are amortized on a straight-line basis over the life of the debentures. The majority of the interest payments are due quarterly.

A schedule of Heartland's trust preferred offerings outstanding, as of December 31, 2020, were as follows, in thousands:

	Amount Issued	Interest Rate	Interest Rate as of 12/31/20[1]		Maturity Date	Callable Date
Heartland Financial Statutory Trust IV	$ 10,310	2.75% over LIBOR	2.98%	(2)	03/17/2034	03/17/2021
Heartland Financial Statutory Trust V	20,619	1.33% over LIBOR	1.57%		04/07/2036	04/07/2021
Heartland Financial Statutory Trust VI	20,619	1.48% over LIBOR	1.70%	(3)	09/15/2037	03/15/2021
Heartland Financial Statutory Trust VII	18,042	1.48% over LIBOR	1.71%	(4)	09/01/2037	03/01/2021
Morrill Statutory Trust I	9,182	3.25% over LIBOR	3.50%		12/26/2032	03/26/2021
Morrill Statutory Trust II	8,865	2.85% over LIBOR	3.08%		12/17/2033	03/17/2021
Sheboygan Statutory Trust I	6,615	2.95% over LIBOR	3.18%		09/17/2033	03/17/2021
CBNM Capital Trust I	4,458	3.25% over LIBOR	3.47%		12/15/2034	03/15/2021
Citywide Capital Trust III	6,494	2.80% over LIBOR	3.01%		12/19/2033	04/23/2021
Citywide Capital Trust IV	4,353	2.20% over LIBOR	2.41%		09/30/2034	05/23/2021
Citywide Capital Trust V	11,973	1.54% over LIBOR	1.76%		07/25/2036	03/15/2021
OCGI Statutory Trust III	3,004	3.65% over LIBOR	3.89%	(5)	09/30/2032	03/30/2021
OCGI Capital Trust IV	5,399	2.50% over LIBOR	2.72%	(6)	12/15/2034	03/15/2021
BVBC Capital Trust II	7,238	3.25% over LIBOR	3.46%		04/24/2033	04/24/2021
BVBC Capital Trust III	9,226	1.60% over LIBOR	1.85%		09/30/2035	03/30/2021
Total trust preferred offerings	146,397					
Less: deferred issuance costs	(74)					
	$ 146,323					

(1) Effective weighted average interest rate as of December 31, 2020, was 3.40% 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, 2020, 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, 2020, was 3.87% due to an interest rate swap transaction as discussed in Note 12 to Heartland's consolidated financial statements.

(4) Effective interest rate as of December 31, 2020, was 3.83% due to an interest rate swap transaction as discussed in Note 12 to Heartland's consolidated financial statements.

(5) Effective interest rate as of December 31, 2020, was 5.53% 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, 2020, was 4.37% due to an interest rate swap transaction as discussed in Note 12 to Heartland's consolidated financial statements.

For regulatory purposes, $146.3 million of the trust preferred securities qualified as Tier 2 capital as of December 31, 2020 and $145.2 million of the trust preferred securities qualified as Tier 1 capital as of December 31, 2019.

In addition to the credit line described in Note 10, "Short-Term Borrowings," Heartland entered into another non-revolving credit facility with the same unaffiliated bank, which provided a borrowing capacity not to exceed $55.0 million when combined with the outstanding balance on its then existing amortizing term loan with the same unaffiliated bank. On May 10, 2016, $40.0 million of this variable rate non-revolving credit facility was swapped to a fixed rate of 2.50% over LIBOR with an amortizing term of five years, which is due in April 2021, and was reclassified as long-term debt. At December 31, 2020, a balance of $44.4 million was outstanding on this term debt compared to $51.4 million at December 31, 2019. At December 31, 2020, $6.5 million was available on the non-revolving credit facility, of which no balance was outstanding.

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. For regulatory purposes, $44.7 million of the subordinated notes qualified as Tier 2 capital as of December 31, 2020. In connection with the sale of the notes, the balance of deferred issuance costs included in other borrowings was $151,000 at December 31, 2020, and $189,000 at December 31, 2019. These deferred costs are amortized on a straight-line basis over the life of the notes.

Future payments at December 31, 2020, for other borrowings at their maturity date follow in the table below, in thousands.

2021	$ 24,656
2022	191,830
2023	3,037
2024	77,542
2025	3,002
Thereafter	156,975
Total	$ 457,042

TWELVE
DERIVATIVE FINANCIAL INSTRUMENTS

Heartland uses derivative financial instruments as part of its interest rate risk management strategy. As part of the strategy, Heartland considers the use of interest rate swaps, caps, floors and collars and certain interest rate lock commitments and forward sales of securities related to mortgage banking activities. Heartland's current strategy includes the use of interest rate swaps, interest rate lock commitments and forward sales of mortgage securities. In addition, Heartland is facilitating back-to-back loan swaps to assist customers in managing interest rate risk. Heartland's objectives are to add stability to its net interest margin and to manage its exposure to movement in interest rates. The contract or notional amount of a derivative is used to determine, along with the other terms of the derivative, the amounts to be exchanged between the counterparties. Heartland is exposed to credit risk in the event of nonperformance by counterparties to financial instruments. Heartland minimizes this risk by entering into derivative contracts with large, stable financial institutions. Heartland has not experienced any losses from nonperformance by these counterparties. Heartland monitors counterparty risk in accordance with the provisions of ASC 815.

In addition, interest rate-related derivative instruments generally contain language outlining collateral pledging requirements for each counterparty. Collateral must be posted when the market value exceeds certain threshold limits which are determined by credit ratings of each counterparty. Heartland was required to pledge $3.8 million of cash as collateral at December 31, 2020, and $1.9 million of cash at December 31, 2019. No collateral was required to be pledged by Heartland's counterparties at both December 31, 2020 and December 31, 2019.

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

Cash Flow Hedges
Heartland has variable rate funding which creates exposure to variability in interest payments due to changes in interest rates. To manage the interest rate risk related to the variability of interest payments, Heartland has entered into various interest rate swap agreements. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are received or made on Heartland's variable-rate liabilities. For the twelve months ended December 31, 2020, the change in net unrealized losses on cash flow hedges reflects changes in the fair value of the swaps and reclassification from accumulated other comprehensive income to interest expense totaling $1.8 million. For the next twelve months, Heartland estimates that cash payments and reclassification from accumulated other comprehensive income to interest expense will total $2.4 million.

Heartland entered into six forward-starting interest rate swap transactions to effectively convert Heartland Financial Statutory Trust IV, V, VI, and VII, which total $85.0 million, as well as Morrill Statutory Trust I and II, which total $20.0 million, from variable rate subordinated debentures to fixed rate debt. For accounting purposes, these six swap transactions are designated as cash flow hedges of the changes in LIBOR, the benchmark interest rate being hedged, associated with the interest payments made on $105.0 million of Heartland's subordinated debentures that reset quarterly on a specified reset date. At inception, Heartland asserted that the underlying principal balance would remain outstanding throughout the hedge transaction making it probable that sufficient LIBOR-based interest payments would exist through the maturity date of the swaps. During the first quarter of 2019, the interest rate swap transactions associated with Morrill Statutory Trust I and II, totaling $20.0 million, matured and the fixed rate debt has been converted to variable rate subordinated debentures.

Heartland entered into an interest rate swap transaction on May 10, 2016, to effectively convert $40.0 million of amortizing term debt from variable rate debt to fixed rate debt. For accounting purposes, this swap is designated as a cash flow hedge of the changes in LIBOR, the benchmark interest rate being hedged, associated with the interest payments on the amortizing term debt that resets monthly on a specified reset date.

On May 18, 2018, in connection with the acquisition of First Bank Lubbock Bancshares, Inc., Heartland acquired cash flow hedges related to OCGI Statutory Trust III and OCGI Capital Trust IV with notional amounts of $3.0 million and $6.0 million, respectively. The cash flow hedges effectively convert OCGI Statutory Trust III and OGCI Capital Trust IV from variable rate subordinated debentures to fixed rate debt. These swaps are designated as cash flow hedges of the changes in LIBOR, the benchmark interest rate being hedged, associated with the interest payments made on $9.0 million of Heartland's subordinated debentures that reset quarterly on a specified reset date.

The table below identifies the balance sheet category and fair values of Heartland's derivative instruments designated as cash flow hedges at December 31, 2020, and December 31, 2019, in thousands:

	Notional Amount	Fair Value	Balance Sheet Category	Receive Rate	Weighted Average Pay Rate	Maturity
December 31, 2020						
Interest rate swap	$ 25,000	$ (127)	Other Liabilities	0.229 %	2.255 %	03/17/2021
Interest rate swap	21,667	(91)	Other Liabilities	2.649	3.674	05/10/2021
Interest rate swap	22,750	(2,220)	Other Liabilities	2.643	5.425	07/24/2028
Interest rate swap	20,000	(1,482)	Other Liabilities	0.217	2.390	06/15/2024
Interest rate swap	20,000	(1,385)	Other Liabilities	0.225	2.352	03/01/2024
Interest rate swap	6,000	(50)	Other Liabilities	0.217	1.866	06/15/2021
Interest rate swap	3,000	(25)	Other Liabilities	0.241	1.878	06/30/2021
December 31, 2019						
Interest rate swap	$ 25,000	$ (167)	Other Liabilities	1.900 %	2.255 %	03/17/2021
Interest rate swap	20,000	(67)	Other Liabilities	2.043	3.355	01/07/2020
Interest rate swap	25,667	135	Other Assets	4.215	3.674	05/10/2021
Interest rate swap	25,750	(1,384)	Other Liabilities	4.280	5.425	07/24/2028
Interest rate swap	20,000	(614)	Other Liabilities	1.894	2.390	06/15/2024
Interest rate swap	20,000	(561)	Other Liabilities	1.907	2.352	03/01/2024
Interest rate swap	6,000	(15)	Other Liabilities	1.894	1.866	06/15/2021
Interest rate swap	3,000	(9)	Other Liabilities	1.831	1.878	06/30/2021

The table below identifies the gains and losses recognized on Heartland's derivative instruments designated as cash flow hedges for the years ended December 31, 2020, and December 31, 2019, in thousands:

	Effective Portion			Ineffective Portion	
	Recognized in OCI	Reclassified from AOCI into Income		Recognized in Income on Derivatives	
	Amount of Gain (Loss)	Category	Amount of Gain (Loss)	Category	Amount of Gain (Loss)
December 31, 2020					
Interest rate swap	$ (2,698)	Interest expense	$ 1,794	Other income	$ —
December 31, 2019					
Interest rate swap	$ (3,442)	Interest Expense	$ (197)	Other Income	$ —

Fair Value Hedges

Heartland uses interest rate swaps to convert certain long term fixed rate loans to floating rates to hedge interest rate risk exposure. Heartland uses hedge accounting in accordance with ASC 815, with the unrealized gains and losses, representing the change in fair value of the derivative and the change in fair value of the risk being hedged on the related loan, being recorded in the consolidated statements of income. The ineffective portions of the unrealized gains or losses, if any, are recorded in interest income and interest expense in the consolidated statements of income. Heartland uses statistical regression to assess hedge effectiveness, both at the inception of the hedge as well as on a continual basis. The regression analysis involves regressing the periodic change in the fair value of the hedging instrument against the periodic changes in the fair value of the asset being hedged due to changes in the hedge risk.

Heartland was required to pledge $4.2 million and $3.4 million of cash as collateral for these fair value hedges at December 31, 2020, and December 31, 2019, respectively.

The table below identifies the notional amount, fair value and balance sheet category of Heartland's fair value hedges at December 31, 2020, and December 31, 2019, in thousands:

	Notional Amount	Fair Value	Balance Sheet Category
December 31, 2020			
Fair value hedges	$ 20,841	$ (2,480)	Other liabilities
December 31, 2019			
Fair value hedges	$ 21,250	$ (1,253)	Other liabilities

The table below identifies the gains and losses recognized on Heartland's fair value hedges for the years ended December 31, 2020, and December 31, 2019, in thousands:

	Amount of Gain (Loss)	Income Statement Category
December 31, 2020		
Fair value hedges	$ (1,227)	Interest income
December 31, 2019		
Fair value hedges	$ (988)	Interest income

Embedded Derivatives

Heartland has fixed rate loans with embedded derivatives. The loans contain terms that affect the cash flows or value of the loan similar to a derivative instrument, and therefore are considered to contain an embedded derivative. The embedded derivatives are bifurcated from the loans because the terms of the derivative instrument are not clearly and closely related to the loans. The embedded derivatives are recorded at fair value on the consolidated balance sheets as a part of other assets, and changes in the fair value are a component of noninterest income. The table below identifies the notional amount, fair value and balance sheet category of Heartland's embedded derivatives as of December 31, 2020, and December 31, 2019, in thousands:

	Notional Amount	Fair Value	Balance Sheet Category
December 31, 2020			
Embedded derivatives	$ 9,198	$ 680	Other assets
December 31, 2019			
Embedded derivatives	$ 9,627	$ 465	Other assets

The table below identifies the gains and losses recognized on Heartland's embedded derivatives for the years ended December 31, 2020 and December 31, 2019, in thousands:

	Amount of Gain (Loss)	Income Statement Category
December 31, 2020		
Embedded derivatives	$ 215	Other noninterest income
December 31, 2019		
Embedded derivatives	$ 66	Other noninterest income

Back-to-Back Loan Swaps

Heartland has interest rate swap loan relationships with customers to meet their financing needs. Upon entering into these loan swaps, Heartland enters into offsetting positions with counterparties in order to minimize interest rate risk. These back-to-back loan swaps qualify as free standing financial derivatives with the fair values reported in other assets and other liabilities on the consolidated balance sheets. Heartland was required to post $46.5 million and $20.2 million as of December 31, 2020, and December 31, 2019, respectively, as collateral related to these back-to-back swaps. Heartland's counterparties were required to pledge $0 at both December 31, 2020 and December 31, 2019, related to these back-to-back swaps. Any gains and losses on these back-to-back swaps are recorded in noninterest income on the consolidated statements of income, and for the years ended December 31, 2020, and December 31, 2019, no gains or losses were recognized. The table below identifies the balance sheet category and fair values of Heartland's derivative instruments designated as loan swaps at December 31, 2020 and 2019, in thousands:

	Notional Amount	Fair Value	Balance Sheet Category	Weighted Average Receive Rate	Weighted Average Pay Rate
December 31, 2020					
Customer interest rate swaps	$ 440,719	$ 43,422	Other Assets	4.46 %	2.46 %
Customer interest rate swaps	440,719	(43,422)	Other Liabilities	2.46 %	4.46 %
December 31, 2019					
Customer interest rate swaps	$ 374,191	$ 16,927	Other Assets	4.68 %	4.05 %
Customer interest rate swaps	374,191	(16,927)	Other Liabilities	4.05 %	4.68 %

Other Free Standing Derivatives

Heartland has entered into interest rate lock commitments to originate residential mortgage loans held for sale and forward commitments to sell residential mortgage loans and mortgage backed securities that are considered derivative instruments. Heartland enters 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 changes in interest rates on the commitments to fund the loans as well as on residential mortgage loans available for sale. The fair value of these commitments is recorded on the consolidated balance sheets with the changes in fair value recorded in the consolidated statements of income as a component of gains on sale of loans held for sale. These derivative contracts are designated as free standing derivative contracts and are not designated against specific assets and liabilities on the consolidated balance sheets or forecasted transactions and therefore do not qualify for hedge accounting treatment. Heartland was required to pledge $0 at both December 31, 2020, and December 31, 2019, as collateral for these forward commitments. Heartland's counterparties were required to pledge no cash as collateral at both December 31, 2020, and December 31, 2019, as collateral for these forward commitments.

Heartland acquired undesignated interest rate swaps in 2015. These swaps were entered into primarily for the benefit of customers seeking to manage their interest rate risk and are not designated against specific assets or liabilities on the consolidated balance sheet or forecasted transactions and therefore do not qualify for hedge accounting in accordance with ASC 815. These swaps are carried at fair value on the consolidated balance sheets as a component of other liabilities, with changes in the fair value recorded as a component of other noninterest income.

The table below identifies the balance sheet category and fair values of Heartland's other free standing derivative instruments not designated as hedging instruments at December 31, 2020, and December 31, 2019, in thousands:

	Notional Amount	Fair Value	Balance Sheet Category
December 31, 2020			
Interest rate lock commitments (mortgage)	$ 42,078	$ 1,827	Other Assets
Forward commitments	—	—	Other Assets
Forward commitments	86,500	(697)	Other Liabilities
Undesignated interest rate swaps	9,198	(680)	Other Liabilities
December 31, 2019			
Interest rate lock commitments (mortgage)	$ 20,356	$ 681	Other Assets
Forward commitments	16,000	15	Other Assets
Forward commitments	36,500	(113)	Other Liabilities
Undesignated interest rate swaps	9,627	(465)	Other Liabilities

The table below identifies the income statement category of the gains and losses recognized in income on Heartland's other free standing derivative instruments not designated as hedging instruments for the years ended December 31, 2020, and December 31, 2019, in thousands:

	Income Statement Category	Year-to-Date Gain (Loss) Recognized
December 31, 2020		
Interest rate lock commitments (mortgage)	Net gains on sale of loans held for sale	$ 2,803
Forward commitments	Net gains on sale of loans held for sale	(15)
Forward commitments	Net gains on sale of loans held for sale	(585)
Undesignated interest rate swaps	Other noninterest income	(215)
December 31, 2019		
Interest rate lock commitments (mortgage)	Net gains on sale of loans held for sale	$ 18
Forward commitments	Net gains on sale of loans held for sale	15
Forward commitments	Net gains on sale of loans held for sale	287
Undesignated interest rate swaps	Other noninterest income	(66)

THIRTEEN
INCOME TAXES

The current income tax provision reflects the tax consequences of revenue and expenses currently taxable or deductible on various income tax returns for the year reported. The deferred income tax provision generally reflects the net change in deferred income tax assets and liabilities during the year, excluding any deferred income tax assets and liabilities of acquired businesses. The components of the provision for income taxes for the years ended December 31, 2020, 2019, and 2018 were as follows, in thousands:

	2020	2019	2018
Current:			
Federal	$ 34,513	$ 24,106	$ 16,769
State	12,450	11,298	8,686
Total current expense	$ 46,963	$ 35,404	$ 25,455
Deferred:			
Federal	$ (8,498)	$ 760	$ 2,615
State	(2,412)	(1,174)	145
Total deferred expense (benefit)	(10,910)	(414)	2,760
Total income tax expense	$ 36,053	$ 34,990	$ 28,215

Temporary differences between the amounts reported in the financial statements and the tax basis of assets and liabilities result in deferred taxes. Deferred tax assets and liabilities at December 31, 2020 and 2019, were as follows, in thousands:

	2020	2019
Deferred tax assets:		
Tax effect of net unrealized loss on derivatives reflected in stockholders' equity	$ 1,130	$ 563
Allowance for credit losses	33,393	17,686
Deferred compensation	9,623	8,071
Net operating loss carryforwards	17,585	18,459
Tax credit projects	4,746	4,252
Deferred loan fees	3,496	—
Other	5,563	4,754
Total deferred tax assets	75,536	53,785
Valuation allowance for deferred tax assets	(12,828)	(12,379)
Total deferred tax assets after valuation allowance	$ 62,708	$ 41,406
Deferred tax liabilities:		
Tax effect of net unrealized gain on securities carried at fair value reflected in stockholders' equity	$ 26,858	$ 279
Securities	4,914	4,240
Premises, furniture and equipment	8,311	6,232
Purchase accounting	5,326	7,824
Prepaid expenses	2,675	2,176
Deferred loan costs	2,597	3,342
Other	3,905	3,713
Total deferred tax liabilities	$ 54,586	$ 27,806
Net deferred tax assets	**$ 8,122**	**$ 13,600**

As a result of acquisitions, Heartland had net operating loss carryforwards for federal income tax purposes of approximately $25.8 million at December 31, 2020, and $31.9 million at December 31, 2019. The associated deferred tax asset was $5.4 million at December 31, 2020, and $6.7 million at December 31, 2019. These net carryforwards expire during the period from December 31, 2026, through December 31, 2039, and are subject to an annual limitation of approximately $7.3 million. Net operating loss carryforwards for state income tax purposes were approximately $159.1 million at December 31, 2020, and $163.7 million at December 31, 2019. The associated deferred tax asset, net of federal tax, was $11.8 million at both December 31, 2020, and December 31, 2019. These carryforwards have begun to expire and will continue to do so until December 31, 2039.

A valuation allowance against the deferred tax asset due to the uncertainty surrounding the utilization of these state net operating loss carryforwards was $10.5 million at December 31, 2020, and $10.1 million at December 31, 2019. During both 2020 and 2019, Heartland had book write-downs on investments that, for tax purposes, would generate capital losses upon disposal. Due to the uncertainty of Heartland's ability to utilize the potential capital losses, a valuation allowance for these potential losses totaled $2.3 million at both December 31, 2020, and December 31, 2019. Heartland released valuation allowances of $617,000 and $1.9 million in 2020 and 2019, respectively, on deferred tax assets for capital losses it expects to realize on the disposal of partnership investments. Heartland generated capital gains from its 2019 strategic developments, which included various branch sales not conducted in the ordinary course of its business strategy. As a result of its net capital gains, Heartland was able to realize the benefit of its capital losses. The 2020 capital loss is expected to be carried back to an earlier year with capital gains.

Realization of the deferred tax asset over time is dependent upon the existence of taxable income in carryback periods or the ability to generate sufficient taxable income in future periods. In determining that realization of the deferred tax asset was more likely than not, Heartland gave consideration to a number of factors, including its taxable income during carryback periods, its recent earnings history, its expectations for earnings in the future and, where applicable, the expiration dates associated with its tax carryforwards.

The actual income tax expense from continuing operations differs from the expected amounts for the years ended December 31, 2020, 2019, and 2018, (computed by applying the U.S. federal corporate tax rate of 21% for 2020, 2019, and 2018 income before income taxes) are as follows, in thousands:

	2020	2019	2018
Computed "expected" tax on net income	$ 36,538	$ 38,665	$ 30,495
Increase (decrease) resulting from:			
Nontaxable interest income	(4,011)	(3,281)	(4,423)
State income taxes, net of federal tax benefit	7,930	8,509	6,976
Tax credits	(4,521)	(6,860)	(4,085)
Valuation allowance	(374)	(1,648)	23
Excess tax expense/(benefit) on stock compensation	80	(229)	(657)
Other	411	(166)	(114)
Income taxes	$ 36,053	$ 34,990	$ 28,215
Effective tax rates	20.7 %	19.0 %	19.4 %

Heartland's income taxes included solar energy credits totaling $2.3 million, $4.0 million, and $2.9 million during 2020, 2019 and 2018, respectively. Federal historic rehabilitation tax credits included in Heartland's income taxes totaled $1.1 million, $1.8 million, and $0 in 2020, 2019, and 2018, respectively. Additionally, investments in certain low-income housing partnerships totaled $5.6 million at December 31, 2020, $6.1 million at December 31, 2019, and $6.9 million at December 31, 2018. These investments generated federal low-income housing tax credits of $780,000 during 2020, $1.1 million at December 31, 2019 and $1.2 million at December 31, 2018. These investments are expected to generate federal low-income housing tax credits of approximately $538,000 for 2021 through 2023, $322,000 for 2024, $86,000 for 2025 and $34,000 for 2026. Additionally, Heartland had new markets tax credits of $300,000 in 2020.

On December 31, 2020, the amount of unrecognized tax benefits was $702,000, including $79,000 of accrued interest and penalties. On December 31, 2019, the amount of unrecognized tax benefits was $657,000, including $69,000 of accrued interest and penalties. If recognized, the entire amount of the unrecognized tax benefits would affect the effective tax rate.

The tax years ended December 31, 2017, and later remain subject to examination by the Internal Revenue Service. For state purposes, the tax years ended December 31, 2015, and later remain open for examination. Heartland does not anticipate any significant increase or decrease in unrecognized tax benefits during the next twelve months.

FOURTEEN
EMPLOYEE BENEFIT PLANS

Heartland sponsors a defined contribution retirement plan covering substantially all employees. The plan includes matching contributions and non-elective contributions. Matching contributions and non-elective contributions are limited to a maximum amount of the participant's wages as defined by federal law.

Heartland's subsidiaries made matching contributions of up to 3% of participants' wages in 2020, 2019, and 2018. Costs charged to operating expenses with respect to the matching contributions were $4.1 million, $3.9 million, and $3.5 million for 2020, 2019 and 2018, respectively.

Non-elective contributions to this plan are subject to approval by the Heartland Board of Directors. The Heartland subsidiaries fund and record as an expense all approved contributions. Costs of these contributions, charged to operating expenses, were $4.8 million, $4.8 million, and $4.0 million for 2020, 2019 and 2018, respectively.

In addition, Heartland has a non-qualified defined contribution plan that allows certain employees to make voluntary contributions into a deferred compensation plan. Any non-elective contributions to this plan are subject to approval by the Heartland Board of Directors.

FIFTEEN
COMMITMENTS AND CONTINGENT LIABILITIES

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Heartland's 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 are conditional commitments issued by Heartland's 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, 2020, and at December 31, 2019, commitments to extend credit aggregated $3.26 billion and $2.97 billion, respectively, and standby letters of credit aggregated $73.2 million and $79.5 million, respectively.

Heartland enters into commitments to sell mortgage loans to reduce interest rate risk on certain mortgage loans held for sale and loan commitments, which were recorded in the consolidated balance sheets at their fair values. Heartland does not anticipate any material loss as a result of the commitments and contingent liabilities. Residential mortgage loans sold to others are predominantly conventional residential first lien mortgages originated under Heartland's usual underwriting procedures and are most often sold on a nonrecourse basis. Heartland's agreements to sell residential mortgage loans in the normal course of business, primarily to GSE's, which usually require certain representations and warranties on the underlying loans sold, related to credit information, loan documentation, collateral, and insurability, which if subsequently are untrue or breached, could require Heartland to repurchase certain loans affected. Heartland had no repurchase obligation at December 31, 2020, compared to $313,000 at December 31, 2019, which is included in other liabilities on the consolidated balance sheets. Heartland had no new requests for repurchases during 2020 and 2019.

There are certain legal proceedings pending against Heartland and its subsidiaries at December 31, 2020, that are ordinary routine litigation incidental to business.

The aggregate amount of cash consideration paid in the AimBank transaction was reduced by $5.3 million as a holdback against any losses that might be incurred as a result of pending litigation involving a former customer. Heartland does not currently anticipate any material exposure from the litigation, and that if any litigation losses are incurred, the holdback amount will be sufficient to cover such losses. The shareholders of AimBank are entitled to any remaining amount from the holdback after payment for any potential settlement and related legal expenses. While the ultimate outcome of this and any other ordinary routine litigation proceedings incidental to business cannot be predicted with certainty, it is the opinion of management that the resolution of these legal actions should not have a material effect on Heartland's consolidated financial position or results of operations.

SIXTEEN
STOCK-BASED COMPENSATION

Heartland may grant, through its Nominating, Compensation and Corporate Governance Committee (the "Compensation Committee") non-qualified and incentive stock options, stock appreciation rights, stock awards, restricted stock, restricted stock units and cash incentive awards, under its 2020 Long-Term Incentive Plan (the "Plan"). The Plan was approved by stockholders in May 2020 and replaces the 2012 Long-Term Incentive Plan. The Plan increased the number of shares of common stock authorized for issuance to 1,460,000 and made certain other changes to the Plan. At December 31, 2020, 1,409,320 shares of common stock were reserved for future issuance under awards that may be granted under the Plan to employees and directors of, and service providers to, Heartland or its subsidiaries.

ASC Topic 718, "*Compensation-Stock Compensation*" requires the measurement of the cost of employee services received in exchange for an award of equity instruments based upon the fair value of the award on the grant date. The cost of the award is

based upon its fair value estimated on the date of grant and recognized in the consolidated statements of income over the vesting period of the award. The fair market value of restricted stock and restricted stock units is based on the fair value of the underlying shares of common stock on the date of grant. Forfeitures are accounted for as they occur.

Heartland's income tax expense included $93,000 of tax expense for the year ended December 31, 2020, compared to a tax benefit of $266,000 for the year ended December 31, 2019, related to the vesting and forfeiture of equity-based awards.

Restricted Stock Units
The Plan permits the Compensation Committee to grant restricted stock units ("RSUs"). In the first quarter of 2020, the Compensation Committee granted time-based RSUs with respect to 114,944 shares of common stock, and in the first quarter of 2019, the Compensation Committee granted time-based RSUs with respect to 90,073 shares of common stock to selected officers and employees. The time-based RSUs, which represent the right, without payment, to receive shares of Heartland common stock at a specified date in the future. The time-based RSUs granted in 2020 and 2019 vest over three years in equal installments on March 6 of each of the three years following the year of the grant. The time-based RSUs may also vest upon death or disability, upon a change in control or upon a "qualified retirement" (as defined in the RSU agreement). The retiree is required to sign a non-solicitation agreement as a condition to vesting.

The Compensation Committee granted three-year performance-based RSUs with respect to 50,787 shares and 34,848 shares of common stock in the first quarter of 2020 and 2019, respectively. These performance-based RSUs will be earned based upon satisfaction of performance targets for the three-year performance period ended December 31, 2022, and December 31, 2021. These performance-based RSUs or a portion thereof may vest in 2023 and 2022, respectively, after measurement of performance in relation to the performance targets.

The three-year performance-based RSUs vest to the extent that they are earned upon death or disability or upon a "qualified retirement" after measurement of performance. Upon a change in control, performance-based RSUs shall become vested at 100% of target if the RSU obligations are not assumed by the successor company. If the successor company does assume the RSU obligations, the 2020 and 2019 performance-based RSUs will vest at 100% of target upon a "Termination of Service" within the period beginning six months prior to a change in control and ending 24 months after a change in control.

All of Heartland's RSUs will be settled in common stock upon vesting and are not entitled to dividends until vested.

The Compensation Committee may grant RSUs under the Plan to directors as part of their compensation, to new management level employees at the commencement of employment, and to other employees as incentives. During the years ended December 31, 2020, 2019, and 2018, 66,855, 37,544 and 36,462 RSUs, respectively, were granted to directors and new employees.

A summary of the status of RSUs as of December 31, 2020, 2019 and 2018, and changes during the years ended December 31, 2020, 2019, and 2018, follows:

	2020		2019		2018	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Outstanding at January 1	254,383	$ 46.76	266,995	$ 43.89	301,578	$ 34.74
Granted	232,586	32.06	162,465	45.09	123,711	55.13
Vested	(119,916)	44.47	(148,158)	39.27	(127,744)	32.73
Forfeited	(18,778)	46.10	(26,919)	49.20	(30,550)	45.69
Outstanding at December 31	348,275	$ 38.22	254,383	$ 46.76	266,995	$ 43.89

Total compensation costs recorded for RSUs were $7.2 million, $5.8 million and $4.4 million, for 2020, 2019 and 2018, respectively. As of December 31, 2020, there were $5.8 million of total unrecognized compensation costs related to the Plan for RSUs which are expected to be recognized through 2023.

Employee Stock Purchase Plan
Heartland maintains an employee stock purchase plan (the "ESPP"), which was adopted in May 2016 and replaced the 2006 ESPP, that permits all eligible employees to purchase shares of Heartland common stock at a discounted price as determined by the Compensation Committee. Under ASC Topic 718, compensation expense related to the ESPP of $186,000 was recorded in 2020, $222,000 was recorded in 2019, and $91,000 was recorded in 2018.

A maximum of 500,000 shares is available for purchase under the ESPP, and as of December 31, 2020, 380,342 shares remain available for purchase. Beginning with the 2020 plan year, the Compensation Committee authorized Heartland to make ESPP purchases semi-annually, and the purchases are to be made as soon as practicable on or after June 30 and December 31. For employee deferrals made in the 2020 plan year, shares purchased in 2020 totaled 43,207. On January 2, 2020, 32,179 shares were purchased under the ESPP for the employee deferrals made during the plan year ended December 31, 2019. On January 4, 2019, 32,331 shares were purchased under the ESPP for employee deferrals made during the plan year ended December 31, 2018.

SEVENTEEN
STOCKHOLDER RIGHTS PLAN

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

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

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

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

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

EIGHTEEN
CAPITAL ISSUANCES

Common Stock
For a description of the issuance of shares of Heartland common stock in connection with acquisitions, see Note 2, "Acquisitions," of the consolidated financial statements. For a description of the issuance of shares of Heartland common stock in connection with the 2020 Long-Term Incentive Plan and the 2016 ESPP, see Note 16, "Stock-Based Compensation."

Series E Preferred Stock
On June 26, 2020, Heartland issued 4,600,000 depositary shares, each representing a 1/400th ownership interest in a share of Heartland's 7.00% Fixed-Rate Reset Non-Cumulative Perpetual Preferred Stock, Series E, (the "Series E Preferred Stock) par value $1.00 per share, with a liquidation preference of $10,000 per share of Series E Preferred Stock (equivalent to $25 per depositary share).

Holders of the depositary shares are entitled to all proportional rights and preferences of the Series E Preferred Stock (including dividend, voting, redemption and liquidation rights).

With respect to the payment of dividends and distributions upon Heartland's liquidation, dissolution, or winding-up, the Series E Preferred Stock ranks:

- senior to Heartland's common stock and to any class or series of its capital stock that it may issue in the future that is not expressly stated to be on parity with or senior to the Series E Preferred Stock with respect to such dividends and distributions, including but not limited to Heartland's Series A Junior Participating Preferred Stock;
- on parity with, or equally to, any class or series of Heartland's capital stock that it may issue in the future that is expressly stated to be on parity with the Series E Preferred Stock with respect to such dividends and distributions; and
- junior to any class or series of Heartland's capital stock that it may issue in the future that is expressly stated to be senior to the Series E Preferred Stock with respect to such dividends and distributions, if the issuance is approved by the holders of at least two-thirds of the outstanding shares of Series E Preferred Stock.

Heartland will generally be able to pay dividends and distributions upon liquidation, dissolution or winding up only out of lawfully available assets for such payment after satisfaction of all claims for indebtedness and other non-equity claims.

Heartland will pay dividends or make distributions on the Series E Preferred Stock only when, as, and if declared by its Board of Directors or a duly authorized committee of the Board. Under the terms of the Series E Preferred Stock, subject to certain important exceptions, the ability of Heartland to pay dividends on, make distributions with respect to, or to repurchase, redeem or otherwise acquire its common stock or any other stock ranking junior to or on parity with the Series E Preferred Stock is subject to restrictions unless the full dividends for the most recently completed dividend period have been declared and paid, or set aside for payment, on all outstanding shares of Series E Preferred Stock.

Shelf Registration
Heartland filed a universal shelf registration with the SEC to register debt or equity securities on August 8, 2019, that expires on August 8, 2022. This registration statement, which was effective immediately, provides Heartland the ability to raise capital, subject to market conditions and SEC rules and limitations, if Heartland's board of directors decides to do so. This registration statement permits Heartland, from time to time, in one or more public offerings, to offer debt securities, subordinated notes, common stock, preferred stock, depositary shares, warrants, rights, units or any combination of these securities. The amount of securities that may have been offered was not specified in the registration statement, and the terms of any future offerings were to be established at the time of the offering.

NINETEEN
REGULATORY CAPITAL REQUIREMENTS AND RESTRICTIONS ON SUBSIDIARY DIVIDENDS

The Heartland banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Heartland banks' financial statements. The regulations prescribe specific capital adequacy guidelines that involve quantitative measures of a bank's assets, liabilities and certain off balance sheet items as calculated under regulatory accounting practices. Capital classification is also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Heartland banks to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined).

The requirements to be categorized as well-capitalized under the Tier 1 leverage capital ratio is 4% for all banks. The minimum requirement to be well-capitalized for the Tier 1 risk-based capital ratio is 8%. The total risk-based capital ratio minimum requirement to be well-capitalized remained is 10%. Management believes, as of December 31, 2020 and 2019, that the Heartland banks met all capital adequacy requirements to which they were subject.

As of December 31, 2020 and 2019, the FDIC categorized each of the Heartland banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Heartland banks must maintain minimum total risk-based, Tier 1 risk-based, Tier 1 common equity and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since December 31, 2020, that management believes have changed each institution's category.

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2020						
Total Capital (to Risk-Weighted Assets)						
Consolidated	**$ 1,739,048**	**14.71 %**	**$ 945,523**	**8.00 %**	**N/A**	
Dubuque Bank and Trust Company	177,782	13.94	102,018	8.00	$ 127,523	10.00 %
Illinois Bank & Trust	133,674	13.13	81,432	8.00	101,790	10.00
Wisconsin Bank & Trust	121,899	14.35	67,956	8.00	84,945	10.00
New Mexico Bank & Trust	177,708	13.40	106,120	8.00	132,649	10.00
Arizona Bank & Trust	112,589	12.16	74,056	8.00	92,571	10.00
Rocky Mountain Bank	56,872	13.49	33,732	8.00	42,166	10.00
Citywide Banks	258,419	15.30	135,097	8.00	168,871	10.00
Minnesota Bank & Trust	85,566	13.11	52,206	8.00	65,258	10.00
Bank of Blue Valley	157,093	17.40	72,240	8.00	90,300	10.00
Premier Valley Bank	93,032	12.62	58,968	8.00	73,710	10.00
First Bank & Trust	304,397	15.34	158,705	8.00	198,381	10.00
Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	**$ 1,401,131**	**11.85 %**	**$ 709,142**	**6.00 %**	**N/A**	
Dubuque Bank and Trust Company	164,316	12.89	76,514	6.00	$ 102,018	8.00 %
Illinois Bank & Trust	121,513	11.94	61,074	6.00	81,432	8.00
Wisconsin Bank & Trust	111,985	13.18	50,967	6.00	67,956	8.00
New Mexico Bank & Trust	161,750	12.19	79,590	6.00	106,120	8.00
Arizona Bank & Trust	102,882	11.11	55,542	6.00	74,056	8.00
Rocky Mountain Bank	51,597	12.24	25,299	6.00	33,732	8.00
Citywide Banks	237,295	14.05	101,323	6.00	135,097	8.00
Minnesota Bank & Trust	78,661	12.05	39,155	6.00	52,206	8.00
Bank of Blue Valley	145,795	16.15	54,180	6.00	72,240	8.00
Premier Valley Bank	85,456	11.59	44,226	6.00	58,968	8.00
First Bank & Trust	279,521	14.09	119,029	6.00	158,705	8.00

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2020						
Common Equity Tier 1 (to Risk-Weighted Assets)						
Consolidated	**$ 1,290,426**	**10.92 %**	**$ 531,857**	**4.50 %**	**N/A**	
Dubuque Bank and Trust Company	164,316	12.89	57,385	4.50	$ 82,890	6.50 %
Illinois Bank & Trust	121,513	11.94	45,806	4.50	66,164	6.50
Wisconsin Bank & Trust	111,985	13.18	38,225	4.50	55,214	6.50
New Mexico Bank & Trust	161,750	12.19	59,692	4.50	86,222	6.50
Arizona Bank & Trust	102,882	11.11	41,657	4.50	60,171	6.50
Rocky Mountain Bank	51,597	12.24	18,974	4.50	27,408	6.50
Citywide Banks	237,295	14.05	75,992	4.50	109,766	6.50
Minnesota Bank & Trust	78,661	12.05	29,366	4.50	42,418	6.50
Bank of Blue Valley	145,795	16.15	40,635	4.50	58,695	6.50
Premier Valley Bank	85,456	11.59	33,170	4.50	47,912	6.50
First Bank & Trust	279,521	14.09	89,271	4.50	128,948	6.50
Tier 1 Capital (to Average Assets)						
Consolidated	**$ 1,401,131**	**9.02 %**	**$ 621,275**	**4.00 %**	**N/A**	
Dubuque Bank and Trust Company	164,316	8.52	77,150	4.00	$ 96,437	5.00 %
Illinois Bank & Trust	121,513	8.22	59,129	4.00	73,912	5.00
Wisconsin Bank & Trust	111,985	9.67	46,337	4.00	57,921	5.00
New Mexico Bank & Trust	161,750	8.11	79,764	4.00	99,705	5.00
Arizona Bank & Trust	102,882	9.09	45,295	4.00	56,619	5.00
Rocky Mountain Bank	51,597	8.41	24,552	4.00	30,690	5.00
Citywide Banks	237,295	9.67	98,182	4.00	122,728	5.00
Minnesota Bank & Trust	78,661	8.68	36,251	4.00	45,313	5.00
Bank of Blue Valley	145,795	10.93	53,343	4.00	66,679	5.00
Premier Valley Bank	85,456	8.57	39,893	4.00	49,866	5.00
First Bank & Trust	279,521	17.63	63,407	4.00	79,259	5.00

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019						
Total Capital (to Risk-Weighted Assets)						
Consolidated	**$ 1,388,511**	**13.75 %**	**$ 807,881**	**8.00 %**	**N/A**	
Dubuque Bank and Trust Company	168,959	14.55	92,872	8.00	$ 116,090	10.00 %
Illinois Bank & Trust	107,678	10.54	81,731	8.00	102,164	10.00
Wisconsin Bank & Trust	117,355	14.13	66,431	8.00	83,039	10.00
New Mexico Bank & Trust	157,555	12.33	102,193	8.00	127,741	10.00
Arizona Bank & Trust	75,498	11.19	53,982	8.00	67,477	10.00
Rocky Mountain Bank	53,266	13.80	30,868	8.00	38,585	10.00
Citywide Banks	240,735	13.88	138,704	8.00	173,380	10.00
Minnesota Bank & Trust	76,400	13.50	45,260	8.00	56,575	10.00
Bank of Blue Valley	145,256	14.50	80,153	8.00	100,191	10.00
Premier Valley Bank	91,257	13.21	55,273	8.00	69,091	10.00
First Bank & Trust	109,545	14.11	62,128	8.00	77,660	10.00

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019						
Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	**$ 1,243,582**	**12.31 %**	**$ 605,911**	**6.00 %**	**N/A**	
Dubuque Bank and Trust Company	159,579	13.75	69,654	6.00	$ 92,872	8.00 %
Illinois Bank & Trust	103,011	10.08	61,298	6.00	81,731	8.00
Wisconsin Bank & Trust	109,939	13.24	49,824	6.00	66,431	8.00
New Mexico Bank & Trust	148,227	11.60	76,645	6.00	102,193	8.00
Arizona Bank & Trust	69,648	10.32	40,486	6.00	53,982	8.00
Rocky Mountain Bank	48,692	12.62	23,151	6.00	30,868	8.00
Citywide Banks	231,085	13.33	104,028	6.00	138,704	8.00
Minnesota Bank & Trust	70,235	12.41	33,945	6.00	45,260	8.00
Bank of Blue Valley	140,195	13.99	60,115	6.00	80,153	8.00
Premier Valley Bank	87,335	12.64	41,455	6.00	55,273	8.00
First Bank & Trust	104,914	13.51	46,596	6.00	62,128	8.00
Common Equity Tier 1 (to Risk Weighted Assets)						
Consolidated	**$ 1,098,428**	**10.88 %**	**$ 454,433**	**4.50 %**	**N/A**	
Dubuque Bank and Trust Company	159,579	13.75	52,241	4.50	$ 75,459	6.50 %
Illinois Bank & Trust	103,011	10.08	45,974	4.50	66,407	6.50
Wisconsin Bank & Trust	109,939	13.24	37,368	4.50	53,976	6.50
New Mexico Bank & Trust	148,227	11.60	57,484	4.50	83,032	6.50
Arizona Bank & Trust	69,648	10.32	30,365	4.50	43,860	6.50
Rocky Mountain Bank	48,692	12.62	17,363	4.50	25,080	6.50
Citywide Banks	231,085	13.33	78,021	4.50	112,697	6.50
Minnesota Bank & Trust	70,235	12.41	25,459	4.50	36,774	6.50
Bank of Blue Valley	140,195	13.99	45,086	4.50	65,124	6.50
Premier Valley Bank	87,335	12.64	31,091	4.50	44,909	6.50
First Bank & Trust	104,914	13.51	34,947	4.50	50,479	6.50
Tier 1 Capital (to Average Assets)						
Consolidated	**$ 1,243,582**	**10.10 %**	**$ 492,725**	**4.00 %**	**N/A**	
Dubuque Bank and Trust Company	159,579	9.83	64,961	4.00	$ 81,202	5.00 %
Illinois Bank & Trust	103,011	10.26	40,144	4.00	50,180	5.00
Wisconsin Bank & Trust	109,939	10.76	40,863	4.00	51,078	5.00
New Mexico Bank & Trust	148,227	9.11	65,076	4.00	81,345	5.00
Arizona Bank & Trust	69,648	9.87	28,235	4.00	35,293	5.00
Rocky Mountain Bank	48,692	9.22	21,132	4.00	26,415	5.00
Citywide Banks	231,085	10.66	86,732	4.00	108,416	5.00
Minnesota Bank & Trust	70,235	10.51	26,740	4.00	33,426	5.00
Bank of Blue Valley	140,195	11.07	50,638	4.00	63,297	5.00
Premier Valley Bank	87,335	10.43	33,487	4.00	41,859	5.00
First Bank & Trust	104,914	10.25	40,941	4.00	51,177	5.00

The ability of Heartland to pay dividends to its stockholders is dependent upon dividends paid by its subsidiaries. The Heartland banks are subject to certain statutory and regulatory restrictions on the amount they may pay in dividends. To maintain acceptable capital ratios for the Banks, certain portions of their retained earnings are not available for the payment of dividends. Retained earnings that could be available for the payment of dividends to Heartland totaled approximately $736.5 million as of December 31, 2020, under the most restrictive minimum capital requirements. Retained earnings that could be available for the payment of dividends to Heartland totaled approximately $500.9 million as of December 31, 2020, under the capital requirements to remain well capitalized.

TWENTY
FAIR VALUE

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

Fair Value Hierarchy

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

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

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

Level 3 — Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques. The following is a description of valuation methodologies used for assets and liabilities recorded at fair value on a recurring or non-recurring basis.

Assets

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

Equity Securities with a Readily Determinable Fair Value
Equity securities with a readily determinable fair value generally include Community Reinvestment Act mutual funds and are classified as Level 2 due to the infrequent trading of these securities. The fair value is based on the price per share.

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

Loans Held to Maturity
Heartland does not record loans held to maturity at fair value on a recurring basis. However, from time to time, certain loans are considered collateral dependent and an allowance for credit losses is established. The fair value of individually assessed loans is measured using the fair value of the collateral. In accordance with ASC 820, individually assessed loans measured at fair value are classified as nonrecurring Level 3 in the fair value hierarchy.

Premises, Furniture and Equipment Held for Sale
Heartland values premises, furniture and equipment held for sale based on third-party appraisals less estimated disposal costs. Heartland considers third party appraisals, as well as independent fair value assessments from Realtors or persons involved in

selling bank premises, furniture and equipment, in determining the fair value of particular properties. Accordingly, the valuation of premises, furniture and equipment held for sale is subject to significant external and internal judgment. Heartland periodically reviews premises, furniture and equipment held for sale to determine if the fair value of the property, less disposal costs, has declined below its recorded book value and records any adjustments accordingly. Premises, furniture and equipment held for sale are classified as nonrecurring Level 3 in the fair value hierarchy.

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

Commercial Servicing Rights
Commercial servicing rights assets represent the value associated with servicing commercial loans guaranteed by the Small Business Administration and United States Department of Agriculture that have been sold with servicing retained by Heartland. Heartland uses the amortization method (i.e., the lower of amortized cost or estimated fair value measured on a nonrecurring basis), not fair value measurement accounting, to determine the carrying value of its commercial servicing rights. The fair value for servicing assets is determined through market prices for comparable servicing contracts, when available, or through a valuation model that calculates the present value of estimated future net servicing income. Inputs utilized include discount rates, prepayment speeds and delinquency rate assumptions as inputs. All of these assumptions require a significant degree of management estimation and judgment. Commercial servicing rights are subject to impairment testing, and the carrying values of these rights are reviewed quarterly for impairment based upon the calculation of fair value as performed by an outside third party. If the valuation model reflects a fair value less than the carrying value, commercial servicing rights are adjusted to fair value through a valuation allowance. Heartland classifies commercial servicing rights as nonrecurring with Level 3 measurement inputs.

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

Although Heartland has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2020, and December 31, 2019, Heartland has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, Heartland has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Interest Rate Lock Commitments
Heartland uses an internal valuation model that relies on internally developed inputs to estimate the fair value of its interest rate lock commitments which is based on unobservable inputs that reflect management's assumptions and specific information about each borrower. Interest rate lock commitments are classified in Level 3 of the fair value hierarchy.

Forward Commitments
The fair value of forward commitments are estimated using an internal valuation model, which includes current trade pricing for similar financial instruments in active markets that Heartland has the ability to access and are classified in Level 2 of the fair value hierarchy.

Other Real Estate Owned

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

The table below presents Heartland's assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2020, and December 31, 2019, in thousands, aggregated by the level in the fair value hierarchy within which those measurements fall:

	Total Fair Value	Level 1	Level 2	Level 3
December 31, 2020				
Assets				
Securities available for sale				
U.S. treasuries	$ 2,026	$ 2,026	$ —	$ —
U.S. agencies	166,779	—	166,779	—
Obligations of states and political subdivisions	1,635,227	—	1,635,227	—
Mortgage-backed securities - agency	1,355,270	—	1,355,270	—
Mortgage-backed securities - non-agency	1,449,116	—	1,449,116	—
Commercial mortgage-backed securities - agency	174,153	—	174,153	—
Commercial mortgage-backed securities - non-agency	252,767	—	252,767	—
Asset-backed securities	1,069,266	—	1,069,266	—
Corporate bonds	3,742	—	3,742	—
Equity securities with a readily determinable fair value	19,629	—	19,629	—
Derivative financial instruments(1)	44,102	—	44,102	—
Interest rate lock commitments	1,827	—	—	1,827
Forward commitments	—	—	—	—
Total assets at fair value	$ 6,173,904	$ 2,026	$ 6,170,051	$ 1,827
Liabilities				
Derivative financial instruments(2)	$ 51,962	$ —	$ 51,962	$ —
Forward commitments	697	—	697	—
Total liabilities at fair value	$ 52,659	$ —	$ 52,659	$ —
December 31, 2019				
Assets				
Securities available for sale				
U.S. treasuries	$ 8,503	$ 8,503	$ —	$ —
U.S. agencies	184,676	—	184,676	—
Obligations of states and political subdivisions	707,190	—	707,190	—
Mortgage-backed securities - agency	766,726	—	766,726	—
Mortgage-backed securities - non-agency	430,497	—	430,497	—
Commercial mortgage-backed securities - agency	68,865	—	68,865	—
Commercial mortgage-backed securities - non-agency	436,325	—	436,325	—
Asset-backed securities	691,579	—	691,579	—
Corporate bonds	—	—	—	—
Equity securities	18,435	—	18,435	—
Derivative financial instruments(1)	17,527	—	17,527	—
Interest rate lock commitments	681	—	—	681
Forward commitments	15	—	15	—
Total assets at fair value	$ 3,331,019	$ 8,503	$ 3,321,835	$ 681
Liabilities				
Derivative financial instruments(2)	$ 21,462	$ —	$ 21,462	$ —
Forward commitments	113	—	113	—
Total liabilities at fair value	$ 21,575	$ —	$ 21,575	$ —

(1) Includes embedded derivatives, back-to-back loan swaps and cash flow hedges.

(2) Includes cash flow hedges, fair value hedges, back-to-back loan swaps and free standing derivative instruments.

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

	Fair Value Measurements at December 31, 2020				
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**(Gains)/ Losses**
Collateral dependent individually assessed loans:					
Commercial and industrial	$ 11,256	$ —	$ —	$ 11,256	$ 451
Owner occupied commercial real estate	5,874	—	—	5,874	11,631
Non-owner occupied commercial real estate	4,907	—	—	4,907	—
Real estate construction	—	—	—	—	—
Agricultural and agricultural real estate	12,451	—	—	12,451	—
Residential real estate	—	—	—	—	—
Consumer	—	—	—	—	—
Total collateral dependent individually assessed loans	$ 34,488	$ —	$ —	$ 34,488	$ 12,082
Loans held for sale	$ 57,949	$ —	$ 57,949	$ —	$ (982)
Other real estate owned	$ 6,624	$ —	$ —	$ 6,624	$ 1,044
Premises, furniture and equipment held for sale	$ 6,499	$ —	$ —	$ 6,499	$ 3,288
Servicing rights	$ 5,189	$ —	$ —	$ 5,189	$ 1,778

	Fair Value Measurements at December 31, 2019				
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**(Gains)/ Losses**
Collateral dependent impaired loans:					
Commercial and industrial	$ 15,173	—	—	15,173	1,114
Owner occupied commercial real estate	1,352	—	—	1,352	—
Non-owner occupied commercial real estate	1,305	—	—	1,305	—
Real estate construction	—	—	—	—	—
Agricultural and agricultural real estate	12,623	—	—	12,623	1,254
Residential real estate	4,978	—	—	4,978	82
Consumer	1,033	—	—	1,033	—
Total collateral dependent impaired loans	$ 36,464	$ —	$ —	$ 36,464	$ 2,450
Loans held for sale	$ 26,748	$ —	$ 26,748	$ —	$ (980)
Other real estate owned	$ 6,914	$ —	$ —	$ 6,914	$ 947
Premises, furniture and equipment held for sale	$ 2,967	$ —	$ —	$ 2,967	$ 735
Servicing rights	$ 5,621	$ —	$ —	$ 5,621	$ 911

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

	Fair Value at 12/31/20		Valuation Technique	Unobservable Input	Range (Weighted Average)
Interest rate lock commitments	$	1,827	Discounted cash flows	Closing ratio	0 - 99% (86%)[(1)]
Premises, furniture and equipment held for sale		6,499	Modified appraised value	Third party appraisal	(2)
				Appraisal discount	0-10%[(3)]
Other real estate owned		6,624	Modified appraised value	Third party appraisal	(2)
				Appraisal discounts	0-10%[(3)]
Servicing rights		5,189	Discounted cash flows	Third party valuation	(4)
Collateral dependent individually assessed loans:					
Commercial and industrial		11,256	Modified appraised value	Third party appraisal	(2)
				Appraisal discount	0-8%[(3)]
Owner occupied commercial real estate		5,874	Modified appraised value	Third party appraisal	(2)
				Appraisal discount	0-12%[(3)]
Non-owner occupied commercial real estate		4,907	Modified appraised value	Third party appraisal	(2)
				Appraisal discount	0-10%[(3)]
Agricultural and agricultural real estate		12,451	Modified appraised value	Third party appraisal	(2)
				Appraisal discount	0-10%[(3)]

(1) The significant unobservable input used in the fair value measurement is the closing ratio, which represents the percentage of loans currently in a lock position which management estimates will ultimately close. The closing ratio calculation takes into consideration historical data and loan-level data.

(2) Third party appraisals are obtained and updated at least annually to establish the value of the underlying asset, but the disclosure of the unobservable inputs used by the appraisers would not be meaningful because the range will vary widely from appraisal to appraisal.

(3) Discounts applied to the appraised values primarily include estimated sales costs, but also consider the age of the appraisal, changes in local market conditions and changes in the current condition of the collateral.

(4) The significant unobservable input used in the fair value measurement are the value indices, which are weighted-average spreads to LIBOR based on maturity groups.

	Fair Value at 12/31/19	Valuation Technique	Unobservable Input	Range (Weighted Average)
Interest rate lock commitments	$ 681	Discounted cash flows	Closing ratio	0 - 99% (90%)[1]
Premises, furniture and equipment held for sale	2,967	Modified appraised value	Third party appraisal	(2)
			Appraisal discount	0-10%[3]
Other real estate owned	6,914	Modified appraised value	Third party appraisal	(2)
			Appraisal discounts	0-10%[3]
Servicing rights	5,621	Discounted cash flows	Third party valuation	(4)
Collateral dependent impaired loans:				
Commercial and industrial	15,173	Modified appraised value	Third party appraisal	(2)
			Appraisal discount	0-25%[3]
Owner occupied commercial real estate	1,352	Modified appraised value	Third party appraisal	(2)
			Appraisal discounts	0-14%[3]
Non-owner occupied commercial real estate	1,305	Modified appraised value	Third party appraisal	(2)
			Appraisal discounts	0-14%[3]
Real estate construction	—	Modified appraised value	Third party appraisal	(2)
			Appraisal discount	0-14%[3]
Agricultural and agricultural real estate	12,623	Modified appraised value	Third party appraisal	(2)
			Appraisal discount	0-15%[3]
Residential real estate	4,978	Modified appraised value	Third party appraisal	(2)
			Appraisal discount	0-25%[5]
Consumer	1,033	Modified appraised value	Third party valuation	(2)
			Valuation discount	0-10%[3]

(1) The significant unobservable input used in the fair value measurement is the closing ratio, which represents the percentage of loans currently in a lock position which management estimates will ultimately close. The closing ratio calculation takes into consideration historical data and loan-level data.

(2) Third party appraisals are obtained and updated at least annually to establish the value of the underlying asset, but the disclosure of the unobservable inputs used by the appraisers would not be meaningful because the range will vary widely from appraisal to appraisal.

(3) The significant unobservable input used in the fair value measurement are the value indices, which are weighted-average spreads to LIBOR based on maturity groups.

(4) Discounts applied to the appraised values primarily include estimated sales costs, but also consider the age of the appraisal, changes in local market conditions and changes in the current condition of the collateral.

The changes in fair value of the interest rate lock commitments, which are Level 3 financial instruments and are measured on a recurring basis, are summarized in the following table, in thousands:

	For the Years Ended	
	December 31, 2020	December 31, 2019
Balance at January 1,	$ 681	$ 725
Acquired interest rate lock commitments	—	—
Total gains (losses), net, included in earnings	2,803	18
Issuances	17,221	10,702
Settlements	(18,878)	(10,764)
Balance at period end,	$ 1,827	$ 681

Gains included in net gains on sale of loans held for sale attributable to interest rate lock commitments held at December 31, 2020, and December 31, 2019, were $1.8 million and $681,000, respectively.

The table below is a summary of the estimated fair value of Heartland's financial instruments (as defined by ASC 825) as of December 31, 2020, and December 31, 2019, in thousands. The carrying amounts in the following table are recorded in the consolidated balance sheets under the indicated captions. In accordance with ASC 825, the assets and liabilities that are not financial instruments are not included in the disclosure, including the value of the commercial and mortgage servicing rights,

premises, furniture and equipment, premises, furniture and equipment held for sale, OREO, goodwill, other intangibles and other liabilities.

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

	Carrying Amount	Estimated Fair Value	Fair Value Measurements at December 31, 2020 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$ 337,903	$ 337,903	$ 337,903	$ —	$ —
Time deposits in other financial institutions	3,129	3,129	3,129	—	—
Securities:					
Carried at fair value	6,127,975	6,127,975	2,026	6,125,949	—
Held to maturity	88,839	100,041	—	100,041	—
Other investments	75,253	75,523	—	75,523	—
Loans held for sale	57,949	57,949	—	57,949	—
Loans, net:					
Commercial	2,495,981	2,391,041	—	2,379,785	11,256
PPP	957,785	957,785	—	957,785	—
Owner occupied commercial real estate	1,756,405	1,745,397	—	1,739,523	5,874
Non-owner occupied commercial real estate	1,900,608	1,892,213	—	1,887,306	4,907
Real estate construction	843,140	849,224	—	849,224	—
Agricultural and agricultural real estate	707,397	697,729	—	685,278	12,451
Residential real estate	828,507	828,366	—	828,366	—
Consumer	401,622	407,914	—	407,914	—
Total Loans, net	9,891,445	9,769,669	—	9,735,181	34,488
Cash surrender value on life insurance	187,664	187,664	—	187,664	—
Derivative financial instruments[1]	44,102	44,102	—	44,102	—
Interest rate lock commitments	1,827	1,827	—	—	1,827
Forward commitments	—	—	—	—	—
Financial liabilities:					
Deposits					
Demand deposits	5,688,810	5,688,810	—	5,688,810	—
Savings deposits	8,019,704	8,019,704	—	8,019,704	—
Time deposits	1,271,391	1,273,468	—	1,273,468	—
Short term borrowings	167,872	167,872	—	167,872	—
Other borrowings	457,042	458,806	—	458,806	—
Derivative financial instruments[2]	51,962	51,962	—	51,962	—
Forward commitments	697	697	—	697	—

(1) Includes embedded derivatives, back-to-back loan swaps and cash flow hedges.

(2) Includes cash flow hedges, fair value hedges, back-to-back loan swaps and free standing derivative instruments.

	Carrying Amount	Estimated Fair Value	Fair Value Measurements at December 31, 2019		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$ 378,734	$ 378,734	$ 378,734	$ —	$ —
Time deposits in other financial institutions	3,564	3,564	3,564	—	—
Securities:					
Carried at fair value	3,312,796	3,304,293	—	3,304,293	—
Held to maturity	91,324	100,484	—	100,484	—
Other investments	31,321	31,321	—	31,321	—
Loans held for sale	26,748	26,748	—	26,748	—
Loans, net:					
Commercial and industrial	2,500,022	2,621,253	—	2,606,080	15,173
PPP	—	—	—	—	—
Owner occupied commercial real estate	1,464,490	1,409,388	—	1,408,036	1,352
Non-owner occupied commercial real estate	1,488,075	1,397,527	—	1,396,222	1,305
Real estate construction	1,015,482	924,041	—	924,041	—
Agricultural and agricultural real estate	560,164	576,821	—	564,198	12,623
Residential real estate	830,773	843,343	—	838,365	4,978
Consumer	438,516	470,972	—	469,939	1,033
Total Loans, net	8,297,522	8,243,345	—	8,206,881	36,464
Cash surrender value on life insurance	171,625	171,625	—	171,625	—
Derivative financial instruments[1]	17,527	17,527	—	17,527	—
Interest rate lock commitments	681	637	—	—	637
Forward commitments	—	15	—	15	—
Financial liabilities:					
Deposits					
Demand deposits	3,543,863	3,543,863	—	3,543,863	—
Savings deposits	6,307,425	6,307,425	—	6,307,425	—
Time deposits	1,193,043	1,193,043	—	1,193,043	—
Short term borrowings	182,626	182,626	—	182,626	—
Other borrowings	275,773	278,169	—	278,169	—
Derivative financial instruments[2]	21,462	21,462	—	21,462	—
Forward commitments	113	113	—	113	—

(1) Includes embedded derivatives, back-to-back loan swaps and cash flow hedges.

(2) Includes cash flow hedges, fair value hedges, back-to-back loan swaps and free standing derivative instruments.

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

Time Deposits in Other Financial Institutions — The carrying amount is a reasonable estimate of the fair value due to the short-term nature of these instruments.

Securities — For equity securities with a readily determinable fair value and debt securities either held to maturity, available for

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

Other Investments — Fair value measurement of other investments, which consists primarily of FHLB stock, are based on their redeemable value, which is at cost. The market for these securities is restricted to the issuer of the stock and subject to impairment evaluation.

Loans — The fair value of loans were determined using an exit price methodology. The exit price estimation of fair value is based on the present value of the expected cash flows. The projected cash flows are based on the contractual terms of the loans, adjusted for prepayments and a discount rate based on the relative risk of the cash flows. Other considerations include the loan type, remaining life of the loan and credit risk.

The fair value of individually assessed or impaired loans is measured using the fair value of the underlying collateral. The fair value of loans held for sale is estimated using quoted market prices or sales contracts.

Cash surrender value on life insurance — Life insurance policies are held on certain officers. The carrying value of these policies approximates fair value as it is based on the cash surrender value adjusted for other charges or amounts due that are probable at settlement. As such, Heartland classifies the estimated fair value of the cash surrender value on life insurance as Level 2.

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

Interest Rate Lock Commitments — The fair value of interest rate lock commitments is estimated using an internal valuation model, which includes grouping the interest rate lock commitments by interest rate and terms, applying an estimated closing ratio based on historical experience, and then multiplying by quoted investor prices determined to be reasonably applicable to the loan commitment groups based on interest rate, terms, and rate lock expiration dates of the loan commitment group.

Forward Commitments — The fair value of these instruments is estimated using an internal valuation model, which includes current trade pricing for similar financial instruments.

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

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

Commitments to Extend Credit, Unused Lines of Credit and Standby Letters of Credit — Based upon management's analysis of the off balance sheet financial instruments, there are no significant unrealized gains or losses associated with these financial instruments based upon review of the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties.

TWENTY-ONE
REVENUE

Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers, requires revenue to be recognized at an amount that reflects the consideration to which Heartland expects to be entitled in exchange for transferring goods or services to a customer. ASC 606 applies to all contracts with customers to provide goods or services in the ordinary course of business, except for contracts that are specifically excluded from its scope. The majority of Heartland's revenue streams including interest income, loan servicing income, net securities gain, net unrealized gains and losses on equity securities, net gains on sale of loans held for sale, valuation adjustment on servicing rights, income from bank owned life insurance and other noninterest income are outside the scope of ASC 606. Revenue streams including service charges and fees, interchange fees on credit and debit cards, trust fees and brokerage and insurance commissions are within the scope of ASC 606.

Service Charges and Fees
Service charges and fees consist of revenue generated from deposit account related service charges and fees, overdraft fees, customer service fees, credit card fee income, debit card income and other service charges and fees.

Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), monthly service fees, check orders and other deposit account related fees. Heartland's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees, including overdraft fees, are largely transactional based, and therefore, the performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Customer service fees and other service charges include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. Heartland's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Credit card fee income and debit card income are comprised of interchange fees, ATM fees, and merchant services income. Credit card fee income and debit card income are earned whenever the banks' debit and credit cards are processed through card payment networks such as Visa. ATM fees are primarily generated when a bank cardholder uses an ATM that is not owned by one of Heartland's banks or a non-bank cardholder uses Heartland-owned ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees.

Trust Fees
Trust fees are primarily comprised of fees earned from the management and administration of trusts and other customer assets. Heartland's performance obligation is generally satisfied over time and the resulting fees are recognized monthly, based upon the average daily market value or month-end market value of the assets under management and the applicable fee rate. Payment is generally received a few days before or after month end through a direct charge to customers' accounts. Heartland does not earn performance-based incentives. Optional services such as real estate sales and tax return preparation services are also available to existing trust and asset management customers. Heartland's performance obligation for these transactional-based services is generally satisfied, and related revenue recognized, at a point in time (i.e., as incurred). Payment is received shortly after services are rendered.

Brokerage and Insurance Commissions
Brokerage commission primarily consist of commissions related to broker-dealer contracts. The contracts are between the customer and the broker-dealer, and Heartland satisfies its performance obligation and earns commission when the transactions are completed. The recognition of revenue is based on a defined fee schedule and does not require significant judgment. Payment is received shortly after services are rendered. Insurance commissions are related to commissions received directly from the insurance carrier. Heartland acts as an insurance agent between the customer and the insurance carrier. Heartland's performance obligations and associated fee and commission income are defined with each insurance product with the insurance company. When insurance payments are received from customers, a portion of the payment is recognized as commission revenue.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the year ended December 31, 2020, 2019, and 2018, in thousands:

	For the Years Ended December 31,		
	2020	2019	2018
In-scope of Topic 606			
Service charges and fees			
Service charges and fees on deposit accounts	$ 14,441	$ 12,790	$ 11,291
Overdraft fees	9,166	11,543	10,796
Customer service fees	177	331	330
Credit card fee income	16,026	15,594	11,893
Debit card income	7,657	11,899	14,396
Total service charges and fees	47,467	52,157	48,706
Trust fees	20,862	19,399	18,393
Brokerage and insurance commissions	2,756	3,786	4,513
Total noninterest income in-scope of Topic 606	**$ 71,085**	**$ 75,342**	**$ 71,612**
Out-of-scope of Topic 606			
Loan servicing income	$ 2,977	$ 4,843	$ 7,292
Securities gains, net	7,793	7,659	1,085
Unrealized gain on equity securities, net	640	525	212
Net gains on sale of loans held for sale	28,515	15,555	21,450
Valuation adjustment on servicing rights	(1,778)	(911)	(46)
Income on bank owned life insurance	3,554	3,785	2,793
Other noninterest income	7,505	9,410	4,762
Total noninterest income out-of-scope of Topic 606	**49,206**	**40,866**	**37,548**
Total noninterest income	**$ 120,291**	**$ 116,208**	**$ 109,160**

Contract Balances

Heartland does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2020, 2019 and 2018, Heartland did not have any significant contract balances or capitalized contract acquisition costs.

TWENTY-TWO
PARENT COMPANY ONLY FINANCIAL INFORMATION

Condensed financial information for Heartland Financial USA, Inc. is as follows:

BALANCE SHEETS
(Dollars in thousands)

	December 31,	
	2020	**2019**
Assets:		
Cash and interest bearing deposits	$ 84,728	$ 61,866
Investment in subsidiaries	2,234,813	1,765,995
Other assets	68,263	49,002
Total assets	$ 2,387,804	$ 1,876,863
Liabilities and Stockholders' equity:		
Other borrowings	$ 265,168	$ 271,046
Accrued expenses and other liabilities	43,405	27,680
Total liabilities	308,573	298,726
Stockholders' equity:		
Preferred stock	110,705	—
Common stock	42,094	36,704
Capital surplus	1,062,083	839,857
Retained earnings	791,630	702,502
Accumulated other comprehensive income (loss)	72,719	(926)
Total stockholders' equity	2,079,231	1,578,137
Total liabilities and stockholders' equity	$ 2,387,804	$ 1,876,863

INCOME STATEMENTS
(Dollars in thousands)

	For the Years Ended December 31,		
	2020	**2019**	**2018**
Operating revenues:			
Dividends from subsidiaries	$ 83,000	$ 137,000	$ 85,000
Other	1,948	893	493
Total operating revenues	84,948	137,893	85,493
Operating expenses:			
Interest	13,573	15,044	14,371
Salaries and employee benefits	8,147	4,072	3,639
Professional fees	4,310	3,029	2,841
Other operating expenses	4,939	15,559	12,510
Total operating expenses	30,969	37,704	33,361
Equity in undistributed earnings	73,430	34,307	52,570
Income before income tax benefit	127,409	134,496	104,702
Income tax benefit	10,529	14,633	12,296
Net income	137,938	149,129	116,998
Preferred dividends	(4,451)	—	(39)
Net income available to common stockholders	$ 133,487	$ 149,129	$ 116,959

STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	For the Years Ended December 31,		
	2020	**2019**	**2018**
Cash flows from operating activities:			
Net income	$ 137,938	$ 149,129	$ 116,998
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed earnings of subsidiaries	(73,430)	(34,307)	(52,570)
Gain on extinguishment of debt	—	(375)	—
Increase in accrued expenses and other liabilities	8,419	3,274	5,336
Increase in other assets	(19,168)	(12,248)	(1,559)
Excess tax (expense) benefit from stock based compensation	(93)	270	674
Other, net	6,375	4,103	5,401
Net cash provided by operating activities	60,041	109,846	74,280
Cash flows from investing activities:			
Capital contributions to subsidiaries	(70,000)	(46,583)	(30,696)
Repayment of advances from subsidiaries	—	6,000	—
Net assets acquired	(41,982)	(594)	(13,504)
Net cash used by investing activities	(111,982)	(41,177)	(44,200)
Cash flows from financing activities:			
Proceeds on short-term revolving credit line	—	—	25,000
Proceeds from borrowings	—	—	30,000
Repayments on short-term revolving credit line	—	—	(25,000)
Repayments of borrowings	(7,000)	(20,023)	(25,759)
Payment for the redemption of debt	—	(2,500)	—
Cash dividends paid	(31,906)	(24,607)	(19,357)
Purchase of treasury stock	—	—	(97)
Proceeds from issuance of preferred stock	110,705	—	—
Proceeds from issuance of common stock	3,004	661	489
Net cash provided by (used in) by financing activities	74,803	(46,469)	(14,724)
Net increase in cash and cash equivalents	22,862	22,200	15,356
Cash and cash equivalents at beginning of year	61,866	39,666	24,310
Cash and cash equivalents at end of year	$ 84,728	$ 61,866	$ 39,666
Supplemental disclosure:			
Cumulative effect adjustment from the adoption of ASU 2016-13 on January 1, 2020	$ 14,891	$ —	$ —
Dividends declared, not paid	2,013	—	—
Conversion/redemption of Series D preferred stock to common stock	—	—	938
Stock consideration granted for acquisitions	217,202	92,258	238,075

TWENTY-THREE
LEASES

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration.

Lessee Accounting
Substantially all of the leases in which Heartland is the lessee are comprised of real estate property for branches, ATM locations, and office space with terms extending through 2031. All of Heartland's leases are classified as operating leases, and therefore, were previously not recognized on the consolidated balance sheet. With the adoption of ASU 2016-02

"Leases" (Topic 842), operating lease agreements are required to be recognized on the consolidated balance sheet as a right-of use ("ROU") asset and a corresponding lease liability. Heartland elected not to include short-term leases (i.e., leases with initial terms of twelve months or less), or equipment leases (deemed immaterial) on the consolidated balance sheet.

The table below presents Heartland's ROU assets and lease liabilities as of December 31, 2020 and December 31, 2019, in thousands:

		As of December 31,	
	Classification	**2020**	**2019**
Operating lease right-of-use assets	Other assets	$ 21,557	$ 23,200
Operating lease liabilities	Accrued expenses and other liabilities	$ 25,337	$ 24,617

The calculated amount of the ROU assets and lease liabilities in the table above are impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. Heartland's lease agreements often include one or more options to renew at Heartland's discretion. If at lease inception, Heartland considers the exercising of a renewal option to be reasonably certain, Heartland will include the extended term in the calculation of the ROU asset and lease liability. Regarding the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, Heartland utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term. The variable lease cost primarily represents variable payments such as common area maintenance and utilities.

The table below presents the lease costs and supplemental information as of December 31, 2020 and December 31, 2019, in thousands:

		As of December 31,	
Lease Cost	**Income Statement Category**	**2020**	**2019**
Operating lease cost	Occupancy expense	$ 6,071	$ 6,031
Variable lease cost	Occupancy expense	72	145
Total lease cost		$ 6,143	$ 6,176
Supplemental Information			
Noncash reduction of ROU assets	Occupancy expense	$ 1,037	$ 1,771
Noncash reduction lease liabilities	Occupancy expense	$ 389	$ 1,789
Supplemental balance sheet information		**As of December 31, 2020**	
Weighted-average remaining operating lease term (in years)		5.91	
Weighted-average discount rate for operating leases		2.85 %	

Included in the noncash reduction of ROU assets in 2020 are expenses related to lease modifications and ROU acceleration related to lease abandonments.

Heartland recorded an impairment on one lease in 2020, and the impairment of $360,000 was recorded in gain/loss on sales/ valuations of assets, net.

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities as of December 31, 2020 is as follows, in thousands:

Year ending December 31,		
2021	$	6,890
2022		5,690
2023		4,035
2024		2,334
2025		2,195
Thereafter		6,427
Total lease payments	$	27,571
Less interest		(2,234)
Present value of lease liabilities	$	25,337

TWENTY-FOUR
SUMMARY OF QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(Dollars in thousands, except per share data)

	As of and for the Quarter Ended			
2020	**December 31**	**September 30**	**June 30**	**March 31**
Net interest income	$ 132,575	$ 122,497	$ 124,146	$ 112,511
Provision for credit losses	17,072	1,678	26,796	21,520
Net interest income after provision for credit losses	115,503	120,819	97,350	90,991
Noninterest income	32,621	31,216	30,637	25,817
Noninterest expense	99,269	90,396	90,439	90,859
Income taxes	9,046	13,681	7,417	5,909
Net income	39,809	47,958	30,131	20,040
Preferred dividends	(2,014)	(2,437)	—	—
Net income available to common stockholders	$ 37,795	$ 45,521	$ 30,131	$ 20,040
Per share:				
Earnings per share-basic	$ 0.98	$ 1.23	$ 0.82	$ 0.54
Earnings per share-diluted	0.98	1.23	0.82	0.54
Cash dividends declared on common stock	0.20	0.20	0.20	0.20
Book value per common share	46.77	46.11	44.42	42.21
Weighted average common shares outstanding	38,420,063	36,941,110	36,880,325	36,820,972
Weighted average diluted common shares outstanding	38,534,082	36,995,572	36,915,630	36,895,591

(Dollars in thousands, except per share data)

	As of and for the Quarter Ended			
2019	**December 31**	**September 30**	**June 30**	**March 31**
Net interest income	$ 112,745	$ 111,321	$ 106,708	$ 102,955
Provision for credit losses	4,903	5,201	4,918	1,635
Net interest income after provision for credit losses	107,842	106,120	101,790	101,320
Noninterest income	28,030	29,400	32,061	26,717
Noninterest expense	92,866	92,967	75,098	88,230
Income taxes	5,155	7,941	13,584	8,310
Net income	37,851	34,612	45,169	31,497
Preferred dividends	—	—	—	—
Net income available to common stockholders	$ 37,851	$ 34,612	$ 45,169	$ 31,497
Per share:				
Earnings per share-basic	$ 1.03	$ 0.94	$ 1.26	$ 0.91
Earnings per share-diluted	1.03	0.94	1.26	0.91
Cash dividends declared on common stock	0.18	0.18	0.16	0.16
Book value per common share	43.00	42.62	41.48	39.65
Weighted average common shares outstanding	36,758,025	36,692,381	35,743,986	34,564,378
Weighted average diluted common shares outstanding	36,840,519	36,835,191	35,879,259	34,699,839

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Heartland Financial USA, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Heartland Financial USA, Inc. and subsidiaries (the Company) as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 25, 2021 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for the recognition and measurement of credit losses as of January 1, 2020 due to the adoption of ASC Topic 326, *Financial Instruments – Credit Losses*.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Assessment of the allowance for credit losses and unfunded loan commitments collectively evaluated

As discussed in Note 1 to the consolidated financial statements, the Company adopted ASU No. 2016-13, *Financial Instruments – Credit Losses (ASC Topic 326)* as of January 1, 2020. As discussed in Notes 1, 5, and 6 to the consolidated financial statements, the Company's allowance for credit losses related to loans and unfunded loan commitments collectively evaluated for credit losses is comprised of an allowance for credit losses on loans and an allowance for credit losses on unfunded loan commitments (the collective ACL). As of January 1, 2020, the total allowance for credit losses related to loans and unfunded loan commitments was $82.5 million and $13.9 million, respectively, of which a portion was related to the collective ACL. As of December 31, 2020, the total allowance for credit losses related to loans and unfunded loan commitments was $131.6 million and $15.3 million, respectively, of which $122.2 million and $15.3 million, respectively, was related to the collective ACL. The Company estimates the collective ACL using a current expected credit losses methodology which is based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported loan amounts, including expected defaults. The allowance for credit losses on unfunded commitments leverages the same methodology utilized for the allowance for credit losses on loans. The Company estimates the collective ACL on a pool basis for loans with similar risk characteristics using 1) a transition matrix probability of default (PD) and loss given default (LGD) model, which is based on transition of loans between risk ratings and through default based on the Company's historical loss experience, for certain commercial and agricultural loans, or 2) a lifetime average historical loss model for all other commercial and agricultural loans, residential real estate loans, and consumer loans. A portion of the collective ACL on outstanding loans is comprised of qualitative adjustments, based on a comparison of current conditions to the average conditions over the look back period. The qualitative adjustments are determined by the Company using an anchoring approach to determine the minimum and maximum amount of qualitative allowance, which is determined by comparing the highest and lowest historical rate to the average loss rate to calculate the rate for the adjustment. The collective ACL utilizes an overlay approach for its economic forecasting component which incorporates a reasonable and supportable forecast of various macro-economic indices. The Company utilizes an economic forecast scenario which reverts to the historical mean immediately at the end of the reasonable and supportable forecast period. For the allowance for credit losses on unfunded loan commitments, the Company separately estimates the exposure at default using estimated average utilization rates.

We identified the assessment of the January 1, 2020 collective ACL and the December 31, 2020 collective ACL as a critical audit matter. A high degree of audit effort, including specialized skills and knowledge, and subjective and complex auditor judgment was involved in the assessment of the collective ACL estimates. Specifically, the assessment encompassed the evaluation of the collective ACL methodology, including the methods and models used to estimate (1) the PD and LGD and their significant assumptions, including the risk ratings for certain commercial and agricultural loans, the historical loss experience, the look back period, and pooling of loans with similar risk characteristics, (2) the lifetime average historical loss rates and their significant factors and assumptions, including pooling of loans with similar risk characteristics, and the look back period, (3) the economic forecasting component, including the economic forecast scenario and the reasonable and supportable forecast period, and (4)

the qualitative adjustments. The assessment also included an evaluation of the conceptual soundness and performance of the PD, LGD, and lifetime average historical loss models. In addition, auditor judgment was required to evaluate the sufficiency of audit evidence obtained. The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's measurement of the collective ACL estimates, including controls over the:

- development and approval of the collective ACL methodology
- development of the PD, LGD, and lifetime average historical loss models
- performance monitoring and validation of the PD, LGD, and lifetime average historical loss models
- identification and determination of the significant assumptions used in the PD and LGD models
- identification and determination of the significant assumptions used in the lifetime average historical loss models
- identification and determination of the exposure at default assumption used in the PD, LGD, and lifetime average historical loss models
- development of the qualitative adjustments, including the anchoring approach
- analysis of the collective ACL results, trends and ratios.

We evaluated the Company's process to develop the collective ACL estimates by testing certain sources of data, factors, and assumptions that the Company used, and considered the relevance and reliability of such data, factors, and assumptions. In addition, we involved credit risk professionals with specialized skills and knowledge, who assisted in evaluating:

- the Company's collective ACL methodology for compliance with U.S. generally accepted accounting principles
- judgments made by the Company relative to the development and performance monitoring of the PD, LGD, and lifetime average historical loss models, including the exposure at default assumption, by comparing them to relevant Company-specific metrics and trends and applicable industry and regulatory practices
- the exposure at default assumption by comparing to relevant Company-specific metrics and trends and applicable industry and regulatory practices
- the conceptual soundness of the PD, LGD, and lifetime average historical loss models by inspecting the model documentation to determine whether the models are suitable for their intended use
- the methodology used to develop the economic forecasting component, including selection of the economic forecast scenario, by comparing it to the Company's business environment and relevant industry practices
- the length of the historical look back period and reasonable and supportable forecast period by comparing to Company specific portfolio risk characteristics and trends
- whether the loan portfolio is segmented by similar risk characteristics by comparing to the Company's business environment and relevant industry practices
- the methodology used to develop the qualitative adjustments and the effect of those adjustments on the collective ACL estimates compared with relevant credit risk factors and consistency with credit trends and identified limitations of the underlying quantitative models
- individual risk ratings for a selection of commercial and agricultural loan relationships by evaluating the financial performance of the borrower, sources of repayment, and any relevant guarantees or underlying collateral.

We also assessed the sufficiency of the audit evidence obtained related to the collective ACL estimates by evaluating the:

- cumulative results of the audit procedures
- qualitative aspects of the Company's accounting practices
- potential bias in the accounting estimates.

Valuation of goodwill for certain reporting units

As discussed in Notes 1 and 8 to the consolidated financial statements, the goodwill balance as of December 31, 2020 was $576.0 million, which represents goodwill recorded at various subsidiary banks (the reporting units). The Company performs goodwill impairment testing using either a qualitative or quantitative assessment at least annually or whenever circumstances indicate a potential impairment may exist that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Due to the COVID-19 pandemic and economic conditions, an interim quantitative assessment of goodwill was performed during the second quarter of 2020, and no goodwill impairment was identified. The quantitative impairment testing involves estimating the fair value of the reporting units using a combination of discounted cash flow and market-based approaches. Depending on the specific approach, significant assumptions include the discount rates used for cash flows, long-term growth rates, forecasted cash flow projections, and control premiums and multiples.

We identified the valuation of goodwill for certain reporting units for which a quantitative impairment assessment was performed as a critical audit matter. The estimated fair value of certain reporting units involved significant measurement uncertainty and required a high degree of subjective auditor judgment. The discount rates used for cash flows, the long-term growth rates and the forecasted cash flow projections used in the discounted cash flow method, and the control premiums and multiples used in the market-based approach used to estimate the fair value of certain reporting units were challenging to test as they represented subjective determinations of market and economic conditions that were sensitive to variations and minor changes to those assumptions could have had a significant effect on the Company's assessment of the value of the goodwill for certain reporting units. Additionally, the audit effort associated with the valuation of goodwill required specialized skills and knowledge.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's determination of the estimated fair value of certain reporting units, including controls over the development of the discount rates used for cash flows, the long-term growth rates and the forecasted cash flow projections used in the discounted cash flow method, and the control premiums and multiples used in the market-based approach and application of the overall fair value methodology. We evaluated the forecasted cash flow projections used in the discounted cash flow method by comparing the assumptions used by management to the Company's historical information and historical trends. Additionally, we involved valuation professionals with specialized skills and knowledge, who assisted in:

- evaluating the discount rates used in the discounted cash flow method, by comparing the rates against discount rate ranges that were independently developed using publicly available market data for comparable companies
- evaluating the long-term growth rates used in the discounted cash flow method, by comparing the rates to economic and industry growth trends
- evaluating the multiples used in the market-based approach, by comparing them to market data for trading multiples for comparable companies
- evaluating the control premiums used in the market-based approach by comparing them to market data of premiums paid for comparable companies.

Initial measurement of the fair value of acquired loans in a business combination

As discussed in Notes 1, 2 and 8 to the consolidated financial statements, on December 4, 2020, the Company completed the acquisition of AimBank. The Company records all assets and liabilities, including intangibles, purchased in business combinations at fair value. As of the closing date, the Company acquired, at fair value, total assets of AimBank of $1.97 billion, which included gross loans of $1.09 billion, and deposits of $1.67 billion. The fair value of acquired loans for AimBank was based on a discounted cash flow methodology that projected principal and interest payments using significant assumptions related to the discount rate and loss rates.

We identified the evaluation of the initial measurement of the fair value of acquired loans in the acquisition of AimBank as a critical audit matter. This fair value measurement involved a high degree of measurement uncertainty and subjectivity, which required specialized skills and knowledge to evaluate the measurement. Specifically, there was a high degree of subjectivity in applying and evaluating the fair value measurement methodology including the acquired loan valuation significant assumptions.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's determination of the fair value of acquired loans in the acquisition of AimBank, including controls over the application of the overall fair value measurement methodology and the identification and determination of the significant assumptions used in the acquired loan fair value estimate. We involved valuation professionals with specialized skills and knowledge, who assisted in evaluating the fair value measurement methodology, including the significant assumptions, for compliance with U.S. generally accepted accounting principles and evaluating the significant assumptions used in the fair value measurement through (1) comparison to internal historical data and publicly available data and (2) review of the underlying support and methodology for the development of the significant assumptions.

/s/ KPMG LLP

We have served as the Company's auditor since 1994.

Des Moines, Iowa
February 25, 2021

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Under the direction of our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of December 31, 2020. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, in a manner that allows timely decisions regarding required disclosure.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining effective internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management, board of directors and stockholders regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our internal control over financial reporting based upon the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework (2013)*. Based on our assessment, our internal control over financial reporting was effective as of December 31, 2020.

Heartland acquired AimBank on December 4, 2020. AimBank, which had assets of $1.89 billion as of December 31, 2020, and revenues of $4.7 million from the acquisition date through December 31, 2020, was excluded from the scope of this report as allowed by the Securities and Exchange Commission. AimBank's assets comprised 11% of Heartland's assets at December 31, 2020, and AimBank's 2020 revenues were less than 1% of Heartland's revenues for 2020.

KPMG LLP, the independent registered public accounting firm that audited Heartland's consolidated financial statements as of and for the year ended December 31, 2020, included herein, has issued a report on Heartland's internal control over financial reporting. This report follows management's report.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no significant changes to Heartland's disclosure controls or internal controls over financial reporting during the quarter ended December 31, 2020, that have materially affected or are reasonably likely to materially affect Heartland's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Heartland Financial USA, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Heartland Financial USA, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively, the consolidated financial statements), and our report dated February 25, 2021 expressed an unqualified opinion on those consolidated financial statements.

The Company acquired AimBank on December 4, 2020, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2020, AimBank's internal control over financial reporting associated with total assets of $1.89 billion and total revenues of $4.7 million included in the consolidated financial statements of the Company as of and for the year ended December 31, 2020. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of AimBank.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Annual Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ KPMG LLP

Des Moines, Iowa
February 25, 2021

ITEM 9B. OTHER INFORMATION

None

PART III
ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information in the Proxy Statement for Heartland's 2021 Annual Meeting of Stockholders to be held on May 19, 2021, (the "2020 Proxy Statement") under the captions "Proposal 1-Election of Directors", "Delinquent Section 16(a) Reports," "Corporate Governance and the Board of Directors - Stockholder Communications with the Board, Nomination and Proposal Procedures," "Corporate Governance and the Board of Directors - Committees of the Board," and "Corporate Governance and the Board of Directors - Code of Business Conduct and Ethics" is incorporated by reference. The information regarding executive officers is included in Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION

The information in our 2021 Proxy Statement, under the captions "Corporate Governance and the Board of Directors - Director Compensation" and "Executive Officer Compensation" is incorporated by reference.

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

The information in our 2021 Proxy Statement, under the caption "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" is incorporated by reference.

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

The information in the 2021 Proxy Statement under the captions "Related Person Transactions" and "Corporate Governance and the Board of Directors - Our Board of Directors - Director Independence" is incorporated by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information in the 2021 Proxy Statement under the caption "Relationship with Independent Registered Public Accounting Firm" is incorporated by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The documents filed as a part of this Annual Report on Form 10-K are listed below:

1. Financial Statements

   The consolidated financial statements of Heartland Financial USA, Inc. are included in Item 8 of this Annual Report on Form 10-K.

2. Financial Statement Schedules

   None.

3. Exhibits

   The exhibits required by Item 601 of Regulation S-K are included along with this Annual Report on Form 10-K and are listed on the "Index of Exhibits" immediately following Item 16 below.

ITEM 16. FORM 10-K SUMMARY

None.

INDEX OF EXHIBITS

2.1	Agreement and Plan of Merger between Heartland Financial USA, Inc. and Blue Valley Ban Corp., dated January 16, 2019 (incorporated by reference to Exhibit 10.27 to the Registrant's Annual Report on Form 10-K Filed on February 27, 2019).
2.2	Purchase and Assumption Agreement between Illinois Bank & Trust, Rockford Bank and Trust Company and QCR Holdings, Inc. dated August 13, 2019 (incorporated by reference to Exhibit 2.1 to the Registrant's Quarterly Report on Form 10-Q filed on November 6, 2019).
2.3	Amended and Restated Agreement and Plan of Merger dated as of October 19, 2020 among Heartland Financial USA, Inc., First Bank & Trust, AIM Bancshares, Inc., AimBank and Michael F. Epps, as the Shareholder Representative (incorporated by reference to Appendix B to the Proxy Statement/Prospectus contained in Amendment No. 1 to Heartland's Registration Statement on Form S-4 (Registration No. 333-238459)) filed on October 19, 2020.
3.1	Restated Certificate of Incorporation of Heartland Financial USA, Inc. and Certificate of Designation of Series A Junior Participating Preferred Stock as filed with the Delaware Secretary of State on June 10, 2002 (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed on November 8, 2008).
3.2	Bylaws of Heartland Financial USA, Inc. (incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K filed on March 15, 2004).
3.3	Amendment to Certificate of Incorporation of Heartland Financial USA, Inc. as filed with the Delaware Secretary of State on July 30, 2009 (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed on August 10, 2009).
3.4	Certificate of Designation of Senior Non-Cumulative Perpetual Preferred Stock, Series C, as filed with the Delaware Secretary of State on September 12, 2011 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on September 15, 2011).
3.5	Amendment to Certificate of Incorporation of Heartland Financial USA, Inc. filed with the Delaware Secretary of State on May 28, 2015 (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed on August 6, 2015).
3.6	Certificate of Designation of 7% Senior Non-Cumulative Perpetual Convertible Preferred Stock, Series D, as filed with the Delaware Secretary of State on February 5, 2016 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on February 11, 2016).
3.7	Amendment to Certificate of Incorporation of Heartland Financial USA, Inc. as filed with the Delaware Secretary of State on May 18, 2017 (incorporated by reference to Exhibit 3.4 to the Registrant's Amendment No. 2 to it Form S-4 Registration Statement filed on May 18, 2017).
3.8	Amendment to Certificate of Incorporation of Heartland Financial USA, Inc. as filed with the Delaware Secretary of State on August 28, 2018 (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed on November 6, 2018).
3.9	Amendment to Certificate of Incorporation of Heartland Financial USA, Inc. as filed with the Delaware Secretary of State on May 23, 2019 (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed on August 7, 2019).
3.10	Amendment to Certificate of Incorporation of Heartland Financial USA, Inc. as filed with the Delaware Secretary of State Amendment to Certificate of Incorporation of Heartland Financial USA, Inc. as filed with the Delaware Secretary of State on June 6, 2019 (incorporated by reference to Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q filed on August 7, 2019).
3.11	Certificate of Designation of 7.00% Fixed-Rate Reset Non-Cumulative Perpetual Preferred Stock, Series E, filed with the Secretary of State of the State of Delaware and effective June 25, 2020 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on June 26, 2020).

4.1		Form of Specimen Stock Certificate for Heartland Financial USA, Inc. common stock (incorporated by reference to Exhibit 4.1 to Registrant's Registration Statement on Form S-4 (File No. 33-76228) filed on May 4, 1994).
4.2		Indenture by and between Heartland Financial USA, Inc. and Wells Fargo Bank, National Association, dated as of January 31, 2006 (incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K filed on March 10, 2006).
4.3		Indenture by and between Heartland Financial USA, Inc. and U.S. Bank National Association dated as of March 17, 2004 (incorporated by reference to Exhibit 10.12 to the Registrant's Annual Report on Form 10-K filed on March 16, 2007).
4.4		Indenture between Heartland Financial USA, Inc. and Wilmington Trust Company dated as of June 21, 2007 (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on August 9, 2007).
4.5		Indenture between Heartland Financial USA, Inc. and Wilmington Trust Company dated as of June 26, 2007 (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed on August 9, 2007).
4.6		Rights Agreement, dated as of January 17, 2012, between Heartland Financial USA, Inc. and Dubuque Bank and Trust Company, as Rights Agent (incorporated by reference to Exhibit 4.1 to Registrant's Form 8-A filed on May 17, 2012).
4.7		Indenture by and between Morrill Bancshares, Inc. and State Street Bank and Trust Company of Connecticut, National Association dated as of December 19, 2002 (incorporated by reference to Exhibit 10.34 to the Registrant's Annual Report on Form 10-K filed on March 14, 2014).
4.8		Indenture by and between Morrill Bancshares, Inc. and U.S. Bank National Association dated as of December 17, 2003 (incorporated by reference to Exhibit 10.35 to the Registrant's Annual Report on Form 10-K filed on March 14, 2014).
4.9		Indenture between Heartland Financial USA, Inc. and U.S. Bank National Association dated as of December 17, 2014, as supplemented (including form of note) (incorporated by reference to Exhibit 4.1 and 4.2 to the Registrant's Current Report on Form 8-K filed on December 18, 2014).
4.10		Form of Stock Certificate for 7% Senior Non-Cumulative Perpetual Convertible Preferred Stock, Series D (incorporated by reference to Exhibit 4.4 to the Registrant's Annual Report on Form 10-K filed on March 11, 2016).
4.11		Form of certificate representing the 7.00% Fixed-Rate Reset Non-Cumulative Perpetual Preferred Stock, Series E (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on June 26, 2020).
4.12		Deposit Agreement, dated June 26, 2020, by and among Heartland Financial USA, Inc., Broadridge Corporate Issuer Solutions, Inc. and the holders from time to time of Depositary Receipts described therein (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on June 26, 2020).
4.13		Form of Depositary Receipt representing Depositary Shares (included as Exhibit A to Exhibit 4.12).
4.14		Amended and Restated Shareholder Voting Agreement, dated October 19, 2020, by and among AIM Bancshares, Inc., AimBank, Heartland Financial USA, Inc., First Bank & Trust, and certain holders of Common Stock (incorporated by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form S-4/A filed on October 19, 2020).
4.15	(1)	Description of Securities
10.1	(2)	Form of Split-Dollar Life Insurance Plan effective November 13, 2001, between the subsidiaries of Heartland Financial USA, Inc. and their selected officers, including four subsequent amendments effective January 1, 2002, May 1, 2002, September 16, 2003 and December 31, 2007. These plans are in place at Dubuque Bank and Trust Company, Illinois Bank & Trust, Wisconsin Bank & Trust and New Mexico Bank & Trust (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on May 12, 2008).

10.2 [2] Form of Executive Supplemental Life Insurance Plan effective January 1, 2005, between the subsidiaries of Heartland Financial USA, Inc. and their selected officers, including a subsequent amendment effective December 31, 2007. These plans are in place at Dubuque Bank and Trust Company, Illinois Bank & Trust, Wisconsin Bank & Trust and New Mexico Bank & Trust (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on May 12, 2008).

10.3 [2] Form of Executive Life Insurance Bonus Plan effective December 31, 2007, between Heartland Financial USA, Inc. and selected officers of Heartland Financial USA, Inc. and its subsidiaries, including a subsequent amendment effective December 31, 2007 (incorporated by reference to Exhibit 10.8 to the Registrant's Annual Report on Form 10-K filed on March 16, 2009).

10.4 [2] Form of Split-Dollar Agreement effective November 1, 2008, between the subsidiaries of Heartland Financial USA, Inc. and their selected officers. These plans are in place at Dubuque Bank and Trust Company, Illinois Bank & Trust, Wisconsin Bank & Trust, New Mexico Bank & Trust, Arizona Bank & Trust, Citywide Banks, Minnesota Bank & Trust and Citizens Finance Co. (incorporated by reference to Exhibit 10.9 to the Registrant's Annual Report on Form 10-K filed on March 16, 2009).

10.5 ISDA Confirmation Letter between Heartland Financial USA, Inc. and Bankers Trust Company dated April 5, 2011 (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on May 10, 2011).

10.6 [2] Form of Amendment to Change in Control Agreements (incorporated by reference to Exhibit 10.8 to the Registrant's Annual Report on Form 10-K filed on February 26, 2020).

10.7 [2] Heartland Financial USA, Inc. 2016 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on May 20, 2016).

10.8 [2] Business Loan Agreement dated June 14, 2019, between Heartland Financial USA, Inc. and Bankers Trust Company (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on August 7, 2019).

10.9 First Amendment First Amendment dated June 16, 2020 to Business Loan Agreement dated June 14, 2019 June 16, 2020 to Business Loan Agreement dated June 14, 2019, between Heartland Financial USA, Inc. and Bankers Trust Company (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on August 6, 2020).

10.10 Promissory Note dated June 14, 2019 (issued under the non-revolving line of credit), and Change in Terms Agreement dated July 15, 2019 between Heartland Financial USA, Inc. and Bankers Trust Company (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed on August 7, 2019).

10.11 [2] Form of Performance-Based Restricted Stock Unit Award Agreement Three-Year Performance Period under the Heartland Financial USA, Inc. 2012 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed on May 8, 2018).

10.12 Promissory Note dated May 10, 2016 (updated to be issued under the Business Line Loan Agreement related to the credit facility dated June 14, 2019), and Change in Terms Agreement dated June 14, 2019 between Heartland Financial USA, Inc. and Bankers Trust Company (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q filed on August 7, 2019

10.13 Promissory Note dated July 24, 2018 (updated to be issued under the Business Line Loan Agreement related to the credit facility dated June 14, 2019), and Change in Terms Agreement dated June 14, 2019 between Heartland Financial USA, Inc. and Bankers Trust Company (incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q filed on August 7, 2019).

10.14 [2] Heartland Financial USA, Inc. Deferred Compensation Plan effective April 30, 2019 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 6, 2019

10.15 Promissory Note dated June 14, 2020 (issued under the credit facility)issued to Bankers Trust Company by Heartland Financial USA, Inc. (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on August 6, 2020).

10.16		Promissory Note dated June 14, 2020 (issued under the non-revolving line of credit) issued to Bankers Trust Company by Heartland Financial USA, Inc.(incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed on August 6, 2020).
10.17	(2)	Form of Time-Based Restricted Stock Unit Award Agreement under the Heartland Financial USA, Inc. 2012 Long-Term Incentive Plan for time-based awards vesting in the first, second and third years following the original grant award (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on May 8, 2018).
10.18	(2)	Form of Performance-Based Restricted Stock Unit Award Agreement Three-Year Performance Period under the Heartland Financial USA, Inc. 2012 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed on May 8, 2018).
10.19	(2)	Form of Director Restricted Stock Unit Award Agreement under the Heartland Financial USA, Inc. 2012 Long-Term Incentive Plan.
10.20	(2)	Heartland Financial USA, Inc. 2020 Long-Term Incentive Plan (incorporated by reference to Annex A to the Registrant's Definitive Proxy Statement filed on April 6, 2020)
10.21	(1)(2)	Form of Time-Based Restricted Stock Unit Award Agreement under the Heartland Financial USA, Inc. 2020 Long-Term Incentive Plan for time-based awards vesting fully on the third year following the original grant award
10.22	(1)(2)	Form of Director Restricted Stock Unit Award Agreement under the Heartland Financial USA, Inc. 2020 Long-Term Incentive Plan
21.1	(1)	Subsidiaries of the Registrant.
23.1	(1)	Consent of KPMG LLP.
31.1	(1)	Certification of Chief Executive Officer pursuant to Rule 13a-14.
31.2	(1)	Certification of Chief Financial Officer pursuant to Rule 13a-14.
32.1	(1)	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	(1)	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	(1)	Financial statement formatted in Inline Extensible Business Reporting Language: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Cash Flows, (iv) the Consolidated Statements of Changes in Equity and Comprehensive Income, and (v) the Notes to Consolidated Financial Statements.
104	(1)	Cover page formatted in Inline Extensible Business Reporting Language

(1) Filed herewith.

(2) Management contracts or compensatory plans or arrangements.

Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, copies of certain instruments defining the rights of holders of long-term debt are not filed. Heartland agrees to furnish copies of such instruments to the SEC upon request.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 25, 2021.

Heartland Financial USA, Inc.

By: /s/ Bruce K. Lee
President and Chief Executive Officer

Date: February 25, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on February 25, 2021.

By: /s/ Bruce K. Lee
Bruce K. Lee
President and Chief Executive Officer
(Principal Executive Officer and Duly Authorized Officer)

/s/ Lynn B. Fuller
Lynn B. Fuller
Executive Operating Chairman and Director
(Principal Executive Officer)

/s/ Bryan R. McKeag
Bryan R. McKeag
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ Janet M. Quick
Janet M. Quick
Executive Vice President and Deputy Chief Financial Officer
(Principal Accounting Officer)

/s/ Robert B. Engel
Robert B. Engel
Director

/s/ Mark C. Falb
Mark C. Falb
Director

/s/ Thomas L. Flynn
Thomas L. Flynn
Director

/s/ Jennifer K. Hopkins
Jennifer K. Hopkins
Director

/s/ Christopher S. Hylen
Christopher S. Hylen
Director

/s/ R. Mike McCoy
R. Mike McCoy
Director

/s/ Susan G. Murphy
Susan G. Murphy
Director

/s/ Barry H. Orr
Barry H. Orr
Director

/s/ John K. Schmidt
John K. Schmidt
Director

/s/ Martin J. Schmitz
Martin J. Schmitz
Director

/s/ Duane E. White
Duane E. White
Director

HTLF™

Strength. Insight. Growth.