

HEARTLAND FINANCIAL USA INC

FORM 10-K (Annual Report)

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Industry	Regional Banks
Sector	Financial
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

**[X] ANNUAL REPORT PURSUANT TO SECTION 13 OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2003

Commission File Number: 0-24724

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:

Trust Preferred Securities

(issued by Heartland Financial Capital Trust I)

(Title of Exchange Class)

American Stock Exchange

(Name of Each Exchange on which Registered)

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

Common Stock \$1.00 par value

Preferred Share Purchase Rights

(Title of Class)

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 **X** No

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

The index to exhibits follows the signature page.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes **X** No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the last sales price quoted on the over-the-counter market bulletin board on June 30, 2003, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$255,261,888.* Such figures include 2,298,708 shares of the Registrant's Common Stock (restated to reflect the three-for-two stock split effected in the form of a dividend on December 29, 2003) held in a fiduciary capacity by the Trust Department of the Dubuque Bank and Trust Company, a wholly-owned subsidiary of the Registrant.

* Based on the last sales price of the Registrant's common stock on June 30, 2003, and reports of beneficial ownership filed by directors and executive officers of Registrant and by beneficial owners of more than 5% of the outstanding shares of common stock of Registrant; however, such determination of shares owned by affiliates does not constitute an admission of affiliate status or beneficial interest in shares of Registrant's common stock.

As of March 9, 2004, the Registrant had issued and outstanding 15,171,786 shares of common stock, \$1.00 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2004 Annual Meeting of Stockholders are incorporated by reference into Part III.

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PART I.

ITEM 1.

BUSINESS

A. GENERAL DESCRIPTION

Heartland Financial USA, Inc. ("Heartland"), reincorporated in the state of Delaware in 1993, is a multi-bank holding company registered under the Bank Holding Company Act of 1956, as amended ("BHCA"). Heartland has seven bank subsidiaries in the states of Iowa, Wisconsin, Illinois, New Mexico, and Arizona (collectively, the "Bank Subsidiaries"). All seven Bank Subsidiaries are members of the Federal Deposit Insurance Corporation ("FDIC"). Dubuque Bank and Trust Company, Dubuque, Iowa, and First Community Bank, Keokuk, Iowa are chartered under the laws of the State of Iowa. Dubuque Bank and Trust Company has two wholly-owned subsidiaries: DB&T Insurance, Inc., a multi-line insurance agency and DB&T Community Development Corp., majority owner of a senior housing project. Galena State Bank and Trust Company, Galena, Illinois, and Riverside Community Bank, Rockford, Illinois, are chartered under the laws of the State of Illinois. Wisconsin Community Bank, Cottage Grove, Wisconsin, is chartered under the laws of the State of Wisconsin and has two subsidiaries, DBT Investment Corporation, an investment management company; and WCB Mortgage, LLC, a mortgage banking company. New Mexico Bank & Trust, Albuquerque, New Mexico, is chartered under the laws of the state of New Mexico. Arizona Bank & Trust, Mesa, Arizona, is chartered under the laws of the state of Arizona. The Bank Subsidiaries operate 37 banking locations in Iowa, Illinois, Wisconsin and New Mexico. During the first quarter of 2004, Heartland entered into an agreement to acquire a bank in Montana that has eight locations. Heartland has eight non-bank subsidiaries. Citizens Finance Co. is a consumer finance company. ULTEA, Inc. is a fleet leasing company headquartered in Madison, Wisconsin. Heartland Capital Trust I, Heartland Statutory Trust II, Heartland Capital Trust II, and Heartland Statutory Trust III are special purpose trust subsidiaries of Heartland formed for the purpose of the offering of cumulative capital securities. HTLF Capital Corp. is an investment banking firm specializing in taxable and tax-exempt municipal finance with offices in Denver, Colorado, and Kansas City, Missouri. Heartland Community Development Corp. is a certified community development entity with accountability to low-income communities in the Dubuque, Iowa, service area. All of Heartland's subsidiaries are wholly-owned, except for Arizona Bank & Trust, of which Heartland owned 86% of the capital stock on December 31, 2003, and WCB Mortgage, LLC, of which Heartland owned 55% of the capital stock on December 31, 2003.

The Bank Subsidiaries provide full service retail banking within Dubuque and Lee Counties in Iowa; within Jo Daviess, Hancock and Winnebago Counties in Illinois; within Dane, Green, Sheboygan and Brown Counties in Wisconsin; Bernalillo, Curry and Santa Fe Counties in New Mexico; and Maricopa County in Arizona. Deposit products include checking and other demand deposit accounts, NOW accounts, savings accounts, money market

accounts, certificates of deposit, individual retirement accounts and other time deposits. The deposits in the Bank Subsidiaries are insured by the FDIC to the full extent permitted by law. Loans include commercial and industrial, agricultural, real estate mortgage, consumer, home equity, credit cards and lines of credit. Other products and services include VISA debit cards, automatic teller machines, safe deposit boxes and trust services. The principal service of the Bank Subsidiaries consists of making loans to businesses and individuals. These loans are made at the offices of the Bank Subsidiaries. The Bank Subsidiaries also engage in activities that are closely related to banking, including investment brokerage.

Operating Strategy

Heartland's operating strategy is based upon a community banking model with three major components:

1. Develop strong community banks:
 - Establish community bank names and images
 - Encourage community involvement and leadership
 - Maintain active boards of directors chosen from the local community
 - Retain local presidents and decision-making
2. Provide resources for revenue enhancement:
 - Develop and implement a wide array of financial products and services for all Bank Subsidiaries
 - Improve Bank Subsidiary funding costs by reducing higher-cost certificates of deposit; increasing the percentage of lower-cost transaction accounts such as checking, savings and money market accounts; emphasizing relationship banking and capitalizing on cross-selling opportunities
 - Emphasize greater use of non-traditional sources of income, including trust and investment services, insurance, consumer finance, vehicle leasing and fleet management, and investment banking
 - Evaluate and acquire state-of-the-art technology when the expected return justifies the cost.
3. Provide customer-transparent cost savings:
 - Centralize back office support functions so Bank Subsidiaries operate as efficiently as possible

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

Another component of the operating strategy is to encourage all directors, officers and employees to maintain a strong ownership interest in Heartland. In 1996 Heartland established an employee stock purchase plan. For the year ended December 31, 2003, employees purchased 48,895 shares under the plan. As of December 31, 2003, employees, officers, and directors owned approximately 45% of Heartland's outstanding common stock.

Acquisition and Expansion Strategy

Heartland's strategy is to increase profitability and diversify its market area and asset base by expanding existing subsidiaries and through acquisitions. Heartland continually seeks and evaluates opportunities to establish branches, loan production offices, or other business facilities as a means of expanding its presence in current or new market areas. Heartland acquires established financial services organizations, primarily commercial banks or thrifts, when suitable candidates are identified and acceptable business terms negotiated. Heartland has also formed de novo banking institutions in locations determined to have market potential and suitable management candidates with banking expertise and a philosophy similar to Heartland's.

Heartland has focused on markets with growth potential in the Midwest and Western regions of the United States as it evaluates expansion and acquisition opportunities. In August 2003 Heartland and a group of investors opened Arizona Bank & Trust, a de novo banking operation that plans to open a second location in 2004. Heartland took another step toward expanding its western presence when it signed a definitive agreement in February 2004 to acquire Rocky Mountain Bancorporation, Inc. Rocky Mountain Bancorporation is a \$369 million entity headquartered in Billings, Montana, with eight branch locations throughout the state. This transaction is expected to close in the second quarter of 2004.

Heartland looks for opportunities outside the community banks and thrift categories when its board of directors and management determine the opportunities will provide a desirable strategic fit without posing undue risk. In this regard, Heartland established HTLF Capital Corp. in April 2003. HTLF Capital is an investment banking firm that specializes in taxable and tax-exempt municipal finance, either by providing direct investment on behalf of Heartland and its Bank Subsidiaries or by acting as a financial advisor for a variety of municipal transactions.

Lending Activities

General

The Bank Subsidiaries provide a range of commercial and retail lending services to corporations, partnerships and individuals. These credit activities include agricultural, commercial, residential real estate and consumer loans, as well as loan participations and lines of credit.

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

Commercial Loans

The Bank Subsidiaries have a strong commercial loan base, with significant growth coming from Dubuque Bank and Trust Company, New Mexico Bank & Trust and Wisconsin Community Bank. Dubuque Bank and Trust Company, in particular, continues to be a premier commercial lender in the tri-state area of northeast Iowa, northwest Illinois and southwest Wisconsin. The Bank Subsidiaries' areas of emphasis include, but are not limited to, loans to wholesalers, hotel and real estate developers, manufacturers, building contractors, business services companies and retailers. The Bank Subsidiaries provide a wide range of business loans, including lines of credit for working capital and operational purposes and term loans for the acquisition of equipment and real estate. Loans may be made on an unsecured basis where warranted by the overall financial condition of the borrower. Terms of commercial business loans generally range from one to five years.

Bank Subsidiaries continue to seek opportunities to expand the production of loans guaranteed by U.S. government agencies. Wisconsin Community Bank is designated as a Preferred Lender by the U.S. Small Business Administration (SBA). Wisconsin Community Bank is also the only lender in Wisconsin to be granted USDA Certified Lender status for the USDA Rural Development Business and Industry loan program and was the 4th largest lender in the nation in this program for 2002 and 2003. Management believes that making these guaranteed loans helps its local communities as well as provides Heartland with a source of income and solid future lending relationships as such businesses grow and prosper.

The primary repayment risk for commercial real estate loans is the failure of the business due to economic events or governmental regulations outside of the control of the borrower or lender that negatively impact the future cash flow and market values of the affected properties. In most cases, the Bank Subsidiaries have structured, collateralized, and/or obtained personal guarantees to help assure repayment of these loans.

The Bank Subsidiaries' commercial loans and leases are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Credit support provided by the

borrower for most of these loans and leases and the probability of repayment is based on the liquidation of the pledged collateral and enforcement of a personal guarantee, if any exists. The primary repayment risks of commercial loans and leases are that the cash flows of the borrower may be unpredictable, and the collateral securing these loans may fluctuate in value.

Heartland understands the roles that sound credit skills and a common credit culture play in maintaining quality loan portfolios. As the credit portfolios of the Bank Subsidiaries have continued to grow, several changes have been made in their lending departments resulting in an overall increase in these departments' skill levels. In 2003 Heartland utilized the RMA Diagnostic Assessment to assess credit skills and training needs for over 80 of its credit personnel. Specific individualized training curriculums were established as a result, with training to occur throughout 2004. Heartland also assists all of the member banks' commercial and agricultural lenders in the analysis and underwriting of credit through its staff in the Credit Administration Department. This staff continues to expand as the total loans under management continue to grow.

Commercial lenders interact with their respective boards of directors each month. Heartland also utilizes an internal loan review function to analyze credits of the Bank Subsidiaries and to provide periodic reports to the respective boards of directors. Management has attempted to identify problem loans at an early date and to aggressively seek a resolution of these situations.

Agricultural Loans

Agricultural loans are emphasized by Dubuque Bank and Trust Company, Wisconsin Community Bank's Monroe banking center, and New Mexico Bank and Trust's Clovis banking offices. The projected acquisition of Rocky Mountain Bancorporation will add another Bank Subsidiary that emphasizes agricultural loans, which currently comprise approximately 20% of Rocky Mountain Bancorporation's loan portfolio.

The Bank Subsidiaries that emphasize agricultural loans do so because of their location in or around rural markets. Dubuque Bank and Trust Company maintains its status as one of the largest agricultural lenders in the state of Iowa. Agricultural loans remain balanced in proportion to the rest of Heartland's loan portfolio, constituting approximately 12% of the total loan portfolio at December 31, 2003. The Bank Subsidiaries have concentrated in traditional geographic market areas, with the majority of outstanding agricultural operating and real estate loans to customers located within 60 miles of their main or branch offices. However, in markets such as Dubuque, where Heartland's Bank Subsidiary is the dominant agricultural lender, management is not averse to pursuing agricultural loan customers outside traditional geographic boundaries.

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. The ability of the borrower to repay may be affected by many factors outside of the borrower's control including 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 farm property securing the loan.

The agricultural loan departments work closely with all of their customers, including companies and individual farmers, and review the preparation of 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 once annually. The Bank Subsidiaries also work closely with governmental agencies, including the Farmers Home Administration, to help agricultural customers obtain credit enhancement products such as loan guarantees or interest assistance.

Residential Real Estate Mortgage Loans

Mortgage lending remains a focal point for the Bank Subsidiaries as each of them continues to build real estate lending business. Long-term interest rates remained at historically low levels in 2003, and customers continued to refinance their mortgage loans into fifteen- and thirty-year fixed rate loans. Heartland usually sells these loans into the secondary market but retains servicing on the majority of sold loans. Management believes that mortgage servicing on sold loans provides the Bank Subsidiaries with a relatively steady source of fee income compared to fees generated solely from mortgage origination operations. Moreover, the retention of servicing gives the Bank Subsidiaries the opportunity to

maintain regular contact with mortgage loan customers.

As with agricultural and commercial loans, Heartland encourages the Bank Subsidiaries to participate in lending programs sponsored by U.S. government agencies when justified by market conditions. In the mortgage lending area, Dubuque Bank and Trust Company has taken the lead in this regard. Fannie Mae recognized Dubuque Bank and Trust in 2003 for its participation in the "My Community" program, which is designed to help individuals buy homes who might not otherwise qualify. In 2004, Veterans Administration and Federal Home Administration loans will be offered in all Bank Subsidiary markets.

Consumer Lending

The Bank Subsidiaries' consumer lending departments provide all types of consumer loans including motor vehicle, home improvement, home equity, student loans, credit cards, signature loans, 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.

Citizens Finance Co. specializes in consumer lending and currently serves the consumer credit needs of approximately 4,700 customers in Iowa, Illinois and Wisconsin from its Dubuque, Iowa; Madison and Appleton, Wisconsin; and Loves Park, Illinois offices. Citizens Finance Co. typically lends to borrowers with past credit problems or limited credit histories. Heartland expects to incur a higher level of credit losses on Citizens Finance Co. loans compared to consumer loans originated by the Bank Subsidiaries.

Trust, Investment and Insurance Services

Dubuque Bank and Trust Company, Galena State Bank, First Community Bank and Wisconsin Community Bank have been offering trust and investment services in their respective communities for many years. In 2003, Arizona Bank and Trust joined the list of banks offering trust and investment services. Currently, member bank trust assets exceed \$800 million, the vast majority of which are assets under management. Collectively, the Bank Subsidiaries provide a full complement of trust and investment services for individuals and corporations.

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

Heartland has formed a strategic alliance with Invest Financial Corporation to operate independent securities offices at Dubuque Bank and Trust Company, Galena State Bank and Trust Company, Riverside Community Bank, First Community Bank, Wisconsin Community Bank and New Mexico Bank & Trust. Through Invest Financial Corporation, Heartland offers a full array of investment services including mutual funds, annuities, retirement products, education savings products, brokerage services, employer sponsored plans and insurance products. A complete line of vehicle, property and casualty, life and disability insurance and tax-free annuities are also offered by Heartland through DB&T Insurance.

B. MARKET AREAS

Dubuque Bank and Trust Company and Heartland are located in Dubuque County, Iowa, which encompasses the city of Dubuque and a number of surrounding rural communities. Citizens Finance Co. also operates within this market area, in addition to operating offices in Madison, Wisconsin; Appleton, Wisconsin; and Loves Park, Illinois.

The city of Dubuque is located in northeastern Iowa, on the Mississippi River, approximately 175 miles west of Chicago, Illinois, and approximately 200 miles northeast of Des Moines, Iowa. It is strategically situated at the intersection of the state borders of Iowa, Illinois, and Wisconsin. Based upon the results of the 2000 census, the city of Dubuque had a total population of approximately 58,000.

The principal office of Heartland and Dubuque Bank and Trust Company's main bank currently occupy the same building. Due to growth in the number of employees at both companies, a building was acquired directly across the street from Dubuque Bank and Trust Company's main office to serve as an operations center for Heartland. Renovation of the building began in 2003 and is scheduled for completion in the second quarter of 2004. When complete, the building will offer 60,000 square feet of office space.

In addition to its main banking office, Dubuque Bank and Trust Company operates seven branch offices, all of which are located in Dubuque County. In 2003, Dubuque Bank and Trust Company opened a temporary branch facility on land purchased in a strategically located intersection on the rapidly growing northwest side of Dubuque. Construction of a permanent branch facility on this site is scheduled for completion in the third quarter of 2004. In conjunction with the opening of this new branch, a smaller branch in close proximity to the new location was closed. Additionally, during 2003, Dubuque Bank and Trust Company relocated its branch facility in Farley, Iowa, to a newly constructed building that is more convenient for its customers. As a subsidiary of Dubuque Bank and Trust Company, DB&T Insurance has substantially the same market area as the parent organization.

Galena State Bank is located in Galena, Illinois, which is less than five miles from the Mississippi River, approximately 20 miles east of Dubuque and 155 miles west of Chicago. Galena operates a second office in Stockton, Illinois. Both offices are located in Jo Daviess County, which has a population of approximately 22,000, according to the 2000 census.

First Community Bank's main office is in Keokuk, Iowa, which is located in the southeast corner of Iowa near the borders of Iowa, Missouri, and Illinois. Due to its location, First Community Bank serves customers in the tri-county region of Lee County, Iowa; Hancock County, Illinois; and Clark County, Missouri. Lee, Hancock and Clark Counties have populations of approximately 38,000, 20,000 and 7,400, respectively. First Community Bank has one branch office in Keokuk and another branch in the city of Carthage in Hancock County, Illinois. Keokuk is an industrial community with a population of approximately 11,000.

Riverside Community Bank is located on the northeast edge of Rockford, Illinois, which is approximately 75 miles west of Chicago in Winnebago County. In addition to its main banking office, Riverside Community Bank has two branch offices, all of which are located in the Winnebago County area. Based on the 2000 census, the county had a population of 278,000, and the city of Rockford had a population of 150,000.

Wisconsin Community Bank's main office is located in Cottage Grove, Wisconsin, which is approximately 10 miles east of Madison in Dane County. Wisconsin Community Bank operates two branch offices in Madison suburbs. The Middleton branch was opened in 1998, and an office in Fitchburg was opened in a newly constructed building in March of 2003. According to the 2000 census, Dane County had a population of 427,000, and the village of Cottage Grove had a population of 3,800. Wisconsin Community Bank, opened three offices in Sheboygan, DePere and Eau Claire, Wisconsin during 1999 operating under the name of Wisconsin Business Bank. The Eau Claire office was subsequently sold in the fourth quarter of 2002. The Sheboygan and DePere facilities are located in the northeastern Wisconsin counties of Sheboygan and Brown with populations of 113,000 and 227,000, respectively, according to the 2000 census. In 2003, Wisconsin Community Bank opened a loan production office in Minneapolis, Minnesota, operating under the name of Wisconsin Business Bank. This office focuses on providing government guaranteed financing to businesses located in the Western region of the United States. Wisconsin Community Bank also acquired the Bank One Monroe Wisconsin banking center in July of 1999. The city of Monroe, which is approximately 50 miles southwest of Madison, is located in Green County in south central Wisconsin. According to the 2000 census, Monroe had a population of 11,000, and Green County had a population of 34,000.

New Mexico Bank & Trust operates five offices in or around Albuquerque, New Mexico, in Bernalillo County. Based upon the 2000 census, the county had a population of 557,000, and the city had a population of 449,000. New Mexico Bank & Trust also operates five locations in the New Mexico communities of Clovis, Portales, and Melrose, all located in Curry County. Clovis is located in east central New Mexico, approximately 220 miles from Albuquerque, 100 miles northwest of Lubbock, Texas, and 105 miles southwest of Amarillo, Texas. Clovis had a population of approximately 33,000 according to the 2000 census, and Curry County had a population of 45,000. In 2003, two branch offices were opened in Santa Fe, which is located in Santa Fe County. Santa Fe had a population of approximately 62,000 according to the 2000 census, and Santa Fe County had a population of approximately 129,000.

Arizona Bank & Trust currently operates one office in Mesa, Arizona, which is located 15 miles east of Phoenix. A second office is scheduled to open in the second quarter of 2004 in Chandler, Arizona, which is located in the southern portion of metropolitan Phoenix. Both cities are located in Maricopa County. According to the 2000 census, Mesa's population was 396,375; its current population is 446,033, according to the Mesa Planning Division. Chandler's current population is 217,736, as provided by the City of Chandler Office of Economic Development, compared to 176,581 reported in the 2000 census. The estimated population of Maricopa County in July 2001 was 3,029,150, according to the Arizona Department of Economic Security.

C. COMPETITION

Heartland encounters competition in all areas of its business pursuits. To compete effectively, develop its market base, maintain flexibility, and keep pace with changing economic and social conditions, Heartland continuously refines and develops its products and services. The principal methods of competing in the financial services industry are through price, service, and convenience.

The Bank Subsidiaries' combined market area is highly competitive. Many financial institutions based in the communities surrounding the Bank Subsidiaries actively compete for customers within Heartland's market area. The Bank Subsidiaries also face competition from finance companies, insurance companies, mortgage companies, securities brokerage firms, money market funds, loan production offices, and other providers of financial services. Under the Gramm-Leach-Bliley Act, effective in March 2000, securities firms and insurance companies that elect to become financial holding companies may acquire banks and other financial institutions. The Gramm-Leach-Bliley Act may significantly change the competitive environment in which Heartland and the Bank Subsidiaries conduct business. The financial services industry is also likely to become more competitive as technological advances enable more companies to provide financial services. These technological advances may diminish the importance of depository institutions and other financial intermediaries in the transfer of funds between parties.

Heartland competes for loans principally through the range and quality of the services it provides, interest rates, and loan fees. Heartland believes that its long-standing presence in the community and personal service philosophy enhance its ability to compete favorably in attracting and retaining individual and business customers. Heartland actively solicits deposit-oriented clients and competes for deposits by offering its customers personal attention, professional service and competitive interest rates.

D. EMPLOYEES

At December 31, 2003, Heartland employed 674 full-time equivalent employees. Heartland places a high priority on staff development, which involves extensive training in a variety of areas, including customer service training. New employees are selected based upon their technical skills and customer service capabilities. None of Heartland's employees are covered by a collective bargaining agreement. Heartland offers a variety of employee benefits, and management considers its employee relations to be excellent.

E. INTERNET ACCESS

Heartland maintains an Internet site at www.htlf.com. Heartland offers its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and other reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act free of charge from its web site as soon as reasonably practical after meeting the electronic filing requirements of the Securities and Exchange Commission.

F. ACCOUNTING STANDARDS

Effect of New Financial Accounting Standards—In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 143 (FAS 143), "Accounting for Asset Retirement Obligations," which addresses the recognition and measurement of obligations with the retirement of tangible long-lived assets. FAS 143 was effective January 1, 2003, with early adoption permitted. Heartland adopted FAS 143 effective January 1, 2003, and the adoption of the Statement did not have a material effect on the financial statements.

In June 2002, the FASB issued Statement No. 146 (FAS 146), "Accounting for Costs Associated with Exit or Disposal

Activities," which addresses financial accounting and reporting of costs associated with exit or disposal activities. Under FAS 146, such costs will be recognized when the liability is incurred, rather than at the date of the commitment to an exit plan. FAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with early adoption permitted. Heartland adopted FAS 146 on January 1, 2003 and the adoption of the Statement did not have a material effect on the financial statements.

In October 2002, the FASB issued Statement No. 147 (FAS 147), "Acquisitions of Certain Financial Institutions," which amends Statement No. 72 (FAS 72), "Accounting for Certain Acquisitions of Banking or Thrift Institutions," and no longer requires the separate recognition and subsequent amortization of goodwill. FAS 147 also amends FAS 144 to include in its scope core deposit intangibles. Heartland adopted FAS 147 on September 30, 2002. As of December 31, 2003 and December 31, 2002, Heartland had unamortized goodwill in the amount of \$20.2 and \$16.1 million, respectively, and unamortized core deposit premiums in the amount of \$2.0 million and 2.4 million, respectively. On June 30, 2003, Heartland completed the buyout of all minority stockholders of New Mexico Bank & Trust as agreed upon during its formation in 1998. This transaction resulted in a \$4.1 million increase in goodwill. Amortization expense related to goodwill was \$1.1 million for the year ended December 31, 2001. Amortization expense related to core deposit intangible assets was \$404, \$495 and \$615 thousand for the years ended December 31, 2003, 2002 and 2001, respectively.

The table below reconciles reported earnings for the years ended December 31, 2003, 2002 and 2001, to "adjusted" earnings, which exclude goodwill amortization.

ADJUSTED EARNINGS SCHEDULE

(Dollars in thousands, except per share data)

	Year ended December 31, 2003	Year ended December 31, 2002	Year ended December 31, 2001		
	Reported Earnings	Reported Earnings	Reported Earnings	Goodwill Amortization	"Adjusted" Earnings
Income from continuing operations before income taxes	\$ 25,856	\$ 24,113	\$ 16,659	\$ 1,057	\$ 17,716
Income taxes	8,137	7,523	5,530	-	5,530
Income from continuing operations	\$ 17,719	\$ 16,590	\$ 11,129	\$ 1,057	\$ 12,186
Net income	\$ 17,719	\$ 18,867	\$ 11,414	\$ 1,057	\$ 12,471
Earnings per share before effect of change in accounting principle	\$ 1.18	\$ 1.13	\$ 0.77	\$ 0.07	\$ 0.85
Earnings per common share	\$ 1.18	\$ 1.28	\$ 0.79	\$ 0.07	\$ 0.85
Earnings per share-diluted before effect of change in accounting principle	\$ 1.16	\$ 1.12	\$ 0.77	\$ 0.07	\$ 0.84
Earnings per share-diluted	\$ 1.16	\$ 1.28	\$ 0.78	\$ 0.07	\$ 0.84

In June 2002, the FASB issued Statement No. 146 (FAS 146), "Accounting for Costs Associated with Exit or Disposal Activities," which addresses financial accounting and reporting of costs associated with exit or disposal activities. Under FAS 146, such costs will be recognized when the liability is incurred, rather than at the date of the commitment to an exit plan. FAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with early adoption permitted. Heartland adopted FAS 146 on January 1, 2003 and the adoption of the Statement did not have a material effect on the financial statements.

In November of 2002, the FASB issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This Interpretation describes

the disclosures to be made by a guarantor in interim and annual financial statements about obligations under certain guarantees the guarantor has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. Heartland adopted FIN 45 effective January 1, 2003, and the adoption of FIN 45 did not have a material effect on the financial statements.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities " and, in December 2003, issued Revised Interpretation No. 46 (FIN 46R), "Consolidation of Variable Interest Entities," which replaced FIN 46. Heartland adopted the disclosure provisions of FIN 46 effective December 31, 2002. On February 1, 2003, Heartland adopted the recognition and measurement of provisions of FIN 46 for variable interest entities (VIE's) formed after January 31, 2003, and, on December 31, 2003, Heartland adopted FIN 46R. Heartland has no newly formed variable interest entity subject to the provisions of FIN 46. The adoption of FIN 46 and FIN 46R did not have a material effect on the consolidated financial statements of Heartland.

In April 2003, the FASB issued Statement No. 149 (FAS 149), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." FAS 149 amends FAS 133, "Accounting for Derivative Instruments and Hedging Activities," for decisions made (1) as part of the Derivatives Implementation Group process that effectively required amendments to FAS 133, (2) in connection with other FASB projects dealing with financial instruments, and (3) in connection with the implementation issues raised in relation to the application of the definition of a derivative, in particular, the meaning of "an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors," the meaning of "underlying" and the characteristics of a derivative that contains financing components. FAS 149 is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. Heartland adopted FAS 149 on July 1, 2003, and such adoption did not have a material effect on its financial position or results of operations.

In May 2003, the FASB issued Statement No. 150 (FAS 150), "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This Statement was effective for financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatory redeemable financial instruments of nonpublic entities. On October 29, 2003, the FASB voted to defer for an indefinite period the application of the guidance in FAS 150, to non-controlling interests that are classified as equity in the financial statements of a subsidiary but would be classified as a liability on the parent's financial statements. The adoption of the sections of this Statement that have not been deferred did not have a significant impact on Heartland's financial condition or results of operations. The section noted above that has been deferred indefinitely is not expected to have a significant impact on Heartland's financial condition or results of operations.

G. 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, including the Iowa Superintendent of Banking (the "Superintendent"), the Illinois Commissioner of Banks and Real Estate (the "Commissioner"), the Division of Banking of the Wisconsin Department of Financial Institutions (the "Wisconsin DFI"), the New Mexico Financial Institutions Division (the "New Mexico FID"), the Arizona State Banking Department (the "Arizona Department"), the Board of Governors of the Federal Reserve System (the "Federal Reserve") and the Federal Deposit Insurance Corporation (the "FDIC"). Furthermore, taxation laws administered by the Internal Revenue Service and state taxing authorities and securities laws administered by the Securities and Exchange Commission (the "SEC") and state securities authorities have an impact on the business of Heartland. The effect of these statutes, regulations and regulatory policies may be significant,

and cannot be predicted with a high degree of certainty.

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

The following is a summary of the material elements of the regulatory framework that applies to Heartland and its subsidiaries. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. As such, the following is qualified in its entirety by reference to applicable law. Any change in statutes, regulations or regulatory policies may have a material effect on the business of Heartland and its subsidiaries.

Recent Regulatory Developments

National Bank Preemption. On January 7, 2004, the Office of the Comptroller of the Currency (the "OCC") issued two final rules that clarify the federal character of the national banking system. The first rule provides that, except where made applicable by federal law, state laws that obstruct, impair or condition national banks' ability to fully exercise their deposit-taking, lending and operational powers are not applicable to national banks. That rule further provides that the following types of state laws apply to national banks to the extent that they only incidentally affect the exercise of national banks' deposit-taking, lending and operational powers: contract, criminal, taxation, tort, zoning and laws relating to certain homestead rights, rights to collect debts, acquisitions and transfers of property and other laws as determined to apply to national banks by the OCC. The second rule affirms that, under federal law, with some exceptions, the OCC has exclusive visitorial authority (the power to inspect, examine, supervise and regulate) with respect to the content and conduct of activities authorized for national banks. These controversial rules give national banks, especially those that operate in multiple states, a significant competitive advantage over state-chartered banks and are therefore likely to be challenged by individuals and organizations that represent the interests of individual states and state-chartered banks. Both the U.S. House Committee on Financial Services and the New York Attorney General have already initiated such challenges.

FACT Act. On December 4, 2003, President Bush signed into law the Fair and Accurate Credit Transactions Act of 2003 (the "FACT Act"), which contains numerous amendments to the Fair Credit Reporting Act relating to matters including identity theft and privacy. Among its other provisions, the FACT Act requires financial institutions: (i) to establish an identity theft prevention program; (ii) to enhance the accuracy and integrity of information furnished to consumer reporting agencies; and (iii) to allow customers to prevent financial institution affiliates from using, for marketing solicitation purposes, transaction and experience information about the customers received from the financial institution. The FACT Act also requires the federal banking regulators, and certain other agencies, to promulgate regulations to implement its provisions. The various provisions of the FACT Act contain different effective dates including March 31, 2004, for those provisions of the FACT Act that do not require significant changes to business procedures and December 1, 2004, for certain other provisions that will require significant business procedure changes.

General . Heartland, as the sole stockholder of Dubuque Bank and Trust Company, Galena State Bank, Riverside Community Bank, Wisconsin Community Bank, First Community Bank and New Mexico Bank & Trust and the controlling stockholder of Arizona Bank & Trust, is a bank holding company. As a bank holding company, Heartland is registered with, and is subject to regulation by, the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the "BHCA"). In accordance with Federal Reserve policy, Heartland is expected to act as a source of financial strength to the Bank Subsidiaries and to commit resources to support the Bank Subsidiaries in circumstances where Heartland might not otherwise do so. Under the BHCA, Heartland is subject to periodic examination by the Federal Reserve. Heartland is also required to file with the Federal Reserve periodic reports of its 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 of another bank or 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) and state laws that require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company.

The BHCA generally prohibits Heartland from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve to be "so closely related to banking ... as to be a proper incident thereto." This authority would permit Heartland to engage in a variety of banking-related businesses, including the operation of a thrift, a consumer finance company, equipment leasing and fleet management, a computer service bureau (including software development), mortgage banking and brokerage. The BHCA generally does not place territorial restrictions on the domestic activities of non-bank subsidiaries of bank holding companies.

Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance underwriting and sales, merchant banking and any other activity that the Federal Reserve, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature, incidental to any such financial activity or complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. As of the date of this filing, Heartland has neither applied for nor received approval to operate as a financial holding company.

Federal law also prohibits any person or company from acquiring "control" of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. "Control" is conclusively presumed to exist upon the acquisition of 25% or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances at 10% ownership.

Capital Requirements. Bank holding companies are required to maintain minimum levels of capital in accordance with Federal Reserve capital adequacy guidelines. If capital levels fall below the minimum required levels, a bank holding company, among other things, may be denied approval to acquire or establish additional banks or non-bank businesses.

The Federal Reserve's capital guidelines establish the following minimum regulatory capital requirements for bank holding companies: (i) a risk-based requirement expressed as a percentage of total assets weighted according to risk; and (ii) a leverage requirement expressed as a percentage of total assets. The risk-based requirement consists of a minimum ratio of total capital to total risk-weighted assets of 8% and a minimum ratio of Tier 1 capital to total risk-weighted assets of 4%. The leverage requirement consists of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly rated companies, with a minimum requirement of 4% for all others. For purposes of these capital standards, Tier 1 capital consists primarily of permanent stockholders' equity less intangible assets (other than certain loan servicing rights and purchased credit card relationships). Total capital consists primarily of Tier 1 capital plus certain other debt and equity instruments that do not qualify as Tier 1 capital and a portion of the company's allowance for loan and lease losses.

The risk-based and leverage standards described above are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual banking organizations. For example, the Federal Reserve's capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (*i.e.*, Tier 1 capital less all intangible assets), well above the minimum levels. As of December 31, 2003, Heartland had regulatory capital in excess of the Federal

Reserve's minimum requirements.

Dividend Payments. Heartland's ability to pay dividends to its shareholders may be affected by both general corporate law considerations and policies of the Federal Reserve applicable to bank holding companies. As a Delaware corporation, Heartland is subject to the limitations of the Delaware General Corporation Law (the "DGCL"), which allows Heartland to pay dividends only out of its surplus (as defined and computed in accordance with the provisions of the DGCL) or if Heartland has no such surplus, out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Additionally, policies of the Federal Reserve caution that a bank holding company should not pay cash dividends that exceed its net income or that can only be funded in ways that weaken the bank holding company's financial health, such as by borrowing. 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.

Federal Securities Regulation. Heartland's common stock is registered with the SEC under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Consequently, Heartland is subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act.

The Bank Subsidiaries

General. Dubuque Bank and Trust Company and First Community Bank are Iowa-chartered banks. The deposit accounts of Dubuque Bank and Trust Company are insured by the FDIC's Bank Insurance Fund ("BIF"), and the deposit accounts of First Community Bank are insured by the FDIC's Savings Association Insurance Fund ("SAIF"). As Iowa-chartered banks, Dubuque Bank and Trust Company and First Community Bank are subject to the examination, supervision, reporting and enforcement requirements of the Superintendent, the chartering authority for Iowa banks, and the FDIC, designated by federal law as the primary federal regulator of state-chartered FDIC-insured banks that, like Dubuque Bank and Trust Company and First Community Bank, are not members of the Federal Reserve System ("non-member banks").

Galena State Bank and Riverside Community Bank are Illinois-chartered banks, the deposit accounts of which are insured by the BIF. As Illinois-chartered banks, Galena State Bank and Riverside Community Bank are subject to the examination, supervision, reporting and enforcement requirements of the Commissioner, the chartering authority for Illinois banks, and the FDIC, as the primary federal regulator of state-chartered FDIC-insured non-member banks.

Wisconsin Community Bank is a Wisconsin-chartered bank, the deposit accounts of which are insured by the BIF. As a Wisconsin-chartered bank, Wisconsin Community Bank is subject to the examination, supervision, reporting and enforcement requirements of the Wisconsin DFI, the chartering authority for Wisconsin banks, and the FDIC, as the primary federal regulator of state-chartered FDIC-insured non-member banks.

New Mexico Bank & Trust is a New Mexico-chartered bank, the deposit accounts of which are insured by the BIF. 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, and the FDIC, as the primary federal regulator of state-chartered FDIC-insured non-member banks.

Arizona Bank & Trust is an Arizona-chartered bank, the deposit accounts of which are insured by the BIF. 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, and the FDIC, as the primary federal regulator of state-chartered FDIC-insured non-member banks.

Deposit Insurance. As FDIC-insured institutions, the Bank Subsidiaries are required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system under which all insured depository institutions are placed into one of nine categories and assessed insurance premiums based upon their respective levels of capital and results of supervisory evaluations. Institutions classified as well-capitalized (as defined by the FDIC) and considered healthy pay the lowest premium while institutions that are less than adequately capitalized (as defined by the FDIC) and considered of substantial supervisory concern pay the highest premium. Risk classification of all insured

institutions is made by the FDIC for each semi-annual assessment period.

During the year ended December 31, 2003, both BIF assessments ranged from 0% of deposits to 0.27% of deposits. For the semi-annual assessment period beginning January 1, 2004, BIF assessment rates will continue to range from 0% of deposits to 0.27% of deposits.

FICO Assessments. Since 1987, a portion of the deposit insurance assessments paid by members of the FDIC's SAIF has been used to cover interest payments due on the outstanding obligations of the Financing Corporation ("FICO"). FICO was created in 1987 to finance the recapitalization of the Federal Savings and Loan Insurance Corporation, the SAIF's predecessor insurance fund. As a result of federal legislation enacted in 1996, beginning as of January 1, 1997, both SAIF members and BIF members became subject to assessments to cover the interest payments on outstanding FICO obligations until the final maturity of such obligations in 2019. These FICO assessments are in addition to amounts assessed by the FDIC for deposit insurance. During the year ended December 31, 2003, the FICO assessment rate for BIF and SAIF members was approximately 0.02% of deposits.

Supervisory Assessments. Each of the Bank Subsidiaries is required to pay supervisory assessments to its respective state banking regulator to fund the operations of that agency. In general, the amount of the assessment is calculated on the basis of each institution's total assets. During the year ended December 31, 2003, the Bank Subsidiaries paid supervisory assessments totaling \$185 thousand.

Capital Requirements. Banks are generally required to maintain capital levels in excess of other businesses. The FDIC has established the following minimum capital standards for state-chartered insured non-member banks, such as the Bank Subsidiaries: (i) a leverage requirement consisting of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly-rated banks with a minimum requirement of at least 4% for all others; and (ii) a risk-based capital requirement consisting of a minimum ratio of total capital to total risk-weighted assets of 8% and a minimum ratio of Tier 1 capital to total risk-weighted assets of 4%. For purposes of these capital standards, the components of Tier 1 capital and total capital are the same as those for bank holding companies discussed above.

The capital requirements described above are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual institutions. For example, regulations of the FDIC provide that additional capital may be required to take adequate account of, among other things, interest rate risk or the risks posed by concentrations of credit, nontraditional activities or securities trading activities.

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 that is "well-capitalized" 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 all of its financial institution subsidiaries be "well-capitalized." Under the regulations of the FDIC, in order to be "well-capitalized" a financial institution must maintain a ratio of total capital to total risk-weighted assets of 10% or greater, a ratio of Tier 1 capital to total risk-weighted assets of 6% or greater and a ratio of Tier 1 capital to total assets of 5% or greater.

Federal law also provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized," in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: (i) requiring the institution to submit a capital restoration plan; (ii) limiting the institution's asset growth and restricting its activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; (iv) restricting transactions between the institution and its affiliates; (v) restricting the interest rate the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring that senior executive officers or directors be dismissed; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution. As of December 31, 2003: (i) none of the Bank Subsidiaries was subject to a directive from the FDIC to increase its capital to an amount in excess of the minimum regulatory capital requirements; (ii) each of the

Bank Subsidiaries exceeded its minimum regulatory capital requirements under FDIC capital adequacy guidelines; and (iii) each of the Bank Subsidiaries was "well-capitalized," as defined by FDIC regulations.

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

Dividend Payments. The primary source of funds for Heartland is dividends from the Bank Subsidiaries. In general, under applicable law, none of the Bank Subsidiaries may pay dividends in excess of its respective undivided profits.

The payment of dividends by any financial institution or its holding company is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, each of the Bank Subsidiaries exceeded its minimum capital requirements under applicable guidelines as of December 31, 2003. Approximately \$57.1 million was available to be paid as dividends by the Bank Subsidiaries as of December 31, 2003. Notwithstanding the availability of funds for dividends, however, the FDIC may prohibit the payment of any dividends by the Bank Subsidiaries if the FDIC determines such payment would constitute an unsafe or unsound practice.

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

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

Branching Authority. Until 2001, an Iowa-chartered bank, such as Dubuque Bank and Trust Company or First Community Bank, could only establish a branch office within the boundaries of the counties contiguous to, or cornering upon, the county in which the principal place of business of the bank was located. Further, Iowa law prohibited an Iowa bank from establishing new branches in a municipality other than the municipality in which the bank's principal place of business was located, if another bank already operated one or more offices in the municipality in which the branch was to be located. In 2001, the Iowa Banking Act was amended to allow Iowa-chartered banks to establish up to three branches at any location in Iowa, subject to regulatory approval, in addition to any branches established under the branching rules described above. Beginning July 1, 2004, Iowa-chartered banks will be permitted to establish any number of branches at any location in Iowa, subject to regulatory approval.

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. The establishment of new interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) is permitted only in those few states that authorize such expansion.

State and national banks are allowed to establish interstate branch networks through acquisitions of other banks, subject to certain conditions, including certain limitations on the aggregate amount of deposits that may be held by the surviving bank and all of its insured depository institution affiliates. The establishment of new interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) is allowed only if specifically authorized by state law. The laws of Iowa, Illinois, Wisconsin, New Mexico and Arizona permit interstate mergers subject to certain conditions, including a condition requiring an Iowa, Illinois, Wisconsin, New Mexico or Arizona bank, respectively, involved in an interstate merger to have been in existence and continuous operation for more than five years.

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

Federal Reserve System. Federal Reserve regulations, as presently in effect, require depository institutions to maintain non-interest earning reserves against their transaction accounts (primarily NOW and regular checking accounts), as follows: for transaction accounts aggregating \$45.4 million or less, the reserve requirement is 3% of total transaction accounts; and for transaction accounts aggregating in excess of \$45.4 million, the reserve requirement is \$1.164 million plus 10% of the aggregate amount of total transaction accounts in excess of \$45.4 million. The first \$6.6 million of otherwise reservable balances are exempted from the reserve requirements. These reserve requirements are subject to annual adjustment by the Federal Reserve. The Bank Subsidiaries are in compliance with the foregoing requirements.

H. GOVERNMENTAL MONETARY POLICY AND ECONOMIC CONDITIONS

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

ITEM 2.

PROPERTIES

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

Name and Main Facility Address	Main Facility Square Footage	Main Facility Owned or Leased	Number of Locations
<i>Banking Subsidiaries</i>			
Dubuque Bank and Trust Company			

1398 Central Avenue Dubuque, IA 52001	59,500	Owned	8
Galena State Bank 971 Gear Street Galena, IL 61036	18,000	Owned	3
Riverside Community Bank 6855 E. Riverside Blvd. Rockford, IL 60114	8,000	Owned	3
First Community Bank 320 Concert Street Keokuk, IA 52632	6,000	Owned	3
Wisconsin Community Bank 580 North Main Street Cottage Grove, WI 53527	6,000	Owned	7
New Mexico Bank & Trust 320 Gold NW Albuquerque, NM 87102	11,400	Lease term through 2006	12
Arizona Bank & Trust 1331 W. Southern Avenue Mesa, AZ 85202	4,400	Owned	1

Name and Main Facility Address	Main Facility Owned or Leased	Number of Locations
<i>Non-Bank Subsidiaries</i>		
Citizens Finance Co. 1275 Main Street Dubuque, IA 52001	Leased from DB&T	4
ULTEA, Inc. 2976 Triverton Pike Madison, WI 53711	Leased	3
HTLF Capital Corp. World Trade Center 1625 Broadway Denver, CO 80202	Leased	2

The principal office of Heartland is located in Dubuque Bank and Trust Company's main office.

ITEM 3.

LEGAL PROCEEDINGS

There are no pending legal proceedings, other than ordinary routine litigation incidental to the business of banking, to which Heartland or any of its subsidiaries is a party or of which any of their property is the subject. While the ultimate outcome of current legal proceedings cannot be predicted with certainty, it is the opinion of management that the

resolution of these legal actions should not have a material effect on Heartland's consolidated financial position or results of operations.

ITEM 4.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted during the fourth quarter of 2003 to a vote of security holders.

PART II

ITEM 5.

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Heartland's common stock was held by approximately 960 stockholders of record as of March 12, 2004, and has been quoted on the Nasdaq National Market System since May 2003 under the symbol "HTLF."

For the periods indicated, the following table shows the range of reported prices per share of Heartland's common stock in the Nasdaq National Market System or over-the-counter market. These quotations represent inter-dealer prices without retail markups, markdowns, or commissions and do not necessarily represent actual transactions and have been adjusted to reflect previous stock splits.

Heartland Common Stock

Calendar Quarter	High	Low
2002:		
First	\$ 9.33	\$ 8.54
Second	10.00	9.06
Third	10.19	9.60
Fourth	11.79	10.00
2003:		
First	\$ 15.33	\$ 11.50
Second	21.53	15.27
Third	21.26	18.57
Fourth	20.63	18.53

Cash dividends have been declared by Heartland quarterly during the past two years ending December 31, 2003. The following table sets forth the cash dividends per share paid on Heartland's common stock for the past two years as adjusted for previous stock splits:

Calendar Quarter	2003	2002
First	\$.07	\$.07
Second	.07	.07
Third	.07	.07
Fourth	.07	.07

Heartland has paid dividends as set forth in the table above. Heartland's ability to pay dividends to shareholders is largely dependent upon the dividends it receives from the bank subsidiaries, and the banks are subject to regulatory limitations on the amount of cash dividends they may pay. See "Business – Supervision and Regulation – Heartland – Dividend Payments" and "Business – Supervision and Regulation - The Bank Subsidiaries – Dividend Payments" for a more detailed description of these limitations.

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

ITEM 6.

SELECTED FINANCIAL DATA

For the years ended December 31, 2003, 2002, 2001, 2000, and 1999

(Dollars in thousands, except per share data)

	2003	2002	2001	2000	1999
STATEMENT OF INCOME DATA					
Interest income	\$ 99,517	\$ 100,012	\$ 107,609	\$ 102,535	\$ 74,119
Interest expense	38,327	42,332	58,620	58,678	40,830
Net interest income	61,190	57,680	48,989	43,857	33,289
Provision for loan and lease losses	4,183	3,553	4,258	2,976	2,550
Net interest income after provision for loan and lease losses	57,007	54,127	44,731	40,881	30,739
Noninterest income	36,541	30,645	28,620	25,721	24,426
Noninterest expense	67,692	60,659	56,692	52,812	43,574
Income taxes	8,137	7,523	5,530	4,211	3,239
Income from continuing operations	17,719	16,590	11,129	9,579	8,352
Discontinued operations:					
Income (loss) from operations of discontinued branch (including gain on sale of \$2,602)	-	3,751	469	12	(210)
Income taxes	-	1,474	184	5	(83)
Income (loss) from discontinued operations	-	2,277	285	7	(127)
Net income	\$ 17,719	\$ 18,867	\$ 11,414	\$ 9,586	\$ 8,225

PER COMMON SHARE DATA ¹

Net income - diluted	1.16	1.28	0.78	0.65	0.56
Income from continuing operations - diluted ²	1.16	1.12	0.76	0.65	0.57
Adjusted net income - diluted ³	1.16	1.28	0.85	0.73	0.59
Adjusted income from continuing operations - diluted ⁴	1.16	1.12	0.84	0.73	0.61
Cash dividends	0.27	0.27	0.25	0.24	0.23
Dividend payout ratio	23.09%	20.81%	31.19%	36.15%	39.47%
Book value	\$ 9.29	\$ 8.40	\$ 7.37	\$ 6.67	\$ 6.02
Weighted average shares outstanding	14,984,472	14,687,324	14,403,780	14,442,057	14,332,791

BALANCE SHEET DATA

Investments and federal funds sold	\$ 451,753	\$ 424,514	\$ 349,417	\$ 274,365	\$ 213,452
Total loans and leases, net of unearned	1,348,227	1,175,236	1,105,205	1,042,096	835,146
Allowance for loan and lease losses	18,490	16,091	14,660	13,592	10,844
Total assets	2,018,366	1,785,979	1,644,064	1,466,387	1,184,147
Total deposits	1,492,488	1,337,985	1,205,159	1,101,313	869,659
Long-term obligations	173,958	161,379	143,789	102,856	105,737
Stockholders' equity	140,923	124,041	107,090	96,146	86,573

EARNINGS PERFORMANCE DATA

Return on average total assets	0.95%	1.13%	0.72%	0.70%	0.78%
Return on average stockholders' equity	13.46	16.44	11.32	10.69	9.61
Net interest margin ratio ^{2, 5}	3.79	4.04	3.67	3.74	3.64

Earnings to fixed charges:

Excluding interest on deposits	3.37x	3.28x	2.27x	1.87x	2.18x
Including interest on deposits	1.67	1.57	1.28	1.23	1.28

ASSET QUALITY RATIOS

Nonperforming assets to total assets	0.32%	0.29%	0.52%	0.51%	0.19%
Non performing loans and leases to total loans and leases	0.41	0.38	0.73	0.65	0.20
Net loan and lease charge-offs to average loans and leases	0.14	0.16	0.30	0.17	0.06
Allowance for loan and lease losses to total loans and leases	1.37%	1.37%	1.33%	1.30%	1.30%
Allowance for loan and lease losses to nonperforming loans and leases	333.11	358.77	180.47	201.60	657.49

CAPITAL RATIOS

Average equity to average assets	7.03%	6.86%	6.47%	6.54%	8.12%
Total capital to risk-adjusted assets	12.42	11.86	10.89	9.90	11.68
Tier 1 leverage	8.07	8.24	7.53	7.25	8.85

¹ Restated to reflect the three-for-two stock split effected in the form of a dividend on December 29, 2003.

² Excludes the discontinued operations of our Eau Claire branch and the related gain on sale in the fourth quarter of 2002 .

³ Excludes goodwill amortization discontinued with the adoption of FAS 142 on January 1, 2002, and the adoption of FAS 147 on September 30, 2002.

⁴ Excludes goodwill amortization discontinued with the adoption of FAS 142 on January 1, 2002, and the adoption of FAS 147 on September 30, 2002, and the discontinued operations of our Eau Claire branch and the related gain on sale in the fourth quarter of 2002.

⁵ Tax equivalent using a 34% tax rate.

ITEM 7.**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following presents management's discussion and analysis of the consolidated financial condition and results of operations of Heartland Financial USA, Inc. ("Heartland") as of the dates and for the periods indicated. This discussion should be read in conjunction with the Selected Financial Data, Heartland's Consolidated Financial Statements and the Notes thereto and other financial data appearing elsewhere in this report. The consolidated financial statements include the accounts of Heartland and its subsidiaries. All of Heartland's subsidiaries are wholly-owned except for Arizona Bank & Trust, of which Heartland was an 86% owner, and WCB Mortgage, LLC, of which Heartland was a 55% owner on December 31, 2003.

SAFE HARBOR STATEMENT

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

Heartland's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations and future prospects of Heartland and its subsidiaries include, but are not limited to, the following:

- The strength of the United States economy in general and the strength of the local economies in which Heartland conducts its operations which may be less favorable than expected and may result in, among other things, a deterioration in the credit quality and value of Heartland's assets.

- The economic impact of past and any future terrorist threats and attacks, acts of war or threats thereof, and the response of the United States to any such threats and attacks.
- The effects of, and changes in, federal, state and local laws, regulations and policies affecting banking, securities, insurance and monetary and financial matters.
- The effects of changes in interest rates (including the effects of changes in the rate of prepayments of Heartland's assets) and the policies of the Board of Governors of the Federal Reserve System.
- The ability of Heartland to compete with other financial institutions as effectively as Heartland currently intends due to increases in competitive pressures in the financial services sector.
- The inability of Heartland to obtain new customers and to retain existing customers.
- The timely development and acceptance of products and services, including products and services offered through alternative delivery channels such as the Internet.
- Technological changes implemented by Heartland and by other parties, including third party vendors, which may be more difficult or more expensive than anticipated or which may have unforeseen consequences to Heartland and its customers.
- The ability of Heartland to develop and maintain secure and reliable electronic systems.
- The ability of Heartland to retain key executives and employees and the difficulty that Heartland may experience in replacing key executives and employees in an effective manner.
- Consumer spending and saving habits which may change in a manner that affects Heartland's business adversely.
- Business combinations and the integration of acquired businesses may be more difficult or expensive than expected.
- The costs, effects and outcomes of existing or future litigation.
- Changes in accounting policies and practices, as may be adopted by state and federal regulatory agencies and the Financial Accounting Standards Board.
- The ability of Heartland to manage the risks associated with the foregoing as well as anticipated.

These risks and uncertainties should be considered in evaluating forward-looking statements, and undue reliance should not be placed on such statements. Additional information concerning Heartland and its business, including other factors that could materially affect Heartland's financial results, is included in Heartland's filings with the Securities and Exchange Commission.

OVERVIEW

Heartland is a diversified financial services holding company providing full-service community banking through seven banking subsidiaries with a total of 37 banking locations in Iowa, Illinois, Wisconsin, New Mexico and Arizona. During the first quarter of 2004, Heartland entered into an agreement to acquire a bank in Montana that has eight locations. In addition, Heartland has separate subsidiaries in the consumer finance, vehicle leasing/fleet management, insurance and investment management businesses. Heartland's primary strategy is to balance its focus on increasing profitability with asset growth and diversification through acquisitions, de novo bank formations, branch openings and expansion into non-bank subsidiary activities.

Heartland's 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, fees and gains on loans, rental income on operating leases and trust income, also affects Heartland's results of operations. Heartland's principal operating expenses, aside from interest expense, consist of compensation and employee benefits, occupancy and equipment costs, depreciation on equipment under operating leases and provision for loan and lease losses.

Heartland has a stated goal of doubling earnings and assets every five to seven years. The year 2003 represented the fifth year of Heartland's latest growth plan. We achieved our asset goal and expect to accomplish our earnings goal very early in 2004. During the last five years, we have expanded into nine new markets with seventeen bank offices. For the year ended December 31, 2003, income from continuing operations increased 7% to \$17.7 million, or \$1.16 per diluted share, compared to \$16.6 million, or \$1.12 per diluted share, in the year 2002. Total net income was \$17.7 million, or \$1.16 per diluted share, during the year 2003 compared to \$18.9 million, or \$1.28 per diluted share, in the year 2002. Return on average equity was 13.46% and return on average assets was .95% for the year 2003 compared to 16.44% and 1.13%, respectively, for the year 2002. The Eau Claire branch of Wisconsin Community Bank, a bank subsidiary of Heartland, was sold effective December 15, 2002. The contribution of this discontinued operation to net income during the year 2002 was approximately \$2.3 million or \$0.16 per diluted share, which includes the \$1.6 million gain on disposal during the fourth quarter.

A major contributor to improved earnings on continuing operations during 2003 was the \$5.9 million or 19% growth in noninterest income. Securities gains and losses, including impairment losses on equity securities and trading account securities gains and losses, comprised \$2.0 million of this increase and valuation adjustments on mortgage servicing rights were responsible for \$807 thousand. Exclusive of these components, noninterest income grew \$3.1 million or 10%, primarily as a result of additional gains on sale of loans. Also contributing to the improved earnings in 2003 was the \$3.5 million or 6% increase in net interest margin. This additional net interest income resulted from growth in earnings assets and a reduction in the balances retained in fed funds and other short-term investments. Average earning assets from continuing operations grew from \$1.467 billion during the year 2002 to \$1.671 billion during the year 2003, a \$204.2 million or 14% increase. Noninterest expense increased \$7.0 million or 12% during 2003, reflective of increased costs related to the opening of offices in the last twelve months in Santa Fe, New Mexico; Fitchburg, Wisconsin; and Mesa, Arizona as well as the formation of HTLF Capital Corp., an investment banking firm headquartered in Denver, Colorado.

At December 31, 2003, Heartland was extremely pleased to have reached another milestone as total assets exceeded \$2 billion. Total assets grew \$232.4 million or 13% since year-end 2002 despite a difficult economic environment, evidencing Heartland's commitment to growing strong customer relationships. Net loans and leases were \$1.330 billion and deposits were \$1.492 billion at the end of 2003, an increase of 15% and 12%, respectively, since year-end 2002.

The year 2002 was the third consecutive year Heartland was able to record double-digit growth in earnings. Net income increased \$7.5 million or 65% when compared to 2001. Return on common equity was 16.44% and return on assets was 1.13%. Exclusive of the Eau Claire branch, income from continuing operations totaled \$16.6 million, or \$1.12 on a diluted per common share basis, compared to \$11.1 million, or \$.76 on a diluted per common share basis, during 2001, an increase of \$5.5 million or 49%. The Eau Claire branch sale allowed Heartland to redirect assets to markets where the assets were more productively and profitably employed.

The largest contributor to the improved earnings during 2002 was net interest income, which grew \$8.7 million or 18%. Average earning assets from continuing operations rose from \$1.363 billion during 2001 to \$1.467 billion during 2002, a change of \$103.2 million or 8%. Additionally, noninterest income experienced a \$2.9 million or 10% increase, exclusive of securities gains and losses, including impairment losses on equity securities and trading account securities gains and losses, and valuation adjustments on mortgage servicing rights. In addition to gains on sale of loans, the other noninterest income category to reflect significant improvement was service charges and fees. Noninterest expense was held to a \$4.0 million or 7% increase.

Heartland's adoption of the provisions of Statement of Financial Accounting Standards ("FAS") No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002, discontinued the amortization of \$9.5 million in unamortized goodwill. Heartland's adoption of the provisions of FAS No. 147, "Acquisitions of Certain Financial Institutions," on September 30, 2002, discontinued the amortization of \$6.5 million in unamortized other intangibles retroactively to January 1, 2002. The amount of amortization expense recorded during 2001 on this goodwill and other intangibles was \$1.1 million, or \$.08 on a diluted per common share basis.

During the year 2002, total assets grew \$142 million or 9% since year-end 2001 and the majority of this growth occurred during the last half of the year. Loans and leases were \$1.175 billion and deposits were \$1.338 billion at the end of 2002, an increase of 6% and 11%, respectively, since year-end 2001.

CRITICAL ACCOUNTING POLICIES

The process utilized by Heartland to estimate the adequacy of the allowance for loan and lease losses is considered a critical accounting practice for Heartland. The allowance for loan and lease losses represents management’s estimate of identified and unidentified losses in the existing loan portfolio. Thus, the accuracy of this estimate could have a material impact on Heartland’s earnings. The adequacy of the allowance for loan and lease losses is determined using factors that include the overall composition of the loan portfolio, general economic conditions, types of loans, past loss experience, loan delinquencies, and potential substandard and doubtful credits. The adequacy of the allowance for loan and lease losses is monitored on an ongoing basis by the loan review staff, senior management and the banks’ boards of directors. Factors considered by the allowance committee included the following:

- Heartland has continued to experience growth in more complex commercial loans as compared to relatively lower-risk residential real estate loans.
- The nation has continued in a period of economic slowdown.
- During the last several years, Heartland has entered new markets in which it had little or no previous lending experience.

There can be no assurances that the allowance for loan and lease losses will be adequate to cover all losses, but management believes that the allowance for loan and lease losses was adequate at December 31, 2003. While management uses available information to provide for loan and lease losses, the ultimate collectibility of a substantial portion of the loan portfolio and the need for future additions to the allowance will be based on changes in economic conditions. Even though there have been various signs of emerging strength in the economy, it is not certain that this strength will be sustainable. Should the economic climate further deteriorate, borrowers may experience difficulty, and the level of nonperforming loans, charge-offs, and delinquencies could rise and require further increases in the provision for loan and lease losses. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan and lease losses carried by the Heartland subsidiaries. Such agencies may require Heartland to make additional provisions to the allowance based upon their judgment about information available to them at the time of their examinations.

The table below estimates the theoretical range of the 2003 allowance outcomes and related changes in provision expense assuming either a reasonably possible deterioration in loan credit quality or a reasonably possible improvement in loan credit quality.

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

	\$	
Allowance for loan and lease losses at December 31, 2003	18,490	
Assuming deterioration in credit quality:		
Addition to provision	1,538	
Resultant allowance for loan and lease losses	\$ 20,028	
Assuming improvement in credit quality:		
Reduction in provision	(863)	
Resultant allowance for loan and lease losses	\$ 17,627	

The assumptions underlying this sensitivity analysis represent an attempt to quantify theoretical changes that could occur in the total allowance for loan and lease losses given various economic assumptions that could impact inherent loss in the loan and lease portfolio as currently configured. It further assumes that the general composition of the allowance for loans and lease losses determined through Heartland's existing process and methodology remains relatively unchanged. It does not attempt to encompass extreme and/or prolonged economic downturns, systemic contractions to specific industries, or systemic shocks to the financial services sector. A downward/upward migration of the balances from the current loan grade to the next lower/higher loan grade was assumed based upon Heartland's experiences during previous periods of economic movement.

RESULTS OF OPERATIONS

NET INTEREST INCOME

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

Net interest margin from continuing operations, expressed as a percentage of average earning assets, was 3.79% for the year 2003 compared to 4.04% for the year 2002. A steep yield curve and relatively low interest rates led to further compression of Heartland's net interest margin, but management believes its disciplined approach to asset and liability pricing has served to mitigate the effects of margin pressure to a significant degree. Even though average earning assets increased 14% during the year, net interest margin was adversely affected by accelerated prepayments in the mortgage-backed securities portfolio. Also, net interest margin was impacted by the negative carrying costs associated with the completion of a private placement offering of \$20.0 million of 8.25% cumulative capital securities early in the fourth quarter of 2003. The proceeds from this offering will be used for future acquisitions or the retirement of debt. Interest income as a percentage of average earning assets went from 6.93% during 2002 to 6.09% during 2003, a decline of 84 basis points. On the liability side of the balance sheet, management continued to look for opportunities to lock in some funding in three- to five-year maturities as rates were at historical low levels. Interest expense as a percentage of average earning assets went from 2.89% during 2002 to 2.29% for 2003, a decline of 60 basis points.

Net interest margin from continuing operations, expressed as a percentage of average earning assets, was 4.04% for the year 2002 compared to 3.67% for the year 2001. During 2002, management was more successful in the utilization of floors on its commercial loan portfolio to minimize the effect downward rates have on interest income. If rates begin to edge upward, Heartland will not see a corresponding increase in its interest income until rates have moved above the floors in place on these loans. Interest income as a percentage of average earning assets went from 7.97% during 2001 to 6.93% during 2002, a decline of 104 basis points. Additionally, on the liability side of the balance sheet, Heartland had locked in some funding in the three- to five-year maturities as rates were at historical low levels. Interest expense as a percentage of average earning assets went from 4.30% during 2001 to 2.89% for 2002, a decline of 141 basis points.

Net interest income from continuing operations, on a fully tax equivalent basis, was \$63.4 million during 2003 compared to \$59.3 million during 2002. As the interest rate environment continued at historical low levels, reinvestment rates on early payments and maturities of securities negatively affected interest income. Additionally, accelerated prepayments in the mortgage-backed securities portfolio were more significant than in the prior year. Interest income in 2003 totaled \$101.7 million compared to \$101.6 million in 2002. If it had not been for the growth in loans during the year, interest income would have declined further as the national prime rate was reduced from 4.25% to 4.00% during the second and third quarters of 2003, compared to 4.75% during the first half of 2002.

Interest expense decreased \$4.0 million or 9% in 2003 when compared to 2002. The decline in interest expense outpaced the decline in interest income, primarily as a result of the decline in rates and the maturity of higher-rate certificate of deposit accounts. Management continues to focus efforts on improving the mix of its funding sources to minimize its interest costs.

Net interest income from continuing operations, on a fully tax equivalent basis, was \$59.3 million and \$50.1 million for 2002 and 2001, respectively, an increase of 18% for 2002. This increase was the largest contributor to the double-digit growth in earnings experienced during the year and was primarily attributable to the growth in earning assets and the ability to drive interest costs down faster than the corresponding decrease in interest income. Average earning assets from continuing operations grew \$103.2 million or 8% during 2002.

On January 29, 2004, the Federal Open Market Committee decided to keep its target for the federal funds rate at 1.00%, the lowest target interest rate on overnight loans between banks since 1961. Correspondingly, national prime remained at 4.00%. The continuation of these historically low interest rates may have a negative impact on Heartland's net interest margin. Even though many of Heartland's floating rate commercial loans have floors in place, there will be pressure to lower these floors or refinance to fixed rate products. Additionally, the rates paid on deposit products have been driven to significantly low levels during the past year and, in many cases, there is little room to lower these rates further.

The following table sets forth certain information relating to Heartland's average consolidated balance sheets and reflects the yield on average earning assets and the cost of average interest bearing liabilities for the years indicated. Dividing income or expense by the average balance of assets or liabilities derives such yields and costs. Average balances are derived from daily balances, and nonaccrual loans are included in each respective loan category.

ANALYSIS OF AVERAGE BALANCES, TAX EQUIVALENT YIELDS AND RATES ¹

For the years ended December 31, 2003, 2002, and 2001

(Dollars in thousands)

	2003			2002			2001		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate	Average Balance	Interest	Rate
EARNING ASSETS									
Securities:									
Taxable	\$ 316,117	\$ 9,100	2.88%	\$ 305,315	\$ 13,132	4.30%	\$ 253,290	\$ 14,143	5.58%
Nontaxable ¹	80,858	5,988	7.41	52,756	4,177	7.92	30,909	2,712	8.77
Total securities	396,975	15,088	3.80	358,071	17,309	4.83	284,199	16,855	5.93
Interest bearing deposits	7,462	174	2.33	10,535	248	2.35	7,320	243	3.32
Federal funds sold	34,159	355	1.04	20,835	322	1.55	49,126	1,981	4.03
Loans and leases:									
Commercial and commercial real estate ¹	793,187	48,631	6.13	665,431	45,480	6.83	564,261	44,773	7.93
Residential mortgage	157,005	9,907	6.31	142,469	10,518	7.38	191,081	15,364	8.04
Agricultural and agricultural real estate ¹	164,808	10,819	6.56	150,485	10,941	7.27	139,421	11,767	8.44
Consumer	124,136	11,343	9.14	120,561	12,036	9.98	126,027	13,278	10.54
Direct financing leases, net	10,540	780	7.40	13,626	1,037	7.61	16,574	1,242	7.49
Fees on loans	-	4,603	-	-	3,694	-	-	3,197	-
Less: allowance for loan and lease losses	(17,390)	-	-	(15,309)	-	-	(14,528)	-	-
Net loans and leases	1,232,286	86,083	6.99	1,077,263	83,706	7.77	1,022,836	89,621	8.76
Total earning assets	1,670,882	101,700	6.09	1,466,704	101,585	6.93	1,363,481	108,700	7.97
NONEARNING ASSETS									
Assets of discontinued operation	-			31,525			31,951		
Total nonearning assets	202,433	-	-	173,385	-	-	162,900	-	-
TOTAL ASSETS	\$ 1,873,315	\$ 101,700	5.43%	\$ 1,671,614	\$ 101,585	6.08%	\$ 1,558,332	\$ 108,700	6.98%

INTEREST BEARING

LIABILITIES

Interest bearing deposits

Savings	\$ 532,023	\$ 4,798	0.90%	\$ 477,484	\$ 6,530	1.37%	\$ 425,258	\$ 11,858	2.79%
Time, \$100,000 and over	140,834	3,720	2.64	124,063	4,505	3.63	143,315	8,220	5.74
Other time deposits	527,627	19,245	3.65	459,638	20,360	4.43	441,325	25,705	5.82
Short-term borrowings	152,429	2,350	1.54	134,949	2,643	1.96	141,532	5,598	3.96
Other borrowings	148,551	8,214	5.53	135,365	8,294	6.13	106,267	7,239	6.81

Total interest bearing liabilities

1,501,464	38,327	2.55	1,331,499	42,332	3.18	1,257,697	58,620	4.66
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NONINTEREST BEARING LIABILITIES

Noninterest bearing deposits	204,812	-	162,638	-	138,694	-
Liabilities of discontinued operation	-	31,525	31,951			
Accrued interest and other liabilities	35,416	-	31,212	-	29,154	-

Total noninterest bearing liabilities

240,228	225,375	199,799
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STOCKHOLDERS' EQUITY

131,623	-	114,740	-	100,836	-
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TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

\$ 1,873,315	\$ 38,327	2.05%	\$ 1,671,614	\$ 42,332	2.53%	\$ 1,558,332	\$ 58,620	3.76%
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Net interest income ¹

\$ 63,373	\$ 59,253	\$ 50,080
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Net interest income to total earning assets ¹

3.79%	4.04%	3.67%
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Interest bearing liabilities to earning assets

89.86%	90.78%	92.24%
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¹ Tax equivalent basis is calculated using an effective tax rate of 34%.

The following table allocates the changes in net interest income to differences in either average balances or average rates for earning assets and interest bearing liabilities. The changes have been allocated proportionately to the change due to volume and change due to rate. Interest income is measured on a tax equivalent basis using a 34% tax rate.

ANALYSIS OF CHANGES IN NET INTEREST INCOME

(Dollars in thousands)

	For the Years Ended December 31,								
	2003 Compared to 2002			2002 Compared to 2001			2001 Compared to 2000		
	Change Due to			Change Due to			Change Due to		
	Volume	Rate	Net	Volume	Rate	Net	Volume	Rate	Net
EARNING ASSETS/INTEREST INCOME									
Investment securities									
Taxable	\$ 465	\$ (4,497)	\$ (4,032)	\$ 2,905	\$ (3,916)	\$ (1,011)	\$ 3,971	\$ (1,652)	\$ 2,319
Tax-exempt	2,225	(414)	1,811	1,917	(452)	1,465	(10)	(26)	(36)
Interest bearing deposits	(72)	(2)	(74)	107	(102)	5	88	(178)	(90)
Federal funds sold	206	(173)	33	(1,141)	(518)	(1,659)	1,741	(671)	1,070
Loans and leases	12,046	(9,669)	2,377	4,769	(10,684)	(5,915)	5,944	(4,159)	1,785

TOTAL EARNING ASSETS	14,870	(14,755)	115	8,557	(15,672)	(7,115)	11,734	(6,686)	5,048
LIABILITIES/INTEREST EXPENSE									
Interest bearing deposits									
Savings	746	(2,478)	(1,732)	1,456	(6,784)	(5,328)	1,555	(3,563)	(2,008)
Time, \$100,000 and over	609	(1,394)	(785)	(1,104)	(2,611)	(3,715)	2,662	(443)	2,219
Other time deposits	3,012	(4,127)	(1,115)	1,067	(6,412)	(5,345)	2,408	23	2,431
Short-term borrowings	342	(635)	(293)	(260)	(2,695)	(2,955)	1,215	(2,603)	(1,388)
Other borrowings	808	(888)	(80)	1,982	(927)	1,055	(559)	(753)	(1,312)
TOTAL INTEREST BEARING LIABILITIES	5,517	(9,522)	(4,005)	3,141	(19,429)	(16,288)	7,281	(7,339)	(58)
NET INTEREST INCOME	\$ 9,353	\$ (5,233)	\$ 4,120	\$ 5,416	\$ 3,757	\$ 9,173	\$ 4,453	\$ 653	\$ 5,106

PROVISION FOR LOAN AND LEASE LOSSES

The allowance for loan and lease losses is established through a provision charged to expense to provide, in Heartland's opinion, an adequate allowance for loan and lease losses. The provision for loan losses during 2003 was \$4.2 million compared to \$3.6 million one year ago. The lower provision in 2002 resulted primarily from a \$685 thousand recovery on a prior-year charge-off. Exclusive of this third quarter recovery in 2002, the provision for loan losses decreased \$55 thousand or 1% during 2003. The provision for loan losses during 2002 was \$4.2 million when excluding the large recovery in the third quarter, a decrease of \$20 thousand or .5% over the provision during 2001. The adequacy of the allowance for loan and lease losses is determined by management using factors that include the overall composition of the loan portfolio, general economic conditions, types of loans, past loss experience, loan delinquencies, and potential substandard and doubtful credits. A weak economy will inevitably result in increased problem loans, but Heartland expects the problems to be manageable and of a lesser scope for Heartland than for the industry as a whole. For additional details on the specific factors considered, refer to the critical accounting policies and allowance for loan and lease losses sections of this report.

NONINTEREST INCOME

(Dollars in thousands)

	For the years ended December 31,			% Change	
	2003	2002	2001	2003/ 2002	2002/ 2001
Service charges and fees	\$ 6,207	\$ 5,977	\$ 4,667	4%	28%
Trust fees	3,814	3,407	3,148	12%	8%
Brokerage commissions	863	658	615	31%	7%
Insurance commissions	703	765	807	-8%	-5%
Securities gains, net	1,823	790	1,489	131%	-47%
Gain (loss) on trading account securities	453	(598)	(417)	176%	-43%
Impairment loss on equity securities	(317)	(267)	(773)	-19%	65%
Rental income on operating leases	13,807	14,602	15,446	-5%	-5%
Gains on sale of loans	6,339	4,656	2,738	36%	70%
Valuation adjustment on mortgage servicing rights	338	(469)	-	172%	-
Other noninterest income	2,511	1,124	900	123%	25%
Total noninterest income	\$ 36,541	\$ 30,645	\$ 28,620	19%	7%

The table shows Heartland's noninterest income for the years indicated. Total noninterest income from continuing

operations increased \$5.9 million or 19% during 2003 and \$2.0 million or 7% during 2002. Exclusive of valuation adjustments on mortgage servicing rights and securities gains and losses, including trading account securities losses and impairment losses on equity securities, noninterest income experienced a \$3.1 million or 10% increase in 2003 and a \$2.9 million or 10% increase in 2002. During both periods, the noninterest income category reflecting significant improvement was gains on sale of loans as Heartland experienced significant growth in residential loan originations, which Heartland then sells into the secondary market.

Emphasis during the past several years on enhancing revenues from services provided to customers has resulted in significant growth in service charges and fees. Average noninterest bearing checking account balances increased \$42.2 million or 26% during 2003 and \$23.9 million or 17% during 2002. The addition of an overdraft privilege feature to our checking account product line during the fall of 2001, along with growth in these noninterest bearing checking account balances, resulted in the generation of additional service charge revenue related to activity fees charged to these accounts. Service fees are also collected on the mortgage loans Heartland has sold into the secondary market while retaining servicing. Also contributing to the increase in service charges and fees was the growth in fees collected for the processing of merchant credit card activity.

Service charges and fees increased \$230 thousand or 4% during 2003 and \$1.3 million or 28% during 2002. Included in this category are service fees collected on the mortgage loans Heartland sold into the secondary market, while retaining servicing. Heartland's servicing portfolio grew to \$539.1 million at December 31, 2003, from \$395.1 million at year-end 2002 and \$268.6 million at year-end 2001. The service fees generated by this portfolio grew \$318 thousand or 40% in 2003 and \$266 thousand or 50% in 2002. Negatively impacting this service fee revenue was the amortization on the mortgage servicing rights associated with the servicing portfolio, which increased \$979 thousand in 2003 and \$853 thousand in 2002, as a result of increased prepayments in the portfolio caused by an increase in refinancing activity due to the low interest rate environment. Also included in this category are service charges on deposit products. The addition of an overdraft privilege feature to our checking account product line in late 2001 resulted in the generation of additional service charge revenue of \$1.1 million in 2002. Also contributing to the increase in service charges and fees was the growth in fees collected for the processing of activity on our automated teller machines. Beginning in the summer of 2002, the state of Iowa began to allow financial institutions to charge a fee for the use of automated teller machines.

Gains on sale of loans increased by \$1.7 million or 36% for the year 2003 and \$1.9 million or 70% for the year 2002. The volume of mortgage loans sold into the secondary market during these two years resulted from the continued historically low rate environment. During low rate environments, customers frequently elect to take fifteen- and thirty-year, fixed-rate mortgage loans, which Heartland usually elects to sell into the secondary market. Even if mortgage rates continue at these historically low levels, Heartland does not anticipate the present level of gains on sale of loans to continue as many refinancings have already occurred.

Securities gains were \$1.8 million, \$790 thousand and \$1.5 million during 2003, 2002 and 2001, respectively. The continual decline of interest rates during 2001 provided an opportunity for Heartland to realize securities gains in its bond portfolio. As rates declined in 2001, Heartland's interest rate forecast changed to an upward bias and therefore, longer-term agency securities were sold at a gain to shorten the portfolio. In order to reduce the interest rate risk of rising interest rates, the proceeds were invested in well-seasoned premium mortgaged backed securities that were projected to outperform the agency securities in a rising interest rate environment. Heartland's interest rate forecast changed to a rising rate bias on the long end of the yield curve during the first quarter of 2003, and therefore, longer-term agency securities were sold at a gain to shorten the portfolio. The proceeds were invested in mortgage-backed securities that were projected to outperform the agency securities in a rising rate environment. Because of the steepness of the yield curve during the remaining quarters of 2003 and the protection afforded, longer-term bullet agency securities were purchased with the proceeds on the sale of shorter-term agency securities.

During the first quarter of 2001, Heartland began purchasing some equity securities, on a limited basis, with the intent of actively trading these securities. This trading portfolio recorded gains of \$453 thousand during 2003 compared to losses of \$598 thousand and \$417 thousand during 2002 and 2001, respectively. The gains and losses recorded on this portfolio were generally reflective of the overall activity in the stock market.

Impairment losses on equity securities deemed to be other than temporary totaled \$317 thousand during 2003 and \$267 thousand during 2002. A majority of these losses were related to the decline in market value on the common stock held

in Heartland's available for sale equity securities portfolio on five companies during 2003 and three companies during 2002. Four of those stocks were subsequently sold during 2003. The carrying value of the four remaining stocks on Heartland's balance sheet at December 31, 2003, was \$342 thousand. Additionally, during the first quarter of 2003, an impairment loss on equity securities totaling \$20 thousand was recorded on Heartland's investment in a limited partnership. The fair value of the remaining portion of Heartland's investment in this partnership at year-end was \$80 thousand.

During 2003, total valuation adjustments on mortgage servicing rights resulted in a gain of \$338 thousand, whereas, during 2002, total valuation adjustments on mortgage servicing rights resulted in a loss of \$469 thousand. No valuation adjustments on mortgage servicing rights were recorded during 2001. The valuation of Heartland's mortgage servicing rights improved during 2003 as a result of the upward movement in mortgage loan interest rates during the third quarter. The valuation of Heartland's mortgage servicing rights declined during 2002 as a result of the continuous drop in mortgage loan interest rates. Heartland utilizes the services of an independent third-party to perform a valuation analysis of its servicing portfolio each quarter. At December 31, 2003, the remaining temporary valuation adjustment totaled \$131 thousand.

Total other noninterest income was \$2.5 million, \$1.1 million and \$900 thousand during the years 2003, 2002 and 2001, respectively. Contributing to the increases during 2003 were the following:

- Heartland purchased additional bank-owned life insurance in the amount of \$8.0 million during the third quarter of 2001 and \$10.0 million during the second quarter of 2003. The increase on the cash surrender value of Heartland's bank-owned life insurance policies was \$1.2 million in 2003 compared to \$847 thousand in 2002 and \$246 thousand in 2001.
- During the first quarter of 2003, a \$178 thousand gain was realized on the sale of one parcel of repossessed real estate.
- In April of 2002, Dubuque Bank and Trust acquired a 99.9% ownership in a limited liability company that owns a certified historic structure for which historic rehabilitation tax credits applied to the 2002 tax year. Amortization of the investment in this limited liability company recorded during 2002 was \$533 thousand.

NONINTEREST EXPENSE

(Dollars in thousands)

	For the years ended December 31,			% Change	
	2003	2002	2001	2003/ 2002	2002/ 2001
Salaries and employee benefits	\$ 33,113	\$ 28,571	\$ 25,182	16%	13%
Occupancy	3,880	3,178	3,014	22%	5%
Furniture and equipment	4,115	3,273	3,144	26%	4%
Depreciation expense on equipment under operating leases	11,353	11,555	11,805	-2%	-2%
Outside services	4,695	4,318	3,433	9%	26%
FDIC deposit insurance assessment	218	209	208	4%	0%
Advertising	2,354	1,917	1,588	23%	21%
Goodwill amortization	-	-	1,057	-	-100%
Core deposit premium amortization	404	495	615	-18%	-20%
Other noninterest expenses	7,560	7,143	6,646	6%	7%
Total noninterest expense	\$ 67,692	\$ 60,659	\$ 56,692	12%	7%
Efficiency ratio ¹	69.01%	68.07%	73.42%		

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

The table shows Heartland's noninterest expense for the years indicated. Noninterest expense from continuing operations increased \$7.0 million or 12% in 2003 and \$4.0 million or 7% in 2002. Growth in some of these expenses began to escalate in 2003 as Heartland began to invest additional resources in growth initiatives.

Salaries and employee benefits, the largest component of noninterest expense, increased \$4.5 million or 16% for the year 2003 and \$3.4 million or 13% for the year 2002. This category made up more than half the total increase in noninterest expense. In addition to normal merit increases, these increases were also attributable to the opening of new branches in Santa Fe, New Mexico and Fitchburg, Wisconsin, the formation of HTLF Capital Corp. and the opening of Arizona Bank & Trust, our de novo bank in Phoenix, Arizona. The number of full-time equivalent employees employed by Heartland increased from 581 at December 31, 2001, to 606 at December 31, 2002, and 674 at December 31, 2003.

Fees for outside services increased \$377 thousand or 9% during 2003 and \$885 thousand or 26% during 2002. Contributing to these increases were the following:

- A consultant was engaged to assist in the implementation of an overdraft privilege feature on Heartland's checking account products during 2001. The fee associated with these services was accrued and payable monthly during the last quarter of 2001 and throughout all of 2002 based upon the additional fees generated.
- Beginning in 2002, Heartland elected to engage Darling Consulting Group to provide balance sheet management advisory services. Included in these services are quarterly asset/liability management position assessments and strategy formulation.
- As on-line banking has grown in popularity, Heartland has incurred additional costs to provide this service to its customers.
- During 2002, legal fees were paid related to actions brought by Heartland to recover losses realized in an investment fund partnership, in which Heartland was a limited partner, and to resolve a dispute on the enforceability of a guarantee on a nonperforming commercial loan.

Advertising expense, which includes public relations expense, increased \$437 thousand or 23% in 2003, primarily as a result of the expansion efforts underway, particularly the opening of branches in Mesa, Arizona; Fitchburg, Wisconsin and Santa Fe, New Mexico. During 2002, advertising expense increased \$329 thousand or 21% as Dubuque Bank and Trust deposited \$200 thousand into its charitable trust fund, which funds provide a pre-funded source for future charitable giving.

Additional noninterest expense categories experiencing increases during 2003 as a result of the expansion efforts mentioned above were occupancy and furniture and equipment. In the aggregate, these expenses grew by \$1.5 million or 24%.

Heartland's adoption of the provisions of FAS No. 142 on January 1, 2002, and FAS No. 147 on September 30, 2002, discontinued the amortization of \$16.1 million in unamortized goodwill. The amount of amortization expense recorded during 2001 on this goodwill was \$1.1 million.

INCOME TAXES

Income tax expense decreased \$860 thousand or 10% for 2003 compared to an increase of \$3.3 million or 57% for 2002. The discontinued operations and related gain on sale of our Eau Claire branch was responsible for \$1.5 million and \$184 thousand of income tax expense during 2002 and 2001, respectively. Income tax expense related to continuing operations increased \$614 thousand or 8% during 2003 and 2.0 million or 36% during 2002, primarily as a result of increased pre-tax earnings on continuing operations. Heartland's effective tax rate was 31.5% for 2003, 32.3% for 2002 and 33.4% for 2001. The effective tax rate in 2001 was higher, in part, as a result of merger-related goodwill and other intangibles amortization expense recorded that was not deductible for federal income tax purposes. Tax-exempt interest income on securities and loans as a percentage of pre-tax income has varied over the past several years. Tax-exempt interest income was 16% of pre-tax income during 2003 compared to 10% during 2002 and 12% during

2001. In 2002, Dubuque Bank and Trust acquired a 99.9% ownership in a limited liability company that owns a certified historic structure for which historic rehabilitation tax credits applied to the 2002 tax year.

FINANCIAL CONDITION LENDING ACTIVITIES

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

LOAN PORTFOLIO

December 31, 2003, 2002, 2001, 2000, and 1999
(Dollars in thousands)

	2003		2002		2001		2000		1999	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial and commercial real estate	\$ 881,821	65.27%	\$ 743,520	63.10%	\$ 651,479	58.73%	\$ 550,366	52.62%	\$ 448,991	53.53%
Residential mortgage	152,580	11.29	145,931	12.39	168,912	15.23	15,638	20.62	180,347	21.50
Agricultural and agricultural real estate	166,182	12.30	155,596	13.21	145,460	13.11	133,614	12.78	92,936	11.08
Consumer	136,806	10.13	120,853	10.26	127,874	11.53	128,685	12.30	103,608	12.35
Lease financing, net	13,621	1.01	12,308	1.04	15,570	1.40	17,590	1.68	12,886	1.54
Gross loans and leases	1,351,010	100.00%	1,178,208	100.00%	1,109,295	100.00%	1,045,893	100.00%	838,768	100.00%
Unearned discount	(1,836)		(2,161)		(3,457)		(3,397)		(3,169)	
Deferred loan fees	(947)		(811)		(633)		(400)		(453)	
Total loans and leases	1,348,227		1,175,236		1,105,205		1,042,096		835,146	
Allowance for loan and lease losses	(18,490)		(16,091)		(14,660)		(13,592)		(10,844)	
Loans and leases, net	\$ 1,329,737		\$ 1,159,145		\$ 1,090,545		\$ 1,028,504		\$ 824,302	

The table below sets forth the remaining maturities by loan and lease category.

MATURITY AND RATE SENSITIVITY OF LOANS AND LEASES ¹

(Dollars in thousands)

	Over 1 Year Through 5 Years		Over 5 Years			
	One Year or Less	Fixed Rate	Floating Rate	Fixed Rate	Floating Rate	Total
Commercial and commercial real estate	\$ 316,387	\$ 275,233	\$ 162,347	\$ 46,409	\$ 81,445	\$ 881,821
Residential mortgage	67,158	18,503	21,443	19,198	26,278	152,580
Agricultural and agricultural real estate	87,180	38,984	22,845	6,356	10,817	166,182
Consumer	30,491	49,029	13,391	9,261	34,634	136,806
Lease financing,net	4,602	8,936	0	83	0	13,621
Total	\$ 505,818	\$ 390,685	\$ 220,026	\$ 81,307	\$ 153,174	\$ 1,351,010

¹ Maturities based upon contractual dates

Heartland experienced growth in net loans and leases during both 2003 and 2002. This growth was \$170.6 million or 15% and \$68.6 million or 6% in 2002. Exclusive of the \$30.0 million loans included in the sale of the Eau Claire branch, net loans and leases grew by \$98.6 million or 9% during 2002. All loan categories experienced loan growth during 2003, whereas, the commercial and agricultural loan portfolios were the only categories to experience growth in

2002.

The largest growth occurred in commercial and commercial real estate loans, which increased \$138.3 million or 19% during 2003 and \$92.0 million or 14% during 2002. All \$30.0 million of the loans included in the Eau Claire branch sale were classified as commercial and commercial real estate. Exclusive of those loans, this category of the loan portfolio grew \$122.0 million or 20% in 2002. As a result of continued calling efforts, all the bank subsidiaries experienced growth in this loan category during both years, except for First Community Bank during 2002, when it experienced a slight decrease.

Agricultural and agricultural real estate loans outstanding experienced an increase of \$10.6 million or 7% during 2003, the majority of which occurred at Dubuque Bank and Trust Company, Heartland’s flagship bank in Dubuque, Iowa and at New Mexico Bank & Trust’s office in Clovis, New Mexico. During 2002, agricultural and agricultural real estate loans outstanding grew \$10.1 million or 7%. Over 75% of this growth occurred at Dubuque Bank and Trust Company.

Residential mortgage loans experienced an increase of \$6.6 million or 5% during 2003. This increase was primarily due to management’s election to retain a portion of the fifteen-year fixed rate loans in its own portfolio. Customers have continued to refinance their mortgage loans into fifteen- and thirty-year fixed rate loans, which Heartland usually sells into the secondary market. Servicing is retained on a majority of these loans so that the Heartland bank subsidiaries have an opportunity to continue providing our customers the excellent service they expect. During 2002, the residential mortgage loan portfolio experienced a decline of \$23.0 million or 14%, as customers refinanced their mortgage loans into fifteen- and thirty-year fixed rate loans, which Heartland usually sells into the secondary market. During both years, long-term rates were at all-time lows and many customers were anxious to lock in these low rates for a longer period of time on their mortgage loans.

Consumer loans increased \$16.0 million or 13% during 2003, primarily in home equity lines of credit at all the Heartland bank subsidiaries except First Community Bank. This product line was enhanced to build new customer relationships. During 2002, consumer loan outstandings declined \$7.0 million or 5%, as the economy continued to weaken and consumers were provided other sources of financing, e.g., zero percent automobile financing through dealerships.

Although the risk of nonpayment for any reason exists with respect to all loans, specific risks are associated with each type of loan. The primary risks associated with commercial and agricultural loans are the quality of the borrower’s management and the impact of national and regional economic factors. Additionally, risks associated with commercial and agricultural real estate loans include fluctuating property values and concentrations of loans in a specific type of real estate. Repayment on loans to individuals, including those on residential real estate, are dependent on the borrower’s continuing financial stability, and thus are more likely to be affected by adverse personal circumstances and deteriorating economic conditions. Heartland monitors its loan concentrations and does not believe it has adverse concentrations in any specific industry.

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

**NONPERFORMING LOANS AND LEASES AND
OTHER NONPERFORMING ASSETS**

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

NONPERFORMING ASSETS

December 31, 2003, 2002, 2001, 2000, and 1999
(Dollars in thousands)

2003	2002	2001	2000	1999
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Nonaccrual loans and leases	\$ 5,092	\$ 3,944	\$ 7,269	\$ 5,860	\$ 1,414
Loans and leases contractually past due 90 days or more	458	541	500	523	236
Restructured loans and leases	-	-	354	357	-
Total nonperforming loans and leases	5,550	4,485	8,123	6,740	1,650
Other real estate	599	452	130	489	514
Other repossessed assets	285	279	343	219	138
Total nonperforming assets	\$ 6,434	\$ 5,216	\$ 8,596	\$ 7,448	\$ 2,302
Nonperforming loans and leases to total loans and leases	0.41%	0.38%	0.73%	0.65%	0.20%
Nonperforming assets to total loans and leases plus repossessed property	0.48%	0.44%	0.78%	0.71%	0.28%
Nonperforming assets to total assets	0.32%	0.29%	0.52%	0.51%	0.19%

Under Heartland's internal loan review program, a loan review officer is responsible for reviewing existing loans and leases, identifying potential problem loans and leases and monitoring the adequacy of the allowance for loan and lease losses at the Heartland banks.

Heartland constantly monitors and continues to develop systems to oversee the quality of its loan portfolio. One integral part is a loan rating system, which assigns a rating on each loan and lease within the portfolio based on the borrower's financial position, repayment ability, collateral position and repayment history. This emphasis on quality is reflected in Heartland's credit quality figures, which compare favorably to peer data in the Bank Holding Company Performance Reports published by the Federal Reserve Board for bank holding companies with total assets of \$1 to \$3 billion. In this report, the peer group reported nonperforming assets to total assets of 0.63% and 0.59% for September 30, 2002, and December 31, 2001, respectively. Heartland's ratios at December 31, 2002 and 2001, were 0.29% and 0.52%, respectively.

Nonperforming loans, defined as nonaccrual loans, restructured loans and loans past due ninety days or more, were \$5.6 million or .41% of total loans and leases at December 31, 2003, compared to \$4.5 million or .38% of total loans and leases at December 31, 2002. This increase was attributable to a few credits and is not felt to be an indication of a trend. The year-end 2001 nonperforming loans were \$8.1 million or .73% of total loans and leases. A portion of the decrease in 2002 was the result of one large credit that was partially paid off. Workout plans are in process on a majority of Heartland's nonperforming loans and, because of the net realizable value of collateral, guarantees and other factors, anticipated losses on these credits are expected to be minimal. A weak economy will inevitably result in increased problem loans, but Heartland expects the problems to be manageable and of a lesser scope for Heartland than for the industry as a whole.

ALLOWANCE FOR LOAN AND LEASE LOSSES

The process utilized by Heartland to estimate the adequacy of the allowance for loan and lease losses is considered a critical accounting practice for Heartland. The allowance for loan and lease losses represents management's estimate of identified and unidentified losses in the existing loan portfolio. For additional details on the specific factors considered, refer to the critical accounting policies section of this report.

The allowance for loan and lease losses increased by \$2.4 million or 15% during 2003 and \$1.4 million or 10% during 2002. The allowance for loan and lease losses at December 31, 2003, was 1.37% of loans and 333% of nonperforming loans, compared to 1.37% of loans and 359% of nonperforming loans at year-end 2002. A portion of the growth in the allowance for loan and lease losses occurred as a result of the expansion of the loan portfolio during both years, particularly in the more complex commercial loan category and in the new markets Heartland entered in which Heartland had little or no previous lending experience.

The amount of net charge offs recorded by Heartland was \$1.8 million during both 2003 and 2002 compared to \$3.2 million during 2001. The charge offs during 2001 included one large credit on which a partial recovery was recorded

during 2002. Citizens Finance Co., Heartland's consumer finance subsidiary, experienced net charge-offs of \$808 thousand or 45% of total net charge-offs during 2003 compared to \$1.2 million or 66% of total net charge-offs during 2002. Losses at Citizens during 2002 related directly to the rapid growth experienced during the previous two years with expansion into the Rockford, Illinois, market. Identification of problem loans in that portfolio began to occur as the portfolio seasoned. Additionally, the weakened economy had affected the ability of borrowers to repay their consumer loans. Net losses as a percentage of average gross loans at Citizens improved to 3.69% for 2003 compared to 5.17% for 2002. Loans with payments past due for more than thirty days at Citizens also improved during 2003 decreasing to 4.82% from 5.27% of gross loans at year-end 2002.

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

ANALYSIS OF ALLOWANCE FOR LOAN AND LEASE LOSSES

For the years ended December 31, 2003, 2002, 2001, 2000 and 1999

(Dollars in thousands)

	2003	2002	2001	2000	1999
Allowance at beginning of year	\$ 16,091	\$ 14,660	\$ 13,592	\$ 10,844	\$ 7,945
Charge-offs:					
Commercial and commercial real estate	499	795	1,477	407	81
Residential mortgage	108	38	32	54	-
Agricultural and agricultural real estate	6	279	463	580	8
Consumer	1,779	2,085	1,785	1,239	546
Lease financing	-	6	-	-	-
Total charge-offs	2,392	3,203	3,757	2,280	635
Recoveries:					
Commercial and commercial real estate	112	836	79	97	74
Residential mortgage	2	8	-	4	12
Agricultural and agricultural real estate	29	177	108	176	6
Consumer	465	389	355	308	151
Lease financing	-	-	-	-	-
Total recoveries	608	1,410	542	585	243
Net charge-offs ¹	1,784	1,793	3,215	1,695	392
Provision for loan and lease losses from continuing operations	4,183	3,553	4,258	2,976	2,550
Provision for loan and lease losses from discontinued operations	-	(329)	25	325	76
Additions related to acquisitions	-	-	-	1,142	665
Allowance at end of period	18,490	16,091	14,660	13,592	10,844
Net charge-offs to average loans and leases	0.14%	0.16%	0.30%	0.17%	0.06%

¹ Includes net charge-offs at Citizens Finance, Heartland's consumer finance company, of \$808 for 2003, \$1,182 for 2002; \$1,043 for 2001; \$614 for 2000 and \$256 for 1999.

The table below shows Heartland's allocation of the allowance for loan and lease losses by types of loans and leases and the amount of unallocated reserves.

ALLOCATION OF ALLOWANCE FOR LOAN AND LEASE LOSSES

December 31, 2003, 2002, 2001, 2000, and 1999

(Dollars in thousands)

	2003		2002		2001		2000		1999	
	Loan/Lease Category to Gross Loans & Leases		Loan/Lease Category to Gross Loans & Leases		Loan/Lease Category to Gross Loans & Leases		Loan/Lease Category to Gross Loans & Leases		Loan/Lease Category to Gross Loans & Leases	
	Amount		Amount		Amount		Amount		Amount	
Commercial and commercial real estate	\$ 9,776	65.27%	\$ 8,408	63.10%	\$ 7,534	58.73%	\$ 7,324	52.62%	\$ 6,108	53.53%
Residential mortgage	1,224	11.29	1,328	12.39	1,192	15.23	1,004	20.62	756	21.50
Agricultural and agricultural real estate	2,926	12.30	2,239	13.21	2,214	13.11	2,377	12.78	1,016	11.08
Consumer	1,427	10.13	2,083	10.26	2,009	11.53	1,743	12.30	1,917	12.35
Lease financing	121	1.01	140	1.04	162	1.40	106	1.68	91	1.54
Unallocated	2,092		1,893		1,549		1,038		956	
Total allowance for loan and lease losses	\$18,490		\$16,091		\$14,660		\$13,592		\$10,844	

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 22% of total assets at both year-end 2003 and 2002.

During 2003, management purchased longer-term municipal securities to take advantage of the unusually steep slope in the yield curve and the spread of the tax-equivalent yield on municipal securities over the yield on agency securities with the same maturities.

During 2002, management changed the composition of the securities portfolio. Additional paydowns received on mortgage-backed securities were replaced with short-term U.S. government agency securities and municipal securities. Management purchased some longer-term municipal securities to take advantage of the unusually steep slope in the yield curve and the spread of the tax-equivalent yield on municipal securities over the yield on agency securities with the same maturities. Also to improve net interest margin, management elected to reduce its fed funds and money market instruments position and invest in short-term U.S. government agency securities.

Heartland implemented Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," on January 1, 2001. At that date, all investments previously included in Heartland's held to maturity investment portfolio were reclassified to the available for sale investment portfolio. The tables below present the composition and maturities of the securities portfolio by major category.

SECURITIES PORTFOLIO COMPOSITION

December 31, 2003, 2002 and 2001

(Dollars in thousands)

	<u>2003</u>		<u>2002</u>		<u>2001</u>	
	<u>Amount</u>	<u>% of Portfolio</u>	<u>Amount</u>	<u>% of Portfolio</u>	<u>Amount</u>	<u>% of Portfolio</u>
U.S. government corporations, agencies and treasuries	\$ 182,934	40.59%	\$ 101,339	25.99%	\$ 79,234	24.48%
Mortgage-backed securities	151,233	33.56	187,318	48.04	183,661	56.74
States and political subdivisions	93,210	20.68	71,391	18.31	30,948	9.56
Other securities	23,303	5.17	29,852	7.66	29,846	9.22
Total	\$ 450,680	100.00%	\$ 389,900	100.00%	\$ 323,689	100.00%

SECURITIES PORTFOLIO MATURITIES

December 31, 2003 (Dollars in thousands)

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. government corporations, agencies and treasuries	\$13,230	4.08%	\$169,704	2.96%	\$ -	0.00%	\$ -	0.00%	\$182,934	3.04%
Mortgage-backed securities	81,235	4.03	34,873	4.19	6,851	5.24	28,274	4.26	151,233	4.17
States and political subdivisions ¹	1,691	6.05	7,800	6.05	28,882	6.53	54,837	7.10	93,210	6.81
Total	\$96,156	4.07%	\$212,377	3.27%	\$35,733	6.28%	\$83,111	6.13%	\$427,377	4.26%

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

DEPOSITS AND BORROWED FUNDS

Total average deposits experienced an increase of \$153.1 million or 12% during 2003 and \$99.4 million or 9% during 2002. Total average deposits were \$1.405 billion during 2003, \$1.252 billion during 2002 and \$1.153 billion during 2001. The Eau Claire branch sale included deposits of \$6.7 million. Exclusive of those deposits, growth in average deposits was \$106.1 million or 9% during 2002. Increases in total deposits occurred at all of the bank subsidiaries except for First Community Bank during both years.

All the deposit categories experienced an increase during 2003. Average demand deposit balances grew \$40.5 million or 25% with growth occurring at all the banks, with the most significant occurring in the Dubuque Bank and Trust and New Mexico Bank & Trust markets. Average savings deposit account balances grew by \$43.3 million or 9%, primarily in the money market products offered by all of the bank subsidiaries. Average certificate of deposit account balances grew by \$69.3 million or 12% during 2003, particularly in the Riverside Community Bank and Wisconsin Community Bank markets as special promotions were conducted to build presence and to increase awareness in these markets. As long-term rates continued at all-time lows, efforts were focused at attracting customers into certificates of deposit with a maturity exceeding two years.

All deposit categories, except for time deposits over \$100,000, experienced growth during 2002. Average demand deposit account balances increased \$24.4 million or 17%. The Heartland bank subsidiaries that experienced substantial increases were Dubuque Bank and Trust, Galena State Bank and Riverside Community Bank. Average savings deposit account balances increased by \$60.8 million or 14% and average time deposits under \$100,000 grew by \$33.3 million or 8% during 2002. With the continued instability in the equity markets, many customers have elected to keep funds on deposit in financial institutions. Additionally, as long-term rates have continued at all-time lows, efforts were focused at attracting customers into certificates of deposit with a maturity exceeding two years. A portion of the growth in certificate of deposit account balances was also attributable to the implementation of a balance sheet management strategy that included the acquisition of brokered deposits. Average balances in time deposits over \$100,000 decreased during 2002 by \$19.1 million or 13%. These accounts are typically obtained via a bidding process and Heartland management elected to not aggressively pursue these deposits.

The table below sets forth the distribution of Heartland's average deposit account balances and the average interest rates paid on each category of deposits for the years indicated.

AVERAGE DEPOSITS

For the years ended December 31, 2003, 2002 and 2001

(Dollars in thousands)

	2003			2002			2001		
	Average Balance	Percent of Deposits	Rate	Average Balance	Percent of Deposits	Rate	Average Balance	Percent of Deposits	Rate
Demand deposits	\$ 204,812	14.57%	0.00%	\$ 164,280	13.12%	0.00%	\$ 139,870	12.14%	0.00%
Savings	532,023	37.86	0.90	488,756	39.03	1.37	427,953	37.12	2.80

Time deposits less than \$100,000	527,627	37.55	3.65	474,817	37.92	4.41	441,505	38.30	5.82
Time deposits of \$100,000 or more	140,834	10.02	2.64	124,321	9.93	3.62	143,429	12.44	5.74
	<hr/>	<hr/>		<hr/>	<hr/>		<hr/>	<hr/>	
Total deposits	\$1,405,296	100.00%		\$1,252,174	100.00%		\$1,152,757	100.00%	
	<hr/>	<hr/>		<hr/>	<hr/>		<hr/>	<hr/>	

The following table sets forth the amount and maturities of time deposits of \$100,000 or more at December 31, 2003.

TIME DEPOSITS \$100,000 AND OVER

(Dollars in thousands)

	December 31, 2003
	<hr/>
3 months or less	\$ 44,020
Over 3 months through 6 months	18,549
Over 6 months through 12 months	24,725
Over 12 months	51,821
	<hr/>
	\$ 139,115
	<hr/>

Short-term borrowings generally include federal funds purchased, treasury tax and loan note options, securities sold under agreement to repurchase and short-term Federal Home Loan Bank ("FHLB") advances. These funding alternatives are utilized in varying degrees depending on their pricing and availability. At year-end 2003, short-term borrowings had increased \$15.5 million or 10% from year-end 2002. The \$161.4 million of short-term borrowings outstanding at year-end 2002 was consistent with the \$160.7 million outstanding at year-end 2001.

All of the bank subsidiaries provide repurchase agreements to their customers as a cash management tool, sweeping excess funds from demand deposit accounts into these agreements. This source of funding does not increase the bank's reserve requirements, nor does it create an expense relating to FDIC premiums on deposits. Although the aggregate balance of repurchase agreements is subject to variation, the account relationships represented by these balances are principally local. Repurchase agreement balances increased \$13.8 million or 14% during 2003. Contrastingly, these balances declined \$9.6 million during 2002 as interest rates continued at all-time low levels and some of these repurchase agreement customers elected to invest a portion of their excess funds in higher-yielding products.

Also included in short-term borrowings are the credit lines Heartland entered into with two unaffiliated banks. At December 31, 2003, and December 31, 2002, a total of \$25.0 million was outstanding on these credit lines. Under the unsecured credit lines, Heartland could borrow up to \$50.0 million. On January 31, 2004, Heartland entered into a credit agreement with the two existing unaffiliated banks and an additional unaffiliated bank, to replace the existing revolving credit lines as well as to increase availability under a revolving credit line. Under the new revolving credit line, Heartland may borrow up to \$70.0 million. The additional \$20.0 million credit line was established primarily to provide working capital to the nonbanking subsidiaries and replace similar-sized lines currently in place at those subsidiaries.

The following table reflects short-term borrowings, which in the aggregate have average balances during the period greater than 30% of stockholders' equity at the end of the period.

SHORT-TERM BORROWINGS

(Dollars in thousands)

As of or for the years ended December 31,
2003 2002 2001
<hr/>

Balance at end of period	\$ 176,835	\$ 161,379	\$ 160,703
Maximum month-end amount outstanding	176,835	161,379	162,744
Average month-end amount outstanding	151,037	140,282	151,139
Weighted average interest rate at year-end	1.36%	1.59%	1.39%
Weighted average interest rate for the year	1.54%	1.96%	3.96%

Other borrowings include all debt arrangements Heartland and its subsidiaries have entered into with original maturities that extend beyond one year. These borrowings were \$174.0 million on December 31, 2003, compared to \$126.3 million on December 31, 2002. The change in these account balances primarily resulted from activity in the bank subsidiaries' borrowings from the FHLB. All of the Heartland banks own stock in the FHLB of Des Moines, Chicago or Dallas, enabling them to borrow funds from their respective FHLB for short- or long-term purposes under a variety of programs. Total FHLB borrowings at December 31, 2003, had increased to \$101.5 million from \$72.5 million at December 31, 2002. Substantially all of these borrowings are fixed-rate advances for original terms between three and five years. To fund a portion of the fixed-rate commercial and residential loan growth experienced, Heartland entered into three-, five- and seven-year FHLB advances.

Additionally, balances outstanding on trust preferred capital securities issued by Heartland are included in total other borrowings. A schedule of the offerings outstanding as of December 31, 2003, were as follows:

Amount Issued	Issuance Date	Interest Rate	Maturity Date	Callable Date
\$ 25,000,000	10/18/99	9.60%	09/29/29	09/30/04
8,000,000	12/18/01	Variable	12/18/31	12/18/06
5,000,000	06/27/02	Variable	06/30/32	06/30/07
20,000,000	10/10/03	8.25%	10/10/33	10/10/08
\$ 58,000,000				

The following table summarizes significant contractual obligations and other commitments as of December 31, 2003:

(Dollars in thousands)

	Payments Due By Period				
	Total	Less than One Year	One to Three Years	Three to Five Years	More than Five Years
Contractual obligations:					
Long-term debt obligations	\$ 173,958	\$ 22,263	\$ 64,163	\$ 22,334	\$ 65,198
Operating lease obligations	3,124	782	1,233	685	424
Purchase obligations	10,491	7,595	1,769	1,127	-
Other long-term liabilities	4,297	1,160	2,321	-	816
Total contractual obligations	\$ 191,870	\$ 31,800	\$ 69,486	\$ 24,146	\$ 66,438
Other commitments:					
Lines of credit	\$ 403,749	\$ 253,526	\$ 35,830	\$ 13,178	\$ 101,215
Standby letters of credit	15,790	10,251	231	3,583	1,725
Other commitments:	34,500	34,500	-	-	-
Total other commitments	\$ 454,039	\$ 298,277	\$ 36,061	\$ 16,761	\$ 102,940

CAPITAL RESOURCES

Heartland's risk-based capital ratios, which take into account the different credit risks among banks' assets, met all

capital adequacy requirements over the past three years. Tier 1 and total risk-based capital ratios were 10.29% and 12.42%, respectively, on December 31, 2003, compared to 10.65% and 11.86%, respectively, on December 31, 2002, and 9.71% and 10.89%, respectively, on December 31, 2001. At December 31, 2003, Heartland's leverage ratio, the ratio of Tier 1 capital to total average assets, was 8.07% compared to 8.24% and 7.53% at December 31, 2002 and 2001, respectively. Heartland and its bank subsidiaries have been, and will continue to be, managed so they meet the well-capitalized requirements under the regulatory framework for prompt corrective action. To be categorized as well capitalized under the regulatory framework, bank holding companies and banks must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios of 10%, 6% and 4%, respectively. The most recent notification from the FDIC categorized Heartland and each of its bank subsidiaries as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed each institution's category.

Commitments for capital expenditures are an important factor in evaluating capital adequacy. In February of 2004, Heartland announced that it had signed a definitive agreement to acquire Rocky Mountain Bancorporation, the holding company for Rocky Mountain Bank, a financial institution providing retail and commercial banking services from eight locations throughout Montana. The total purchase price upon completion, subject to obtaining stockholder and regulatory approvals, will be approximately \$34.5 million and will consist of a minimum of 50% in Heartland common stock and the remaining in cash. The transaction is expected to close during the second quarter of 2004. Rocky Mountain Bancorporation had assets of \$369.7 million at December 31, 2003, and revenues of \$1.9 million in the latest twelve-month period ended December 31, 2003.

In February of 2003, Heartland entered into an agreement with a group of Arizona business leaders to establish a new bank in Mesa. The new bank began operations on August 18, 2003. Heartland's investment in Arizona Bank & Trust was \$12.0 million, which currently reflects an ownership percentage of 86%. A portion of Arizona Bank & Trust's common stock is still available to interested local investors. In no case will Heartland's ownership interest be allowed to fall below 80%. All minority stockholders, both initial and subsequent, have or will enter into a stock transfer agreement that imposes certain restrictions on the investor's sale, transfer or other disposition of their shares and requires Heartland to repurchase the shares from the investor in 2008.

As a result of the acquisition of National Bancshares, Inc. on January 1, 2000, the one-bank holding company of First National Bank of Clovis, remaining requisite cash payments under the notes payable total \$637 thousand in 2004, plus interest at 7.00%. Immediately following the closing of the acquisition, the bank was merged into New Mexico Bank & Trust.

On June 30, 2003, Heartland completed the buyout of all minority stockholders of New Mexico Bank & Trust as agreed upon during its formation in 1998. In exchange for their shares of New Mexico Bank & Trust stock, the minority stockholders received a total of 383,574 shares of Heartland common stock.

Heartland had an incentive compensation agreement with certain employees of one of our bank subsidiaries, none of whom is an executive officer of Heartland, that requires a total payment of \$3.5 million to be made no later than February 29, 2004, to those who remained employed with the subsidiary on December 31, 2003. Additionally, each employee is bound by a confidentiality and non-competition agreement. On January 15, 2004, one-third of the payment was made in cash and the remaining two-thirds in stock options on Heartland's common stock, exercisable in 2005 and 2006. The obligation was accrued over the performance period.

Heartland intends to complete a private placement offering of \$25.0 million of variable rate cumulative capital securities in mid-March of 2004. The proceeds from this offering will be used for future acquisitions or the retirement of debt. Heartland anticipates that all of these securities will qualify as Tier 2 capital for regulatory purposes.

On October 10, 2003, Heartland completed an offering of \$20.0 million of 8.25% cumulative capital securities representing undivided beneficial interests in Heartland Financial Statutory Trust III, a special purpose trust subsidiary formed for the sole purpose of this offering. The proceeds from the offering were used by the trust to purchase junior subordinated debentures from Heartland. The proceeds will be used for general corporate purposes, including future acquisitions or the retirement of debt. Interest is payable quarterly on March 31, June 30, September 30 and December 31 of each year. The debentures will mature and the capital securities must be redeemed on October 10, 2033. Heartland has the option to shorten the maturity date to a date not earlier than October 10, 2008. For regulatory

purposes, \$43.8 million qualified as Tier 1 capital and the remaining \$14.2 million qualified as Tier 2 capital on December 31, 2003.

On June 27, 2002, Heartland completed a private placement offering of \$5.0 million of variable rate cumulative capital securities representing undivided beneficial interests in Heartland Financial Capital Trust II, a special purpose trust subsidiary formed for the sole purpose of this offering. The proceeds from the offering were used by the trust to purchase junior subordinated debentures from Heartland. The proceeds were used by Heartland for general corporate purposes. The debentures will mature and the capital securities must be redeemed on June 30, 2032. Heartland has the option to shorten the maturity date to a date not earlier than June 30, 2007. All of these securities qualified as Tier 1 capital for regulatory purposes as of December 31, 2003.

On December 18, 2001, Heartland completed a private placement offering of \$8.0 million of variable rate cumulative capital securities representing undivided beneficial interests in Heartland Financial Statutory Trust II, a special purpose trust subsidiary formed for the sole purpose of this offering. The proceeds from the offering were used by the trust to purchase junior subordinated debentures from Heartland. The proceeds were used by Heartland for general corporate purposes. The debentures will mature and the capital securities must be redeemed on December 18, 2031. Heartland has the option to shorten the maturity date to a date not earlier than December 18, 2006. All of these securities qualified as Tier 1 capital for regulatory purposes as of December 31, 2003.

In October of 1999, Heartland completed an offering of \$25.0 million of 9.60% cumulative capital securities representing undivided beneficial interests in Heartland Capital Trust I, a special purpose trust subsidiary formed for the sole purpose of this offering. The proceeds from the offering were used by the trust to purchase junior subordinated debentures from Heartland. The proceeds were used by Heartland for general corporate purposes. The debentures will mature and the capital securities must be redeemed on September 30, 2029. Heartland has the option to shorten the maturity date to a date not earlier than September 30, 2004. All of these securities continued to qualify as Tier 1 capital for regulatory purposes as of December 31, 2003.

The renovation and construction of a 60,000 square foot facility to accommodate the operations and support functions of Heartland are underway on property in downtown Dubuque, Iowa, across the street from Dubuque Bank and Trust's main facility. Completion of this project is anticipated in the spring of 2004. A reduction in overall costs on this project will result from tax credits and other incentives made available on the project as it includes the rehabilitation of two historical structures and the creation of new jobs. Total costs are estimated to be \$8.1 million, of which \$5.6 million had already been expended at December 31, 2003.

Heartland continues to explore opportunities to expand its umbrella of independent community banks through mergers and acquisitions as well as de novo and branching opportunities. The pending acquisition of Rocky Mountain Bank represents Heartland's expansion into a new region of the United States and allows Heartland to further expand our geographic footprint. An important factor in the decision to acquire Rocky Mountain Bank was its dedication to customer relationship building at the community level, which is deeply ingrained in Heartland's culture and one of the major factors considered when pursuing expansion opportunities. Future expenditures relating to expansion efforts are not estimable at this time.

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

RISK-BASED CAPITAL RATIOS ¹

(Dollars in thousands)

	2003		2002		2001	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Capital Ratios:						
Tier 1 capital	\$ 158,346	10.29%	\$ 141,918	10.65%	\$ 121,112	9.71%
Tier 1 capital minimum requirement	61,536	4.00%	53,298	4.00%	49,891	4.00%
Excess	\$ 96,810	6.29%	\$ 88,620	6.65%	\$ 71,221	5.71%

Total capital	\$ 191,060	12.42%	\$ 158,010	11.86%	\$ 135,770	10.89%
Total capital minimum requirement	123,072	8.00%	106,596	8.00%	99,782	8.00%
	<hr/>		<hr/>		<hr/>	
Excess	\$ 67,988	4.42%	\$ 51,414	3.86%	\$ 35,988	2.89%
	<hr/>		<hr/>		<hr/>	
Total risk-adjusted assets	\$ 1,538,406		\$ 1,332,451		\$ 1,247,274	
	<hr/>		<hr/>		<hr/>	

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

LEVERAGE RATIOS ¹

(Dollars in thousands)

	December 31,					
	2003		2002		2001	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Capital Ratios:						
Tier 1 capital	\$ 158,346	8.07 %	\$ 141,918	8.24%	\$ 121,112	7.53%
Tier 1 capital minimum requirement ²	78,464	4.00%	68,883	4.00%	64,336	4.00%
	<hr/>		<hr/>		<hr/>	
Excess	\$ 79,882	4.07%	\$ 73,035	4.24%	\$ 56,776	3.53%
	<hr/>		<hr/>		<hr/>	
Average adjusted assets	\$ 1,961,588		\$ 1,722,077		\$ 1,608,402	
	<hr/>		<hr/>		<hr/>	

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

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

OTHER DEVELOPMENTS

At its regular board meeting held on January 20, 2004, Heartland appointed Ronald A. Larson as a director. Mr. Larson is the founder of Larson Group L.C. of Scottsdale, Arizona. He is a founding investor and director of Heartland's subsidiary bank, Arizona Bank & Trust in Mesa, Arizona, and also serves as chairman of that bank's board of directors. Mr. Larson fills a vacancy on the board created by the retirement of Robert Woodward on December 31, 2003. Mr. Woodward served on Heartland's board since its inception. At Heartland's annual stockholders meeting in May, Mr. Larson will stand for election to a full term.

LIQUIDITY

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

Net cash outflows from investing activities was \$276.1 million during 2003, \$158.0 million during 2002 and \$171.1 million during 2001. Over half the growth in cash outflows from investing activities during 2003 resulted primarily from the significant loan growth experienced. During 2002, the cash outflows from investing activities had decreased in part as a result of the cash and cash equivalents received from the sale of the Eau Claire branch.

Net cash provided by financing activities was \$206.9 million during 2003, \$116.5 million during 2002 and \$162.7 million during 2001. The increase in net cash provided by financing activities during 2003 was primarily a result of growth in deposits, the issuance of capital securities and the acquisition of long-term advances from the FHLB. The decrease in net cash provided by financing activities during 2002 was driven by the reduced amount of borrowings incurred. The FHLB advances maturing during 2002 had been replaced with fixed-rate advances during the later half of 2001 as interest rates had hit all time lows and management felt it advantageous to lock some funding at these low rates.

in anticipation of the maturities.

Total cash inflows from operating activities was \$40.1 million during 2003, \$48.9 million during 2002 and \$17.3 million during 2001. The significant change from 2001 to 2002 occurred as a result of improved net income along with the additional activity in loans originated for sale.

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 such, will normally fluctuate. Heartland believes these balances, on average, to be stable sources of funds; however, it intends to rely on deposit growth and additional FHLB borrowings in the future.

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

Heartland's revolving credit agreement in effect at December 31, 2003, provided a maximum borrowing capacity of \$50.0 million. The present agreement effective January 31, 2004, provides a maximum borrowing capacity of \$70.0 million. As of December 31, 2003, the credit agreement provided an additional borrowing capacity of \$25.0 million. These agreements contain specific covenants which, among other things, limit dividend payments and restrict the sale of assets by Heartland under certain circumstances. Also contained within the agreements are certain financial covenants, including the maintenance by Heartland of a maximum nonperforming assets to total loans ratio, minimum return on average assets ratio and maximum funded debt to total equity capital ratio. In addition, Heartland and each of its bank subsidiaries must remain well capitalized, as defined from time to time by the federal banking regulators. At December 31, 2003, Heartland was in compliance with the covenants contained in these credit agreements.

EFFECTS OF INFLATION

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

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

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.

Heartland 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 at the banks and, on a consolidated basis, by the Heartland management team and board of directors. Darling Consulting Group, Inc. has been engaged to provide asset/liability

management position assessment and strategy formulation services to Heartland and its bank subsidiaries. At least quarterly, a detailed review of Heartland's and each of the bank subsidiaries' balance sheet risk profile is performed. Included in these reviews are interest rate sensitivity analyses, which simulate changes in net interest income in response to various interest rate scenarios. This analysis considers current portfolio rates, existing maturities, repricing opportunities and market interest rates, in addition to prepayments and growth under different interest rate assumptions. Selected strategies are modeled prior to implementation to determine their effect on Heartland's interest rate risk profile and net interest income. Through the use of these tools, Heartland has determined that the balance sheet is structured such that changes in net interest margin in response to changes in interest rates would be minimal, all other factors being held constant. Management does not believe that Heartland's primary market risk exposures and how those exposures were managed in 2003 have materially changed when compared to 2002.

Derivative financial instruments include futures, forwards, interest rate swaps, option contracts and other financial instruments with similar characteristics. Heartland's use of derivative financial instruments relates to the management of the risk that changes in interest rates will affect its future interest payments. Heartland utilizes an interest rate swap contract to effectively convert a portion of its variable rate interest rate debt to fixed interest rate debt. Under the interest rate swap contract, Heartland agrees to pay an amount equal to a fixed rate of interest times a notional principal amount, and to receive in return an amount equal to a specified variable rate of interest times the same notional principal amount. The notional amounts are not exchanged and payments under the interest rate swap contract are made monthly. Heartland is exposed to credit-related losses in the event of nonperformance by the counterparty to the swap contract, which has been minimized by entering into the contract with a large, stable financial institution. As of December 31, 2003, Heartland had an interest rate swap contract to pay a fixed rate of interest and receive a variable rate of interest on \$25.0 million of indebtedness. This contract expires on November 1, 2006. The fair market value of the interest rate swap contract was recorded as a liability in the amount of \$1.4 million as of December 31, 2003.

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

The table below summarizes the scheduled maturities of market risk sensitive assets and liabilities as of December 31, 2003.

HEARTLAND FINANCIAL USA, INC.

Quantitative and Qualitative Disclosures about Market Risk

Table Of Market Risk Sensitive Instruments

December 31, 2003 (Dollars in thousands)

MATURING IN:	2004	2005	2006	2007	2008	Thereafter	TOTAL	Average	Estimated
								Interest	Fair
								Rate	Value
ASSETS									
Fed funds sold and other short-term inv	\$ 3,445	\$ -	\$ -	\$ -	\$ -	\$ -	3,445	4.33%	\$ 3,445
Time deposits in other financial institutions	-	-	755	377	-	-	1,132	6.67	1,132
Trading						1,073	1,073	0.44	1,073
Securities	96,156	73,905	53,454	52,138	32,880	142,147	450,680	3.85	450,680
Loans and leases:									
Fixed rate loans	227,313	111,188	130,599	56,087	92,811	81,307	699,305	6.85	715,018
Variable rate loans	275,722	64,338	67,985	31,943	55,760	153,174	648,922	5.38	652,861
Loans and leases, net	503,035	175,526	198,584	88,030	148,571	234,481	1,348,227		1,367,879

Total Market Risk Sensitive Assets	\$ 602,636	\$ 249,431	\$ 252,793	\$ 140,545	\$ 181,451	\$ 377,701	\$ 1,804,557		\$ 1,824,209
LIABILITIES									
Savings	\$ 569,285	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 569,285	0.83%	\$ 569,285
Time deposits									
Fixed rate time certificates less than \$100	196,428	126,723	57,886	93,189	42,006	6,907	523,139	3.51	531,295
Variable rate time certificates less than \$100	3,268	11,396	2	-	-	-	14,666	2.38	14,666
Time deposits less than \$100	199,696	138,119	57,888	93,189	42,006	6,907	537,805		545,961
Time deposits of \$100 or more	87,294	28,247	4,282	8,783	10,213	296	139,115	2.51	141,488
Federal funds purchased, securities sold under repurchase agreements and other short-term borrowings	176,835						176,835	1.36	176,835
Other borrowings:									
Fixed rate borrowings	22,263	23,771	40,392	1,291	21,043	52,198	160,958	5.14	202,156
Variable rate borrowings					-	13,000	13,000	4.77	13,000
Other borrowings	22,263	23,771	40,392	1,291	21,043	65,198	173,958		215,156
Total Market Risk Sensitive Liabilities	\$ 1,055,373	\$ 190,137	\$ 102,562	\$ 103,263	\$ 73,262	\$ 72,401	\$ 1,596,998		\$ 1,648,725

ITEM 8.

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

	Notes	December 31, 2003	December 31, 2002
ASSETS			
Cash and due from banks	4	\$ 68,424	\$ 61,106
Federal funds sold and other short-term investments		3,445	39,886
Cash and cash equivalents		71,869	100,992
Time deposits in other financial institutions		1,132	1,677
Securities:	5		
Trading, at fair value		1,073	915
Available for sale-at fair value (cost of \$441,606 for 2003 and \$381,398 for 2002)		450,680	389,900
Loans and leases:	6		
Held for sale		25,678	23,167
Held to maturity		1,322,549	1,152,069
Allowance for loan and lease losses	7	(18,490)	(16,091)
Loans and leases, net		1,329,737	1,159,145
Assets under operating lease		31,636	30,367
Premises, furniture and equipment, net	8	49,842	35,591
Other real estate, net		599	452
Goodwill, net		20,167	16,050
Core deposit premium and mortgage servicing rights	9	5,069	4,879

Other assets		56,562	46,011
TOTAL ASSETS		\$2,018,366	\$1,785,979
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES:			
Deposits:	10		
Demand		\$ 246,282	\$ 197,516
Savings		569,286	511,979
Time		676,920	628,490
Total deposits		1,492,488	1,337,985
Short-term borrowings	11	176,835	161,379
Other borrowings	12	173,958	126,299
Accrued expenses and other liabilities		34,162	36,275
TOTAL LIABILITIES		1,877,443	1,661,938
STOCKHOLDERS' EQUITY:	16,17,18,19		
Preferred stock (par value \$1 per share; authorized, 184,000 shares, none issued or outstanding)		-	-
Series A Junior Participating preferred stock (par value \$1 per share; authorized, 16,000 shares, none issued or outstanding)		-	-
Common stock (par value \$1 per share; authorized, 16,000,000 shares at December 31, 2003 and December 31, 2002; issued 15,261,714 and 9,905,783 shares at December 31, 2003 and December 31, 2002, respectively)		15,262	9,906
Capital surplus		20,065	16,725
Retained earnings		102,584	94,048
Accumulated other comprehensive income		4,794	4,230
Treasury stock at cost (98,211 shares at December 31, 2003 and 59,369 shares at December 31, 2002, respectively)		(1,782)	(868)
TOTAL STOCKHOLDERS' EQUITY		140,923	124,041
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		\$2,018,366	\$1,785,979

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,		
		2003	2002	2001
INTEREST INCOME:				
Interest and fees on loans and leases	6	\$ 85,936	\$ 83,553	\$ 89,452
Interest on securities:				
Taxable		9,100	13,132	14,143
Nontaxable		3,952	2,757	1,790
Interest on federal funds sold		355	322	1,981
Interest on interest bearing deposits in other financial institutions		174	248	243
TOTAL INTEREST INCOME		99,517	100,012	107,609
INTEREST EXPENSE:				
Interest on deposits	10	27,763	31,395	45,783

Interest on short-term borrowings		2,350	2,643	4,515
Interest on other borrowings		8,214	8,294	8,322
TOTAL INTEREST EXPENSE		38,327	42,332	58,620
NET INTEREST INCOME		61,190	57,680	48,989
Provision for loan and lease losses	7	4,183	3,553	4,258
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES		57,007	54,127	44,731
NONINTEREST INCOME:				
Service charges and fees		6,207	5,977	4,667
Trust fees		3,814	3,407	3,148
Brokerage commissions		863	658	615
Insurance commissions		703	765	807
Securities gains, net		1,823	790	1,489
Gain (loss) on trading account securities		453	(598)	(417)
Impairment loss on equity securities		(317)	(267)	(773)
Rental income on operating leases		13,807	14,602	15,446
Gains on sale of loans		6,339	4,656	2,738
Valuation adjustment on mortgage servicing rights		338	(469)	-
Other noninterest income		2,511	1,124	900
TOTAL NONINTEREST INCOME		36,541	30,645	28,620
NONINTEREST EXPENSES:				
Salaries and employee benefits	15	33,113	28,571	25,182
Occupancy	16	3,880	3,178	3,014
Furniture and equipment		4,115	3,273	3,144
Depreciation on equipment under operating leases		11,353	11,555	11,805
Outside services		4,695	4,318	3,433
FDIC deposit insurance assessment		218	209	208
Advertising		2,354	1,917	1,588
Goodwill amortization		-	-	1,057
Core deposit premium amortization		404	495	615
Other noninterest expenses		7,560	7,143	6,646
TOTAL NONINTEREST EXPENSES		67,692	60,659	56,692
INCOME BEFORE INCOME TAXES		25,856	24,113	16,659
Income taxes	14	8,137	7,523	5,530
INCOME FROM CONTINUING OPERATIONS		17,719	16,590	11,129
Discontinued operations				
Income from operation of discontinued branch (including gain on sale of \$2,602)		-	3,751	469
Income taxes		-	1,474	184
Income on discontinued operation		-	2,277	285
NET INCOME		\$ 17,719	\$ 18,867	\$ 11,414
EARNINGS PER COMMON SHARE - BASIC		\$ 1.18	\$ 1.28	\$ 0.79
EARNINGS PER COMMON SHARE - DILUTED		\$ 1.16	\$ 1.28	\$ 0.79
CASH DIVIDENDS DECLARED PER COMMON SHARE		\$ 0.27	\$ 0.27	\$ 0.27

See accompanying Notes to Consolidated Financial Statements.

HEARTLAND FINANCIAL USA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2003, 2002 and 2001

(Dollars in thousands)

	2003	2002	2001
Cash Flows From Operating Activities:			
Net income	\$ 17,719	\$ 18,867	\$ 11,414
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	15,543	15,203	16,616
Provision for loan and lease losses	4,183	3,553	4,283
Provision for income taxes less than (in excess of) payments	716	1,996	(635)
Net amortization of premium on securities	7,580	4,420	1,285
Securities gains, net	(1,823)	(790)	(1,489)
(Increase) decrease in trading account securities	(158)	613	(1,528)
Loss on impairment of equity securities	317	267	773
Loans originated for sale	(434,851)	(278,650)	(207,332)
Proceeds on sales of loans	438,679	287,106	201,565
Net gain on sales of loans	(6,339)	(4,656)	(2,738)
Increase (decrease) in accrued interest receivable	(104)	235	1,603
Increase (decrease) in accrued interest payable	468	491	(1,597)
Other, net	(1,805)	199	(4,923)
Net cash provided by operating activities	40,125	48,854	17,297
Cash Flows From Investing Activities:			
Purchase of time deposits	(95)	(1,068)	-
Proceeds on maturities of time deposits	700	3	959
Proceeds from the sale of securities available for sale	81,545	47,086	65,010
Proceeds from the maturity of and principal paydowns on securities available for sale	188,529	151,099	109,436
Purchase of securities available for sale	(334,944)	(263,566)	(267,354)
Net increase in loans and leases	(171,795)	(109,282)	(55,118)
Purchase of bank-owned life insurance policies	(10,000)	-	(8,568)
Increase in assets under operating leases	(12,622)	(6,495)	(11,663)
Capital expenditures	(18,677)	(7,398)	(4,602)
Cash and cash equivalents received for sale of operation	-	30,469	-
Proceeds on sale of OREO and other repossessed assets	1,249	1,192	790
Net cash used by investing activities	(276,110)	(157,960)	(171,110)
Cash Flows from Financing Activities:			
Net increase in demand deposits and and savings accounts	106,073	58,758	111,338
Net increase (decrease) in time deposit accounts	48,430	77,802	(7,492)
Net increase in short-term borrowings	15,456	676	20,794
Proceeds from other borrowings	52,750	7,840	69,381
Repayments of other borrowings	(5,091)	(25,330)	(28,448)
Purchase of treasury stock	(7,999)	(1,348)	(1,026)
Proceeds from sale of common stock	1,339	2,076	1,689
Dividends	(4,096)	(3,926)	(3,560)
Net cash provided by financing activities	206,862	116,548	162,676
Net increase (decrease) in cash and cash equivalents	(29,123)	7,442	8,863
Cash and cash equivalents at beginning of year	100,992	93,550	84,687
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 71,869	\$ 100,992	\$ 93,550
Supplemental disclosures:			
Cash paid for income/franchise taxes	\$ 7,795	\$ 6,648	\$ 6,365
Cash paid for interest	\$ 38,694	\$ 41,841	\$ 61,790
Securities held to maturity transferred to securities available for sale	\$ -	\$ -	\$ 2,154

See accompanying Notes to Consolidated Financial Statements.

HEARTLAND FINANCIAL USA, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

For the years ended December 31, 2003, 2002 and 2001 (Dollars in thousands, except per share data)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at January 1, 2001	\$ 9,906	\$ 18,812	\$ 71,253	\$ 1,301	\$ (5,126)	\$ 96,146
Net Income-2001			11,414			11,414
Unrealized gain on securities available for sale				3,796		3,796
Unrealized gain (loss) on derivatives arising during the period net of reclassification of \$46				350		350
Reclassification adjustment for net security gains realized in net income				(716)		(716)
Income taxes				(1,166)		(1,166)
Comprehensive income						13,678
Cash dividends declared:						
Common, \$.25 per share			(3,560)			(3,560)
Purchase of 118,884 shares of common stock					(1,026)	(1,026)
Sale of 211,197 shares of common stock		(696)			2,548	1,852
Balance at December 31, 2001	\$ 9,906	\$ 18,116	\$ 79,107	\$ 3,565	\$ (3,604)	\$ 107,090
Net Income-2002			18,867			18,867
Unrealized gain on securities available for sale				3,630		3,630
Unrealized gain (loss) on derivatives arising during the period, net of reclassification of \$667				(2,100)		(2,100)
Reclassification adjustment for net security gains realized in net income				(523)		(523)
Income taxes				(342)		(342)
Comprehensive income						19,532
Cash dividends declared:						
Common, \$.27 per share			(3,926)			(3,926)
Purchase of 143,314 shares of common stock					(1,348)	(1,348)
Sale of 393,307 shares of common stock		(1,391)			4,084	2,693
Balance at December 31, 2002	\$ 9,906	\$ 16,725	\$ 94,048	\$ 4,230	\$ (868)	\$ 124,041
Net Income-2003			17,719			17,719
Unrealized gain on securities available for sale				2,153		2,153
Unrealized gain (loss) on derivatives arising during the period, net of reclassification of \$123				208		208
Reclassification adjustment for net security gains realized in net income				(1,506)		(1,506)
Income taxes				(291)		(291)
Comprehensive income						18,283
Cash dividends declared:						
Common, \$.27 per share			(4,096)			(4,096)
Three-for-two stock split	5,087		(5,087)			
Purchase of 427,344 shares of common stock					(7,999)	(7,999)
Issuance of 821,226 shares of common stock	269	3,340			7,085	10,694

Balance at December 31, 2003	\$ 15,262	\$ 20,065	\$ 102,584	\$ 4,794	\$ (1,782)	\$ 140,923
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See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ONE SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - Heartland Financial USA, Inc. ("Heartland") is a multi-bank holding company primarily operating full-service retail banking offices serving communities in and around Dubuque and Lee Counties in Iowa; Jo Daviess, Hancock and Winnebago Counties in Illinois; Dane, Green, Sheboygan and Brown Counties in Wisconsin; Bernalillo, Curry and Santa Fe Counties in New Mexico; and Maricopa County in Arizona. The principal services of Heartland, through its subsidiaries, are FDIC-insured deposit accounts and related services, and loans to businesses and individuals. The loans consist primarily of commercial, commercial real estate, and residential real estate.

Principles of Presentation - The consolidated financial statements include the accounts of Heartland and its subsidiaries: Dubuque Bank and Trust Company; Galena State Bank and Trust Company; First Community Bank; Riverside Community Bank; Wisconsin Community Bank; New Mexico Bank & Trust; Arizona Bank & Trust; Citizens Finance Co.; ULTEA, Inc.; DB&T Insurance, Inc.; DB&T Community Development Corp.; DBT Investment Corporation; WCB Mortgage LLC; Heartland Community Development, Inc.; Heartland Capital Trust I; Heartland Capital Trust II; Heartland Financial Statutory Trust II; and Heartland Financial Statutory Trust III. All of Heartland's subsidiaries are wholly-owned except for Arizona Bank & Trust, of which Heartland was an 86% owner on December 31, 2003 and WCB Mortgage, LLC, of which Heartland was a 55% owner on December 31, 2003. All significant intercompany balances and transactions have been eliminated in consolidation.

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

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. During the first quarter of 2001, Heartland began purchasing securities, on a limited basis, with the intent of actively trading those securities.

Securities Available for Sale - Available for sale securities consist of those securities not classified as held to maturity or trading, which management intends to hold for indefinite periods of time or that may be sold in response to changes in interest rates, prepayments or other similar factors. Such 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. Gains or losses from the sale of available for sale securities are determined based upon the adjusted cost of the specific security sold. Unrealized losses judged to be other than temporary are charged to operations for both securities available for sale and securities held to maturity.

Securities Held to Maturity - Securities that 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 maturity date of the related security.

Loans and Leases - Interest on loans is accrued and credited to income based primarily on the principal balance outstanding. Income from leases is recorded in decreasing amounts over the term of the contract resulting in a level rate of return on the lease investment. The policy of Heartland is to discontinue the accrual of interest income on any loan or lease when, in the opinion of management, there is a reasonable doubt as to the timely collection of the interest and principal. When interest accruals are deemed uncollectible, interest credited to income in the current year is reversed and interest accrued in prior years is charged to the allowance for loan and lease losses. Nonaccrual loans and leases are

returned to an accrual status when, in the opinion of management, the financial position of the borrower indicates that there is no longer any reasonable doubt as to the timely payment of interest and principal.

Under Heartland's credit policies, all nonaccrual and restructured loans are defined as impaired loans. Loan impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, except where more practical, at the observable market price of the loan or the fair value of the collateral if the loan is collateral dependent.

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

Loans held for sale are stated at the lower of aggregate cost or estimated fair value. Loans are sold on a nonrecourse basis with either servicing released or retained, and gains and losses are recognized based on the difference between sales proceeds and the carrying value of the loan.

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

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

Other Real Estate - Other real estate represents property acquired through foreclosures and settlements of loans. Property acquired is carried at the lower of the principal amount of the loan outstanding at the time of acquisition, plus any acquisition costs, or the estimated fair value of the property, less disposal costs. The excess, if any, of such costs at the time acquired over the fair value is charged against the allowance for loan and lease losses. Subsequent write downs estimated on the basis of later evaluations, gains or losses on sales and net expenses incurred in maintaining such properties are charged to operations.

Intangible Assets - Intangible assets consist of goodwill, core deposit premiums and mortgage servicing rights. Goodwill represents the excess of the purchase price of acquired subsidiaries' net assets over their fair value. On July 1, 2001, Heartland adopted Financial Accounting Standards Board Statement No. 142 (FAS 142), "Goodwill and Other Intangible Assets." FAS 142 eliminates amortization of goodwill associated with business combinations completed after June 30, 2001. Effective January 1, 2002, all goodwill amortization was discontinued. Heartland assesses goodwill for impairment annually, and more frequently in the presence of certain circumstances. Impairment exists when the carrying amount of the goodwill exceeds its implied fair value.

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

Mortgage servicing rights associated with loans originated and sold, where servicing is retained, are capitalized. The values of these capitalized servicing rights are amortized in relation to the servicing revenue expected to be earned. The carrying values of these rights are reviewed quarterly for impairment. For purposes of measuring impairment, the rights are stratified into certain risk characteristics including loan type, note rate, prepayment trends and external market factors. A valuation allowance of \$131 thousand was required as of December 31, 2003, and a valuation allowance of \$469 thousand was required as of December 31, 2002.

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

(Dollars in thousands)

	2003	2002
Balance, beginning of year	\$ 2,443	\$ 1,174
Originations	2,546	2,499

Amortization	(2,290)	(761)
Valuation adjustment	338	(469)
	<hr/>	<hr/>
Balance, end of year	\$ 3,037	\$ 2,443
	<hr/>	<hr/>

Mortgage loans serviced for others were \$539.1 and \$395.1 million as of December 31, 2003 and 2002, respectively. Custodial escrow balances maintained in connection with the mortgage loan servicing portfolio were approximately \$2.5 and \$1.8 million as of December 31, 2003 and 2002, respectively.

Income Taxes - Heartland and its subsidiaries file a consolidated federal income tax return. Heartland and its subsidiaries file separate income or franchise tax returns as required by the various states.

Heartland has a tax allocation agreement which provides that each subsidiary of the consolidated group pay a tax liability to, or receive a tax refund from Heartland, computed as if the subsidiary had filed a separate return.

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. Deferred tax assets are recognized if their expected realization is "more likely than not."

Treasury Stock - Treasury stock is accounted for by the cost method, whereby shares of common stock reacquired are recorded at their purchase price.

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

Earnings Per Share - Amounts used in the determination of basic and diluted earnings per share for the years ended December 31, 2003, 2002 and 2001 are shown in the table below:

(Dollars in thousands)

	2003	2002	2001
	<hr/>	<hr/>	<hr/>
Income from continuing operations	\$ 17,719	\$ 16,590	\$ 11,129
Discontinued operations:			
Income from operations of discontinued branch (including gain on sale of \$2,602)	-	3,751	469
Income taxes	-	1,474	184
	<hr/>	<hr/>	<hr/>
Income from discontinued operations	-	2,277	285
	<hr/>	<hr/>	<hr/>
Net income	\$ 17,719	\$ 18,867	\$ 11,414
	<hr/>	<hr/>	<hr/>
Weighted average common shares outstanding for basic earnings per share ¹	14,984	14,688	14,403
Assumed incremental common shares issued upon exercise of stock options ¹	274	96	155
	<hr/>	<hr/>	<hr/>
Weighted average common shares for diluted earnings per share ¹	15,258	14,784	14,558
	<hr/>	<hr/>	<hr/>
Earnings per common share-basic	\$ 1.18	\$ 1.28	\$ 0.79
Earnings per common share-diluted	\$ 1.16	\$ 1.28	\$ 0.78
Adjusted earnings per share from continuing operations-basic ²	\$ 1.18	\$ 1.13	\$ 0.77
Adjusted earnings per share from continuing operations-diluted ²	\$ 1.16	\$ 1.12	\$ 0.76
Earnings per common share-basic ³	\$ 1.18	\$ 1.28	\$ 0.87
Earnings per common share-diluted ³	\$ 1.16	\$ 1.28	\$ 0.85
Adjusted earnings per share from continuing operations-basic ⁴	\$ 1.18	\$ 1.13	\$ 0.85
Adjusted earnings per share from continuing operations-diluted ⁴	\$ 1.16	\$ 1.12	\$ 0.84

¹ In thousands.

² Excludes the discontinued operations of our Eau Claire branch and the related gain on sale in the fourth quarter of 2002.

³ Excludes goodwill amortization discontinued with the adoption of FAS 142 on January 1, 2002, and the adoption of FAS 147 on September 30, 2002.

⁴ Excludes goodwill amortization discontinued with the adoption of FAS 142 on January 1, 2002, and the adoption of FAS 147 on September 30, 2002, and the discontinued operations of our Eau Claire branch and the related gain on sale in the fourth quarter of 2002.

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

Effect of New Financial Accounting Standards - In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 143 (FAS 143), "Accounting for Asset Retirement Obligations," which addresses the recognition and measurement of obligations with the retirement of tangible long-lived assets. FAS 143 was effective January 1, 2003, with early adoption permitted. Heartland adopted FAS 143 effective January 1, 2003, and the adoption of the Statement did not have a material effect on the financial statements.

In August 2001, the FASB issued Statement No. 144 (FAS 144), "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes both Statement No. 121 (FAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of Accounting Principles Bulletin (APB) Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as previously defined in that Opinion). FAS 144 retains the fundamental provisions in FAS 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with FAS 121. For example, FAS 144 provides guidance on how a long-lived asset used as part of a group should be evaluated for impairment, establishes criteria for when a long-lived asset is held for sale, and prescribes the accounting for a long-lived asset that will be disposed of other than by sale. FAS 144 retains the basic provisions of APB Opinion No. 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). Unlike FAS 121, an impairment assessment under FAS 144 will never result in a write-down of goodwill. Rather, goodwill is evaluated for impairment under FAS 142. Heartland adopted FAS 144 effective January 1, 2002, and applied FAS 144 to the sale of Wisconsin Community Bank's branch in Eau Claire, Wisconsin.

In June 2002, the FASB issued Statement No. 146 (FAS 146), "Accounting for Costs Associated with Exit or Disposal Activities," which addresses financial accounting and reporting of costs associated with exit or disposal activities. Under FAS 146, such costs will be recognized when the liability is incurred, rather than at the date of the commitment to an exit plan. FAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with early adoption permitted. Heartland adopted FAS 146 on January 1, 2003 and the adoption of the Statement did not have a material effect on the financial statements.

In October 2002, the FASB issued Statement No. 147 (FAS 147), "Acquisitions of Certain Financial Institutions," which amends Statement No. 72 (FAS 72), "Accounting for Certain Acquisitions of Banking or Thrift Institutions," and no longer requires the separate recognition and subsequent amortization of goodwill. FAS 147 also amends FAS 144 to include in its scope core deposit intangibles. Heartland adopted FAS 147 on September 30, 2002. As of December 31, 2003 and December 31, 2002, Heartland had unamortized goodwill in the amount of \$20.2 and \$16.1 million, respectively, and unamortized core deposit premiums in the amount of \$2.0 and \$2.4 million, respectively. On June 30, 2003, Heartland completed the buyout of all minority stockholders of New Mexico Bank & Trust as agreed upon during its formation in 1998. This transaction resulted in a \$4.1 million increase in goodwill. Amortization expense related to goodwill was \$1.1 million for the year ended December 31, 2001. Amortization expense related to core deposit intangible assets was \$404, \$495 and \$615 thousand for the years ended December 31, 2003, 2002 and 2001, respectively.

The table below reconciles reported earnings for the years ended December 31, 2003, 2002 and 2001, to "adjusted" earnings, which exclude goodwill amortization.

ADJUSTED EARNINGS SCHEDULE

(Dollars in thousands, except per share data)

	Year ended December 31, 2003	Year ended December 31, 2002	Year ended December 31, 2001		
	Reported Earnings	Reported Earnings	Reported Earnings	Goodwill Amortization	"Adjusted" Earnings
Income from continuing operations before income taxes	\$ 25,856	\$ 24,113	\$ 16,659	\$ 1,057	\$ 17,716
Income taxes	8,137	7,523	5,530	-	5,530
Income from continuing operations	\$ 17,719	\$ 16,590	\$ 11,129	\$ 1,057	\$ 12,186
Net income	\$ 17,719	\$ 18,867	\$ 11,414	\$ 1,057	\$ 12,471
Earnings per share before effect of change in accounting principle	\$ 1.18	\$ 1.13	\$ 0.77	\$ 0.07	\$ 0.85
Earnings per common share	\$ 1.18	\$ 1.28	\$ 0.79	\$ 0.07	\$ 0.87
Earnings per share-diluted before effect of change in accounting principle	\$ 1.16	\$ 1.12	\$ 0.76	\$ 0.07	\$ 0.84
Earnings per share-diluted	\$ 1.16	\$ 1.28	\$ 0.78	\$ 0.07	\$ 0.85

In November of 2002, the FASB issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This Interpretation describes the disclosures to be made by a guarantor in interim and annual financial statements about obligations under certain guarantees the guarantor has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. Heartland adopted FIN 45 effective January 1, 2003, and the adoption of FIN 45 did not have a material effect on the financial statements.

In December 2002, the FASB issued Statement No. 148 (FAS 148), "Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment to FASB Statement 123." FAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, FAS 148 amends the disclosure requirements of FAS 123 to require more prominent disclosures in both annual and interim financial statements about the method used on reported results. FAS 148 was effective for financial statements for fiscal years ending after December 15, 2002. Heartland adopted the disclosure provisions of FAS 148 in 2002.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities " and, in December 2003, issued Revised Interpretation No. 46 (FIN 46R), "Consolidation of Variable Interest Entities," which replaced FIN 46. Heartland adopted the disclosure provisions of FIN 46 effective December 31, 2002. On February 1, 2003, Heartland adopted the recognition and measurement of provisions of FIN 46 for variable interest entities (VIE's) formed after January 31, 2003, and, on December 31, 2003, Heartland adopted FIN 46R. Heartland has no newly formed variable interest entities subject to the provisions of FIN 46. The adoption of FIN 46 and FIN 46R did not have a material effect on the consolidated financial statements of Heartland.

In April 2003, the FASB issued Statement No. 149 (FAS 149), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." FAS 149 amends FAS 133, "Accounting for Derivative Instruments and Hedging Activities," for decisions made (1) as part of the Derivatives Implementation Group process that effectively required amendments to FAS 133, (2) in connection with other FASB projects dealing with financial instruments, and (3) in connection with the implementation issues raised in relation to the application of the definition of a derivative, in particular, the meaning of "an initial net investment that is smaller than would be required for other types of contracts

that would be expected to have a similar response to changes in market factors," the meaning of "underlying" and the characteristics of a derivative that contains financing components. FAS 149 is generally effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. Heartland adopted FAS 149 on July 1, 2003, and such adoption did not have a material effect on its financial position or results of operations.

In May 2003, the FASB issued Statement No. 150 (FAS 150), "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This Statement was effective for financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatory redeemable financial instruments of nonpublic entities. On October 29, 2003, the FASB voted to defer for an indefinite period the application of the guidance in FAS 150, to non-controlling interests that are classified as equity in the financial statements of a subsidiary but would be classified as a liability on the parent's financial statements. The adoption of the sections of this Statement that have not been deferred did not have a significant impact on Heartland's financial condition or results of operations. The section noted above that has been deferred indefinitely is not expected to have a significant impact on Heartland's financial condition or results of operations.

Stock-Based Compensation - Heartland applies APB Opinion No. 25 in accounting for its Stock Option Plan and, accordingly, no compensation cost for its stock options has been recognized in the financial statements. Had Heartland determined compensation cost based on the fair value at the grant date for its stock options under FAS No. 148, Heartland's net income would have been reduced to the pro forma amounts indicated below:

(Dollars in thousands, except earnings per share data)

	2003	2002	2001
Net income as reported	\$ 17,719	\$ 18,867	\$ 11,414
Pro forma	17,503	18,619	11,112
Earnings per share-basic as reported	\$ 1.18	\$ 1.28	\$.79
Pro forma	1.17	1.27	.77
Earnings per share-diluted as reported	\$ 1.16	\$ 1.28	\$.78
Pro forma	1.15	1.26	.76

Pro forma net income only reflects options granted in the years from 1996 through 2003. Therefore, the full impact of calculating compensation cost for stock options under FAS 123 is not reflected in the pro forma net income amounts presented above because compensation is reflected over the options' vesting period, and compensation cost for options granted prior to January 1, 1996, is not considered.

Stock Split - The Heartland board of directors declared a three-for-two stock split payable December 29, 2003, effected in the form of a stock dividend. All related information, including earnings per share, has been restated to reflect this transaction.

Reclassifications - Certain reclassifications have been made to prior periods' consolidated financial statements to place them on a basis comparable with the current period's consolidated financial statements.

TWO DISCONTINUED OPERATIONS

On December 15, 2002, Heartland sold the assets and liabilities of its Eau Claire, Wisconsin branch of Wisconsin Community Bank due to the fact that the branch did not achieve critical mass in the marketplace. The sale allowed Heartland to redirect assets to markets where they can be more productively and profitably employed. Loans sold totaled \$34.3 million and deposits assumed by the buyer totaled \$6.7 million. As part of the sale agreement, Wisconsin Community Bank subsequently purchased loans of \$4.3 million from the buyer. Prior to the application of the direct costs of \$133 thousand, the transaction resulted in a gain on sale of \$1.6 million, net of tax. These amounts are included in the line item, "Income from operation of discontinued branch." The branch's pretax profit or loss, for the periods

presented, is also reflected in this line item. Additionally, included in this line item are \$1.2 million and \$906 thousand of net interest income for the branch for the years ended December 31, 2002 and 2001, respectively.

THREE ACQUISITIONS

Heartland regularly explores opportunities for acquisitions of financial institutions and related businesses. Generally, management does not make a public announcement about an acquisition opportunity until a definitive agreement has been signed.

In February of 2004, Heartland announced that it had signed a definitive agreement to acquire Rocky Mountain Bancorporation, the holding company for Rocky Mountain Bank, a financial institution providing retail and commercial banking services from eight locations throughout Montana. The total purchase price upon completion, subject to obtaining stockholder and regulatory approvals, will be approximately \$34.5 million, and will consist of a minimum of 50% in Heartland common stock and the remainder in cash. The transaction is expected to close during the second quarter of 2004. Rocky Mountain Bancorporation had assets of \$369.7 million at December 31, 2003, and revenues of \$1.9 million in the latest twelve-month period ended December 31, 2003.

In February of 2003, Heartland entered into an agreement with a group of Arizona business leaders to establish a new bank in Mesa. Arizona Bank & Trust opened on August 18, 2003, and Heartland funded the \$12.0 million initial investment through use of its revolving credit line.

FOUR CASH AND DUE FROM BANKS

The Heartland banks are required to maintain certain average cash reserve balances as a member of the Federal Reserve System. The reserve balance requirements at December 31, 2003 and 2002 were \$5.6 and \$5.2 million respectively.

FIVE SECURITIES

The amortized cost, gross unrealized gains and losses and estimated fair values of available for sale securities as of December 31, 2003 and 2002, are summarized as follows:

(Dollars in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2003				
Securities available for sale:				
U.S. government corporations, agencies and treasuries	\$ 182,078	\$ 1,247	\$ (391)	\$ 182,934
Mortgage-backed securities	149,431	2,047	(245)	151,233
Obligations of states and political subdivisions	87,299	6,007	(96)	93,210
Total debt securities	418,808	9,301	(732)	427,377
Equity securities	22,798	558	(53)	23,303
Total	\$ 441,606	\$ 9,859	\$ (785)	\$ 450,680
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2002				
Securities available for sale:				
U.S. government corporations, agencies and treasuries	\$ 98,088	\$ 3,251	\$ -	\$ 101,339

Mortgage-backed securities	185,216	2,353	(251)	187,318
Obligations of states and political subdivisions	67,810	3,648	(67)	71,391
	<hr/>	<hr/>	<hr/>	<hr/>
Total debt securities	351,114	9,252	(318)	360,048
Equity securities	30,284	157	(589)	29,852
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 381,398	\$ 9,409	\$ (907)	\$ 389,900
	<hr/>	<hr/>	<hr/>	<hr/>

The amortized cost and estimated fair value of debt securities available for sale at December 31, 2003, by estimated maturity, are as follows. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without penalties.

(Dollars in thousands)

	Amortized Cost	Estimated Fair Value
	<hr/>	<hr/>
Securities available for sale:		
Due in 1 year or less	\$ 94,739	\$ 96,156
Due in 1 to 5 years	210,903	212,377
Due in 5 to 10 years	33,737	35,733
Due after 10 years	79,429	83,111
	<hr/>	<hr/>
Total	\$ 418,808	\$ 427,377
	<hr/>	<hr/>

As of December 31, 2003, securities with a fair value of \$222.2 million were pledged to secure public and trust deposits, short-term borrowings and for other purposes as required by law.

Gross gains and losses related to sales of securities for the years ended December 31, 2003, 2002 and 2001, are summarized as follows:

(Dollars in thousands)

	2003	2002	2001
	<hr/>	<hr/>	<hr/>
Securities sold:			
Proceeds from sales	\$ 81,545	\$ 46,796	\$ 65,010
Gross security gains	1,990	941	2,233
Gross security losses	167	151	744

During the years ended December 31, 2003, 2002 and 2001 Heartland incurred other than temporary impairment losses of \$317, \$267 and \$773 thousand on equity securities available for sale.

The following table summarizes 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, 2003. 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, 2003. The only investment held by Heartland as of December 31, 2003, that had unrealized losses for a period greater than 12 months was one equity security which had a fair market value at December 31, 2003, that was at 91% of its initial cost to Heartland. The fair market value on total debt securities temporarily impaired as of December 31, 2003, was no less than 94% of Heartland's cost to acquire these securities. In the case of the equity securities temporarily impaired for a period of less than twelve months, the fair market value of these two common stock holdings was no less than 81% of Heartland's cost to acquire that common stock.

UNREALIZED LOSSES ON SECURITIES

December 31, 2003

Less than 12 months	12 months or longer	Total
<hr/>	<hr/>	<hr/>

	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government corporations, agencies and treasuries	\$ 76,610	\$ 391	-	-	\$ 76,610	\$ 391
Mortgage-backed securities	24,696	245	-	-	24,696	245
Obligations of states and political subdivisions	6,150	96	-	-	6,150	96
Total debt securities	107,456	732	-	-	107,456	732
Equity securities	226	43	117	10	343	53
Total temporarily impaired securities	\$ 107,682	\$ 775	\$ 117	\$ 10	\$ 107,799	\$ 785

SIX LOANS AND LEASES

Loans and leases as of December 31, 2003 and 2002, were as follows:

(Dollars in thousands)

	2003	2002
Commercial and commercial real estate	\$ 881,821	\$ 743,520
Residential mortgage	152,580	145,931
Agricultural and agricultural real estate	166,182	155,596
Consumer	136,806	120,853
Loans, gross	1,337,389	1,165,900
Unearned discount	(1,836)	(2,161)
Deferred loan fees	(947)	(811)
Loans, net	1,334,606	1,162,928
Direct financing leases:		
Gross rents receivable	11,020	9,765
Estimated residual value	4,217	4,336
Unearned income	(1,616)	(1,793)
Direct financing leases, net	13,621	12,308
Allowance for loan and lease losses	(18,490)	(16,091)
Loans and leases, net	\$ 1,329,737	\$ 1,159,145

Direct financing leases receivable are generally short-term equipment leases. Future minimum lease payments as of December 31, 2003, were as follows: \$5.2 million for 2004, \$4.1 million for 2005, \$2.3 million for 2006, \$2.0 million for 2007 and \$1.6 million thereafter.

As Dubuque Bank and Trust Company is the largest subsidiary of Heartland, the majority of the loan portfolio is concentrated in northeast Iowa, northwest Illinois and southwest Wisconsin.

Loans and leases on a nonaccrual status amounted to \$5.1 and \$3.9 million at December 31, 2003 and 2002, respectively. The allowance for loan and lease losses related to these nonaccrual loans was \$879 and \$774 thousand, respectively. All nonaccrual loans were subject to a related allowance at December 31, 2003, and December 31, 2002, as Heartland's allowance adequacy methodology identifies a specific allocation for each credit. The average balances of nonaccrual loans for the years ended December 31, 2003, 2002 and 2001 were \$4.3, \$6.3 and \$7.0 million, respectively. For the years ended December 31, 2003, 2002 and 2001, interest income which would have been recorded under the original terms of these loans and leases amounted to approximately \$475, \$272 and \$557 thousand respectively, and interest income actually recorded amounted to approximately \$46, \$57 and \$188 thousand,

respectively.

Loans and leases on a restructured status amounted to \$0 at December 31, 2003 and 2002. The allowance for loan and lease losses related to these nonaccrual loans was \$0 for the same periods. The average balances of restructured loans for the years ended December 31, 2003, 2002 and 2001 were \$0, \$119 and \$355 thousand, respectively. For the years ended December 31, 2003, 2002 and 2001, interest income which would have been recorded under the original terms of these loans and leases amounted to approximately \$0, \$9 and \$32 thousand, respectively, and interest income actually recorded amounted to approximately \$0, \$9 and \$9 thousand, respectively.

Loans are made in the normal course of business to directors, officers and principal holders of equity securities of Heartland. The terms of these loans, including interest rates and collateral, are similar to those prevailing for comparable transactions and do not involve more than a normal risk of collectibility. Changes in such loans during the year ended December 31, 2003 and 2002 were as follows:

(Dollars in thousands)

	2003	2002
	<u> </u>	<u> </u>
Balance at beginning of year	\$ 31,941	\$ 26,912
Advances	10,638	24,357
Repayments	(11,646)	(19,328)
	<u> </u>	<u> </u>
Balance, end of year	\$ 30,933	\$ 31,941
	<u> </u>	<u> </u>

SEVEN ALLOWANCE FOR LOAN AND LEASE LOSSES

Changes in the allowance for loan and lease losses for the years ended December 31, 2003, 2002 and 2001, were as follows:

(Dollars in thousands)

	2003	2002	2001
	<u> </u>	<u> </u>	<u> </u>
Balance at beginning of year	\$ 16,091	\$ 14,660	\$ 13,592
Provision for loan and lease losses from continuing operations	4,183	3,553	4,258
Provision for loan and lease losses from discontinued operations	-	(329)	25
Recoveries on loans and leases previously charged off	608	1,410	542
Loans and leases charged off	(2,392)	(3,203)	(3,757)
	<u> </u>	<u> </u>	<u> </u>
Balance at end of year	\$ 18,490	\$ 16,091	\$ 14,660
	<u> </u>	<u> </u>	<u> </u>

EIGHT PREMISES, FURNITURE AND EQUIPMENT

Premises, furniture and equipment as of December 31, 2003 and 2002, were as follows:

(Dollars in thousands)

	2003	2002
	<u> </u>	<u> </u>
Land and land improvements	\$ 7,669	\$ 6,610
Buildings and building improvements	39,185	29,899
Furniture and equipment	26,849	20,960
	<u> </u>	<u> </u>
Total	73,703	57,469
Less accumulated depreciation	(23,861)	(21,878)
	<u> </u>	<u> </u>
Premises, furniture and equipment, net	\$ 49,842	\$ 35,591

Depreciation expense on premises, furniture and equipment was \$3.5, \$2.8, and \$2.7 million for 2003, 2002, and 2001, respectively.

NINE INTANGIBLE ASSETS

The gross carrying amount of intangible assets and the associated accumulated amortization at December 31, 2003 and 2002 are presented in the tables below.

(Dollars in thousands)	December 31, 2003		December 31, 2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Core deposit intangibles	\$ 4,492	\$ 2,460	\$ 4,492	\$ 2,056
Mortgage servicing rights	3,712	675	3,346	903
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 8,204	\$ 3,135	\$ 7,838	\$ 2,959
	<hr/>	<hr/>	<hr/>	<hr/>
Unamortized intangible assets		\$ 5,069		\$ 4,879
		<hr/>		<hr/>

The following table shows the estimated future amortized intangible assets:

(Dollars in thousands)

	Core Deposit Intangibles	Mortgage Servicing Rights	Total
Year ended			
2004	\$ 353	\$ 1,092	\$ 1,445
2005	353	555	908
2006	353	463	816
2007	353	370	723
2008	353	278	631

TEN DEPOSITS

The aggregate amount of time certificates of deposit in denominations of one hundred thousand dollars or more as of December 31, 2003 and 2002, were \$139.1 and \$126.2 million, respectively. At December 31, 2003, the scheduled maturities of time certificates of deposit were as follows:

(Dollars in thousands)

	2003
2004	\$ 286,990
2005	166,367
2006	62,169
2007	101,972
2008	52,219
Thereafter	7,203
	<hr/>
	\$ 676,920

Interest expense on deposits for the years ended December 31, 2003, 2002 and 2001, was as follows:

(Dollars in thousands)

	2003	2002	2001
Savings and money market accounts	\$ 4,798	\$ 6,530	\$ 11,858
Time certificates of deposit in denominations of \$100,000 or more	3,720	4,505	8,220
Other time deposits	19,245	20,360	25,705
Interest expense on deposits	\$ 27,763	\$ 31,395	\$ 45,783

ELEVEN SHORT-TERM BORROWINGS

Short-term borrowings as of December 31, 2003 and 2002, were as follows:

(Dollars in thousands)

	2003	2002
Securities sold under agreements to repurchase	\$ 112,827	\$ 99,004
Federal funds purchased	32,050	28,325
U.S. Treasury demand note	4,946	6,550
Citizens short-term notes	2,012	2,500
Notes payable to unaffiliated banks	25,000	25,000
Total	\$ 176,835	\$ 161,379

On September 28, 2000, Heartland entered into a credit agreement with two unaffiliated banks to replace an existing term credit line, as well as to increase availability under a revolving credit line. Under the new unsecured revolving credit lines, Heartland may borrow up to \$50.0 million at any one time. At December 31, 2003 and December 31, 2002, \$25.0 million was outstanding on the revolving credit lines. The additional credit line was established primarily to provide additional working capital to the nonbanking subsidiaries and to meet general corporate commitments.

All repurchase agreements as of December 31, 2003 and 2002, were due within six months.

Average and maximum balances and rates on aggregate short-term borrowings outstanding during the years ended December 31, 2003, 2002 and 2001, were as follows:

(Dollars in thousands)

	2003	2002	2001
Maximum month-end balance	\$ 176,835	\$ 161,379	\$ 162,744
Average month-end balance	151,037	140,282	151,139
Weighted average interest rate for the year	1.54%	1.96%	3.96%
Weighted average interest rate at year-end	1.36%	1.59%	1.39%

TWELVE OTHER BORROWINGS

Other borrowings at December 31, 2003 and 2002, were as follows:

(Dollars in thousands)

2003	2002
------	------

Advances from the FHLB; weighted average maturity dates at December 31, 2003 and 2002 were August 2006 and February 2005, respectively; and weighted average interest rates were 4.29% and 5.04%, respectively	\$101,476	\$ 72,481
Notes payable on leased assets with interest rates varying from 2.36% to 8.52%	13,063	14,245
Trust preferred securities	58,000	38,000
Contracts payable to previous stockholders of National Bancshares, Inc. for acquisition due over a three- or five-year schedule at 7.00% through January 2004	627	1,255
Community Development Block Grant Loan Program with the City of Dubuque at 3.00% due April 2013	500	-
Contracts payable for purchase of real estate	292	318
	<hr/>	<hr/>
Total	\$173,958	\$126,299
	<hr/>	<hr/>

The Heartland banks are members of the Federal Home Loan Bank ("FHLB") of Des Moines, Chicago, or Dallas. The advances from the FHLB are collateralized by the banks' investment in FHLB stock of \$13.0 and \$26.7 million at December 31, 2003 and 2002, respectively. Additional collateral is provided by the banks' one-to-four unit residential mortgages, commercial and agricultural mortgages and securities pledged totaling \$461.5 million at December 31, 2003 and \$195.8 million at December 31, 2002.

On October 10, 2003, Heartland completed an offering of \$20.0 million of 8.25% fixed rate cumulative capital securities representing undivided beneficial interests in Heartland Statutory Trust III. The proceeds from the offering were used by Heartland Statutory Trust III to purchase junior subordinated debentures from Heartland. The proceeds will be used for general corporate purposes, including future acquisitions or the retirement of debt. Interest is payable quarterly on March 31, June 30, September 30 and December 31 of each year. The debentures will mature and the capital securities must be redeemed on October 10, 2033. Heartland has the option to shorten the maturity date to a date not earlier than October 10, 2008. Heartland may not shorten the maturity date without prior approval of the Board of Governors of the Federal Reserve System, if required. Prior redemption is permitted under certain circumstances, such as changes in tax or regulatory capital rules. In connection with this offering, the balance of deferred issuance costs included in other assets was \$223 thousand as of December 31, 2003. These deferred costs are amortized on a straight-line basis over the life of the debentures.

On June 27, 2002, Heartland completed an offering of \$5.0 million of variable rate cumulative capital securities representing undivided beneficial interests in Heartland Financial Capital Trust II. The proceeds from the offering were used by the trust to purchase junior subordinated debentures from Heartland. The proceeds are being used for general corporate purposes. Interest is payable quarterly on March 30, June 30, September 30 and December 30 of each year. The debentures will mature and the capital securities must be redeemed on June 30, 2032. Heartland has the option to shorten the maturity date to a date not earlier than June 30, 2007. Heartland may not shorten the maturity date without prior approval of the Board of Governors of the Federal Reserve System, if required. Prior redemption is permitted under certain circumstances, such as changes in tax or regulatory capital rules. In connection with this offering, the balance of deferred issuance costs included in other assets was \$158 thousand as of December 31, 2003. These deferred costs are amortized on a straight-line basis over the life of the debentures.

On December 18, 2001, Heartland completed an offering of \$8.0 million of variable rate cumulative capital securities representing undivided beneficial interests in Heartland Statutory Trust II. The proceeds from the offering were used by Heartland Statutory Trust II to purchase junior subordinated debentures from Heartland. The proceeds are being used for general corporate purposes, including the repayment of \$8.0 million of indebtedness on the revolving credit lines. Interest is payable quarterly on March 18, June 18, September 18 and December 18 of each year. The debentures will mature and the capital securities must be redeemed on December 18, 2031. Heartland has the option to shorten the maturity date to a date not earlier than December 18, 2006. Heartland may not shorten the maturity date without prior approval of the Board of Governors of the Federal Reserve System, if required. Prior redemption is permitted under certain circumstances, such as changes in tax or regulatory capital rules. In connection with this offering, the balance of deferred issuance costs included in other assets was \$229 thousand as of December 31, 2003. These deferred costs are amortized on a straight-line basis over the life of the debentures.

On October 21, 1999, Heartland completed an offering of \$25.0 million of 9.60% cumulative capital securities representing undivided beneficial interests in Heartland Capital Trust I, a special purpose trust subsidiary of Heartland formed for the sole purpose of this offering. The proceeds from the offering were used by Heartland Capital Trust I to purchase junior subordinated debentures from Heartland. Interest is payable quarterly on March 31, June 30, September 30 and December 31 of each year. The debentures will mature and the capital securities must be redeemed on September 30, 2029. Heartland has the option to shorten the maturity date to a date not earlier than September 30, 2004. Heartland may not shorten the maturity date without prior approval of the Board of Governors of the Federal Reserve System, if required. Prior redemption is permitted under certain circumstances, such as changes in tax or regulatory capital rules. In connection with this offering, the balance of deferred issuance costs included in other assets was \$988 thousand as of December 31, 2003. The deferred costs are amortized on a straight-line basis over the life of the debentures.

For regulatory purposes, \$43.8 million of the capital securities qualified as Tier 1 capital as of December 31, 2003, and all of the capital securities qualified as Tier 1 capital as of December 31, 2002.

Future payments at December 31, 2003, for all other borrowings were as follows:

(Dollars in thousands)

2004	\$ 22,263
2005	23,771
2006	40,392
2007	1,291
2008	21,043
Thereafter	65,198
	<hr/>
	\$ 173,958
	<hr/>

THIRTEEN DERIVATIVE FINANCIAL INSTRUMENTS

Heartland's use of derivative financial instruments relates to the management of the risk that changes in interest rates will affect its future interest payments. Heartland utilizes an interest rate swap contract to effectively convert a portion of the variable interest rate debt to fixed interest rate debt. Under the interest rate swap contract, Heartland agrees to pay an amount equal to a fixed rate of interest times a notional principal amount, and to receive in return an amount equal to a specified variable rate of interest times the same notional principal amount. The notional amounts are not exchanged and payments under the interest rate swap contract are made monthly. Heartland is exposed to credit-related losses in the event of nonperformance by the counterparty to the swap contract. This risk is minimized by entering into the contract with a large, stable financial institution.

As of December 31, 2003, Heartland had an interest rate swap contract to pay a fixed interest rate of 4.35% and receive a variable interest rate of 1.52% based on \$25.0 million of indebtedness. This contract expires on November 1, 2006. The fair market value of the interest rate swap contract was recorded as a liability of \$1.4 million as of December 31, 2003.

There was no ineffectiveness recognized on this interest rate swap during the year. All components of the derivative instrument's gain or loss were included in the assessment of hedge effectiveness. For the period ended December 31, 2003, there were no cash flow hedges discontinued related to forecasted transactions that are probable of not occurring.

As of December 31, 2003, \$889 thousand of deferred net expense on derivative instruments included in other comprehensive income are expected to be reclassified to net income during the next twelve months.

FOURTEEN INCOME TAXES

Income taxes for the years ended December 31, 2003, 2002 and 2001, were as follows:

(Dollars in thousands)

	Current	Deferred	Total
2003:			
Federal	\$ 4,200	\$ 2,467	\$ 6,667
State	1,472	(2)	1,470
Total	\$ 5,672	\$ 2,465	\$ 8,137
2002:			
Federal	\$ 6,591	\$ 967	\$ 7,558
State	1,156	283	1,439
Total	\$ 7,747	\$ 1,250	\$ 8,997
2001:			
Federal	\$ 5,310	\$ (540)	\$ 4,770
State	1,037	(93)	944
Total	\$ 6,347	\$ (633)	\$ 5,714

Temporary differences between the amounts reported in the financial statements and the tax basis of assets and liabilities result in deferred taxes. No valuation allowance was required for deferred tax assets. Based upon Heartland's level of historical taxable income and anticipated future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that Heartland will realize the benefits of these deductible differences. Deferred tax assets and liabilities for the years ended December 31, 2003 and 2002, were as follows:

(Dollars in thousands)

	2003	2002
Deferred tax assets :		
Tax effect of net unrealized loss on derivatives reflected in stockholders' equity	\$ 529	\$ 653
Securities	-	112
Allowance for loan and lease losses	6,742	5,798
Deferred compensation	1,601	1,427
Organization and acquisitions costs	556	265
Net operating loss carryforwards	330	608
Other	8	52
Gross deferred tax assets	\$ 9,766	\$ 8,915
Deferred tax liabilities:		
Tax effect of net unrealized gain on securities available for sale reflected in stockholders' equity	\$ (3,391)	\$ (3,175)
Securities	(269)	-
Premises, furniture and equipment	(8,413)	(6,085)
Lease financing	(3,197)	(2,627)
Tax bad debt reserves	(517)	(549)
Purchase accounting	(965)	(954)
Prepaid expenses	(354)	(309)
Mortgage servicing rights	(1,133)	(911)
Other	(157)	(130)

Gross deferred tax liabilities	\$ (18,396)	\$ (14,740)
Net deferred tax liability	\$ (8,630)	\$ (5,825)

The actual income tax expense differs from the expected amounts (computed by applying the U.S. federal corporate tax rate of 35% for 2003, 2002 and 2001, to income before income taxes) as follows:

(Dollars in thousands)

	2003	2002	2001
Computed "expected" amount	\$ 9,050	\$ 9,752	\$ 5,995
Increase (decrease) resulting from:			
Nontaxable interest income	(1,360)	(944)	(610)
State income taxes, net of federal tax benefit	954	935	614
Goodwill and other intangibles not deductible	64	78	270
Graduated income tax rates	-	-	(36)
Tax credits	(442)	(792)	(440)
Other	(129)	(32)	(79)
Income taxes	\$ 8,137	\$ 8,997	\$ 5,714
Effective tax rates	31.5%	32.3%	33.4%

Heartland has investments in certain low-income housing projects totaling \$4.5 million as of December 31, 2003 and 2002, which are included in other assets in the consolidated financial statements. These investments are expected to generate federal income tax credits of approximately \$440 thousand per year through 2005. In April of 2002, a 99.9% ownership in a limited liability company was acquired that provided \$389 thousand historic rehabilitation credits for the 2002 tax year.

FIFTEEN EMPLOYEE BENEFIT PLANS

Heartland sponsors a retirement plan covering substantially all employees. Contributions to this plan are subject to approval by the Heartland Board of Directors. The Heartland subsidiaries fund and record as an expense all approved contributions. Costs charged to operating expenses were \$1.9 million, \$1.7 million, and \$761 thousand for 2003, 2002, and 2001, respectively. This plan includes an employee savings program, under which the Heartland subsidiaries make matching contributions of up to 2% of the participants' wages. Costs charged to operating expenses with respect to the matching contributions were \$325, \$294, and \$275 thousand for 2003, 2002, and 2001, respectively.

On January 1, 2002, Heartland merged its non-contributory, defined contribution pension plan into the retirement plan covering substantially all employees. Annual contributions were based upon 5% of qualified compensation as defined in the plan. Costs charged to operating expense were \$761 thousand for 2001.

SIXTEEN COMMITMENTS AND CONTINGENT LIABILITIES

Heartland leases certain land and facilities under operating leases. Minimum future rental commitments at December 31, 2003, for all non-cancelable leases were as follows:

(Dollars in thousands)

2004	\$ 782
2005	687
2006	546
2007	385
2008	300
Thereafter	424

\$	3,124
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Rental expense for premises and equipment leased under operating leases was \$1.1 million, \$700 thousand, and \$707 thousand for 2003, 2002, and 2001, respectively.

In the normal course of business, the Heartland banks make various commitments and incur certain contingent liabilities that are not presented in the accompanying consolidated financial statements. The commitments and contingent liabilities include various guarantees, commitments to extend credit and standby letters of credit.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Heartland banks evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Heartland banks upon extension of credit, is based upon management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties. Standby letters of credit and financial guarantees written are conditional commitments issued by the Heartland banks to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. At December 31, 2003 and 2002, commitments to extend credit aggregated \$403.7 and \$391.1 million, and standby letters of credit aggregated \$15.8 and \$11.8 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. At December 31, 2003 and 2002, Heartland had commitments to sell residential real estate loans totaling \$8.3 and \$56.7 million, respectively. Heartland does not anticipate any material loss as a result of the commitments and contingent liabilities.

SEVENTEEN STOCK PLANS

On May 21, 2003, the Heartland 2003 Stock Option Plan was adopted, replacing the 1993 Heartland Stock Option Plan. The 2003 Stock Option Plan is administered by the Nominating and Compensation Committee ("Compensation Committee") of the Board of Directors whose members determine to whom options will be granted and the terms of each option. Under the 2003 Stock Option Plan, 900,000 common shares have been reserved for issuance. Directors and key policy-making employees are eligible for participation in the 2003 Stock Option Plan. Options may be granted that are either intended to be "incentive stock options" as defined under Section 422 of the Internal Revenue Code or not intended to be incentive stock options ("non-qualified stock options"). The exercise price of stock options granted will be established by the Compensation Committee, but the exercise price for the incentive stock options may not be less than the fair market value of the shares on the date that the option is granted. Each option granted is exercisable in full at any time or from time to time, subject to vesting provisions, as determined by the Compensation Committee and as provided in the option agreement, but such time may not exceed ten years from the grant date. At December 31, 2003, there were 900,000 shares available for issuance under the 2003 Stock Option Plan. At December 31, 2002, there were 201,467 shares available for issuance under the 1993 Stock Option Plan.

Under the 2003 Stock Option Plan, stock appreciation rights ("SARS") may also be granted alone or in tandem with or with reference to a related stock option, in which event the grantee, at the exercise date, has the option to exercise the option or the SARS, but not both. SARS entitle the holder to receive in cash or stock, as determined by the Compensation Committee, an amount per share equal to the excess of the fair market value of the stock on the date of exercise over the fair market value at the date the SARS or related options were granted. SARS may be exercisable for up to ten years after the date of grant. No SARS have been granted under the 2003 Stock Option Plan or the 1993 Stock Option Plan.

A summary of the status of the 1993 Stock Option Plan as of December 31, 2003, 2002 and 2001, and changes during the years ended follows:

	2003		2002		2001
	Weighted-		Weighted-		Weighted-
Shares	Average	Shares	Average	Shares	Average

	(000)	Exercise Price	(000)	Exercise Price	(000)	Exercise Price
Outstanding at beginning of year	918	\$ 9	1,263	\$ 8	1,197	\$ 8
Granted	110	12	72	9	68	9
Exercised	(188)	6	(345)	6	-	-
Forfeited	(8)	9	(72)	6	(2)	12
Outstanding at end of year	832	\$ 10	918	\$ 9	1,263	\$ 8
Options exercisable at end of year	499	\$ 10	549	\$ 8	1,175	\$ 6
Weighted-average fair value of options granted during the year	\$4.08		\$2.57		\$ 3.00	

No options have been granted under the 2003 Stock Option Plan as of December 31, 2003. As of December 31, 2003 and 2002, options outstanding under the 1993 Stock Option Plan had exercise prices ranging from \$6 to \$12 per share and a weighted-average remaining contractual life of 5.25 and 5.22 years, respectively.

The fair value of stock options granted was determined utilizing the Black Scholes Valuation model. Significant assumptions include:

	2003	2002	2001
Risk-free interest rate	4.01%	4.88%	5.36%
Expected option life	10 years	10 years	10 years
Expected volatility	17.69%	15.35%	16.03%
Expected dividends	2.25%	3.03%	2.77%

In 2001, Heartland adopted a Director Short-Term Incentive Plan. Under the Director Short-Term Incentive Plan, the aggregate number of shares that could be obtained by the directors was set at 225,000. The exercise price of stock options granted was established by the Compensation Committee at the fair market value of the shares on the date that the options were granted. Each director was eligible to receive non-qualified options to acquire up to no more than 11,250 shares. Under the Director Short-Term Incentive Plan, 190,597 shares were issued, and under the terms of the Director Short-Term Incentive Plan, all remaining shares were considered to be forfeited at December 31, 2001.

In 1996, Heartland adopted the Heartland Employee Stock Purchase Plan ("ESPP"), which permits all eligible employees to purchase shares of Heartland common stock at a price of not less than 85% of the fair market value on the determination date (as determined by the Committee). A maximum of 600,000 shares is available for sale under the ESPP. For the years ended December 31, 2003 and 2002, Heartland approved a price of 100% of fair market value as determined by averaging the closing price of the last five trading days in 2002 and 2001, respectively. At December 31, 2003 and 2002, respectively, 48,895 and 35,626 shares were purchased under the ESPP at no charge to Heartland's earnings.

During each of the years ended December 31, 2003, 2002 and 2001, Heartland acquired shares for use in the Stock Option Plan and the ESPP. Shares acquired totaled 427,344, 143,314 and 118,884 for 2003, 2002 and 2001, respectively.

EIGHTEEN

STOCKHOLDER RIGHTS PLAN

On June 7, 2002, Heartland adopted a stockholders' rights plan (the "Rights Plan"). Under the terms of the Rights Plan, on June 26, 2002, the Board of Directors distributed one purchase right for each share of common stock outstanding as of June 24, 2002. Upon becoming exercisable, each right entitles the registered holder thereof, under certain limited circumstances, to purchase one-thousandth of a share of Series A Junior Participating preferred stock at an exercise price of \$85.00. Rights do not become exercisable until ten business days after any person or group has acquired, commenced, or announced its intention to commence a tender or exchange offer to acquire 15% or more of Heartland's common stock. If the rights become exercisable, holders of each right, other than the acquiror, upon payment of the exercise price, will have the right to purchase Heartland's common stock (in lieu of preferred shares) having a value equal to two times the exercise price. If Heartland is acquired in a merger, share exchange or other business combination or 50% or more of its consolidated assets or earning power are sold, rights holders, other than the

acquiring or adverse person or group, will be entitled to purchase the acquiror's shares at a similar discount. If the rights become exercisable, Heartland may also exchange rights, other than those held by the acquiring or adverse person or group, in whole or in part, at an exchange ratio of one share of Heartland's common stock per right held. Rights are redeemable by Heartland at any time until they are exercisable at the exchange rate of \$.01 per right. Issuance of the rights has no immediate dilutive effect, does not currently affect reported earnings per share, is not taxable to Heartland or its shareholders, and will not change the way in which Heartland's shares are traded. The rights expire on June 7, 2012.

In connection with the Rights Plan, Heartland designated 16,000 shares, par value \$1.00 per share, of Series A Junior Participating preferred stock. These shares, if issued, will be entitled to receive quarterly dividends and a liquidation preference. There are no shares issued and outstanding and Heartland does not anticipate issuing any shares of Series A Junior Participating preferred stock except as may be required under the Rights Plan.

NINETEEN

REGULATORY CAPITAL REQUIREMENTS AND RESTRICTIONS ON SUBSIDIARY DIVIDENDS

The Heartland banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Heartland banks' financial statements. The regulations prescribe specific capital adequacy guidelines that involve quantitative measures of a bank's assets, liabilities and certain off balance sheet items as calculated under regulatory accounting practices. Capital classification is also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Heartland banks to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2003 and 2002, that the Heartland banks met all capital adequacy requirements to which they were subject.

As of December 31, 2003, the most recent notification from the FDIC categorized each of the Heartland banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Heartland banks must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed each institution's category.

The Heartland banks' actual capital amounts and ratios are also presented in the table below.

(Dollars 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, 2003						
Total Capital (to Risk-Weighted Assets)						
Consolidated	\$ 191,060	12.42%	\$ 123,072	8.0%	N/A	
Dubuque Bank and Trust Company	60,931	10.79	45,169	8.0	56,461	10.0%
Galena State Bank	18,758	12.62	11,888	8.0	14,861	10.0
First Community Bank	10,025	12.11	6,622	8.0	8,278	10.0
Riverside Community Bank	13,525	11.05	9,796	8.0	12,245	10.0
Wisconsin Community Bank	28,004	10.79	20,759	8.0	25,949	10.0
New Mexico Bank & Trust	32,310	10.94	23,620	8.0	29,526	10.0
Arizona Bank & Trust	13,261	57.89	1,833	8.0	2,291	10.0
Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	\$ 158,346	10.29%	\$ 61,536	4.0%	N/A	
Dubuque Bank and Trust Company	54,809	9.71	22,584	4.0	33,877	6.0%

Galena State Bank	17,114	11.52	5,944	4.0	8,916	6.0
First Community Bank	9,043	10.92	3,311	4.0	4,967	6.0
Riverside Community Bank	12,215	9.98	4,898	4.0	7,347	6.0
Wisconsin Community Bank	25,051	9.65	10,380	4.0	15,569	6.0
New Mexico Bank & Trust	28,610	9.69	11,810	4.0	17,715	6.0
Arizona Bank & Trust	13,045	56.95	916	4.0	1,374	6.0
Tier 1 Capital (to Average Assets)						
Consolidated	\$ 158,346	8.07%	\$ 78,464	4.0%	N/A	
Dubuque Bank and Trust Company	54,809	7.60	28,845	4.0	36,056	5.0%
Galena State Bank	17,114	7.92	8,639	4.0	10,799	5.0
First Community Bank	9,043	8.08	4,476	4.0	5,595	5.0
Riverside Community Bank	12,215	7.11	6,871	4.0	8,589	5.0
Wisconsin Community Bank	25,051	7.72	12,976	4.0	16,221	5.0
New Mexico Bank & Trust	28,610	7.54	15,170	4.0	18,962	5.0
Arizona Bank & Trust	13,045	47.45	1,100	4.0	1,375	5.0

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2002						
Total Capital (to Risk-Weighted Assets)						
Consolidated	\$ 158,010	11.86%	\$ 106,596	8.0%	N/A	
Dubuque Bank and Trust Company	58,288	11.02	42,304	8.0	52,880	10.0%
Galena State Bank	15,919	12.27	10,380	8.0	12,975	10.0
First Community Bank	9,278	12.53	5,922	8.0	7,403	10.0
Riverside Community Bank	11,680	11.58	8,072	8.0	10,090	10.0
Wisconsin Community Bank	24,783	13.28	14,929	8.0	18,662	10.0
New Mexico Bank & Trust	28,676	10.87	21,103	8.0	26,379	10.0
Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	\$ 141,918	10.65%	\$ 53,298	4.0%	N/A	
Dubuque Bank and Trust Company	52,450	9.92	21,152	4.0	31,728	6.0%
Galena State Bank	14,487	11.17	5,190	4.0	7,785	6.0
First Community Bank	8,352	11.28	2,961	4.0	4,442	6.0
Riverside Community Bank	10,591	10.50	4,036	4.0	6,054	6.0
Wisconsin Community Bank	22,449	12.03	7,465	4.0	11,197	6.0
New Mexico Bank & Trust	25,378	9.62	10,551	4.0	15,827	6.0
Tier 1 Capital (to Average Assets)						
Consolidated	\$ 141,918	8.24%	\$ 68,883	4.0%	N/A	
Dubuque Bank and Trust Company	52,450	8.03	26,118	4.0	32,648	5.0%
Galena State Bank	14,487	7.61	7,613	4.0	9,516	5.0
First Community Bank	8,352	7.67	4,355	4.0	5,443	5.0
Riverside Community Bank	10,591	7.01	6,045	4.0	7,556	5.0
Wisconsin Community Bank	22,449	8.41	10,676	4.0	13,345	5.0
New Mexico Bank & Trust	25,378	8.13	12,491	4.0	15,614	5.0

The ability of Heartland to pay dividends to its stockholders is dependent upon dividends paid by its subsidiaries. The Heartland banks are subject to certain statutory and regulatory restrictions on the amount they may pay in dividends. To maintain acceptable capital ratios in the Heartland banks, certain portions of their retained earnings are not available for the payment of dividends. Retained earnings that could be available for the payment of dividends to Heartland totaled approximately \$57.1 million as of December 31, 2003, under the most restrictive minimum capital requirements.

TWENTY FAIR VALUE OF FINANCIAL INSTRUMENTS

Following are disclosures of the estimated fair value of Heartland's financial instruments. The estimated fair value

amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts Heartland could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

(Dollars in thousands)

	December 31, 2003		December 31, 2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	\$ 71,869	\$ 71,869	\$ 100,992	\$ 100,992
Time deposits in other financial institutions	1,132	1,132	1,677	1,677
Trading securities	1,073	1,073	915	915
Securities available for sale	450,680	450,680	389,900	389,900
Loans and leases, net of unearned	1,348,227	1,367,879	1,175,236	1,225,412
Financial Liabilities:				
Demand deposits	\$ 246,282	\$ 246,282	\$ 197,516	\$ 197,516
Savings deposits	569,286	569,286	511,979	511,979
Time deposits	676,920	687,449	628,490	663,250
Short-term borrowings	176,835	176,835	161,379	161,379
Other borrowings	173,958	215,156	126,299	165,133

Cash and Cash Equivalents and Time Deposits in Other Financial Institutions - The carrying amount is a reasonable estimate of fair value.

Securities - For securities either 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.

Loans and Leases - The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The fair value of loans held for sale is estimated using quoted market prices.

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.

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 our 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 PARENT COMPANY ONLY FINANCIAL INFORMATION

Condensed financial information for Heartland Financial USA, Inc. is as follows:

(Dollars in thousands)

Balance Sheets

**December 31,
2003 2002**

Assets:

Cash and interest bearing deposits	\$ 8,621	\$ 1,985
Trading securities	1,073	915
Securities available for sale	4,162	3,003
Investment in subsidiaries	196,110	166,061
Other assets	9,098	5,480
Due from subsidiaries	13,000	17,250
	<hr/>	<hr/>
Total	\$ 232,064	\$ 194,694
	<hr/>	<hr/>

Liabilities and stockholders' equity:**Liabilities:**

Short-term borrowings	\$ 25,000	\$ 25,000
Other borrowings	60,930	40,438
Accrued expenses and other liabilities	5,211	5,215
	<hr/>	<hr/>
Total liabilities	91,141	70,653
	<hr/>	<hr/>

Stockholders equity:

Common stock	15,262	9,906
Capital surplus	20,065	16,725
Retained earnings	102,584	94,048
Accumulated other comprehensive income	4,794	4,230
Treasury stock	(1,782)	(868)
	<hr/>	<hr/>
Total stockholders' equity	140,923	124,041
	<hr/>	<hr/>
Total	\$ 232,064	\$ 194,694
	<hr/>	<hr/>

**Income Statements for the Years Ended
December 31,**

	2003	2002	2001
<hr/>			
Operating revenues:			
Dividends from subsidiaries	\$ 13,310	\$ 9,890	\$ 15,452
Securities gains (losses), net	99	95	(246)
Gain (loss) on trading account securities	453	(598)	(192)
Impairment loss on equity securities	(317)	(267)	(773)
Other	853	1,016	1,047
	<hr/>	<hr/>	<hr/>
Total operating revenues	14,398	10,136	15,288
	<hr/>	<hr/>	<hr/>
Operating expenses:			
Interest	4,998	4,592	4,807
Salaries and benefits	617	1,973	1,039
Outside services	427	572	456
Other operating expenses	544	367	262
Minority interest expense	30	403	207
	<hr/>	<hr/>	<hr/>
Total operating expenses	6,616	7,907	6,771
	<hr/>	<hr/>	<hr/>
Equity in undistributed earnings	8,551	14,509	659
	<hr/>	<hr/>	<hr/>
Income before income tax benefit	16,333	16,738	9,176
Income tax benefit	1,386	2,129	2,238
	<hr/>	<hr/>	<hr/>

Net Income	\$ 17,719	\$ 18,867	\$ 11,414
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**Statements of Cash Flows for the Years Ended
December 31,**

	2003	2002	2001
Cash flows from operating activities:			
Net income	\$ 17,719	\$ 18,867	\$ 11,414
Adjustments to reconcile net income to net cash provided by operating activities			
Undistributed earnings of subsidiaries	(8,551)	(14,509)	(659)
(Increase) decrease in due from subsidiaries	4,250	(1,750)	1,250
Increase (decrease) in other liabilities	(4)	3,310	601
(Increase) decrease in other assets	(3,618)	(1,105)	(1,531)
Increase in trading account securities	(158)	613	(657)
Noncash dividend from subsidiary	-	-	(5,149)
Other	825	(33)	1,282
Net cash provided by operating activities	10,463	5,393	6,551
Cash flows from investing activities:			
Capital injections for subsidiaries	(13,119)	(600)	(1,248)
Purchases of available for sale securities	(2,537)	(1,774)	(1,377)
Proceeds from sales of available for sale securities	2,093	1,766	1,917
Net cash used by investing activities	(13,563)	(608)	(708)
Cash flows from financing activities:			
Net decrease in short-term borrowings	-	(4,225)	(10,075)
Proceeds from other borrowings	21,119	5,155	8,248
Payments on other borrowings	(627)	(855)	(1,438)
Cash dividends paid	(4,096)	(3,926)	(3,560)
Purchase of treasury stock	(7,999)	(1,348)	(1,026)
Proceeds from sale of common stock	1,339	2,076	1,689
Net cash provided (used) by financing activities	9,736	(3,123)	(6,162)
Net increase (decrease) in cash and cash equivalents	6,636	1,662	(319)
Cash and cash equivalents at beginning of year	1,985	323	642
Cash and cash equivalents at end of year	\$ 8,621	\$ 1,985	\$ 323

**TWENTY-TWO
SUMMARY OF QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

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

2003	Dec. 31	Sept. 30	June 30	March 31
Net interest income	\$ 15,415	\$ 14,809	\$ 15,207	\$ 15,759
Provision for loan and lease losses	1,007	950	922	1,304
Net interest income after provision for loan and lease losses	14,408	13,859	14,285	14,455
Noninterest income	8,453	11,202	8,411	8,475
Noninterest expense	17,654	17,406	16,575	16,057

Income taxes	1,483	2,391	1,914	2,349
Income from continuing operations	3,724	5,264	4,207	4,524
Gain from operations of discontinued operations	-	-	-	-
Income tax expense	-	-	-	-
Gain on discontinued operation	-	-	-	-
Net income	\$ 3,724	\$ 5,264	\$ 4,207	\$ 4,524

Per share:

Earnings per share-basic	\$ 0.25	\$ 0.35	\$ 0.28	\$ 0.30
Earnings per share-diluted	0.24	0.34	0.28	0.30
Earnings per common share from continuing operations - basic ¹	0.25	0.35	0.28	0.30
Earnings per common share from continuing operations - diluted ¹	0.24	0.34	0.28	0.30
Adjusted earnings per common - basic ²	0.25	0.35	0.28	0.30
Adjusted earnings per common - diluted ²	0.24	0.34	0.28	0.30
Adjusted earnings per common share form continuing operations - basic ³	0.25	0.35	0.28	0.30
Adjusted earnings per common share from continuing operations - diluted ³	0.24	0.34	0.28	0.30
Cash dividends declared on common stock	0.07	0.07	0.07	0.07
Book value per common share	9.29	9.07	8.99	8.57
Market price - high	20.63	21.26	21.93	15.33
Market price - low	18.53	18.57	15.27	11.50
Weighted average common shares outstanding	15,124,871	15,212,826	14,811,483	14,836,913
Weighted average diluted common shares outstanding	15,386,486	15,479,334	15,088,764	15,011,370

Ratios:

Return on average assets	0.74%	1.10%	0.92%	1.04%
Return on average equity	10.74	15.52	13.15	14.56
Net interest margin	3.6	3.62	3.82	4.16
Efficiency ratio	72.64	66.85	69.98	66.72

2002

Dec. 31 Sept. 30 June 30 March 31

Net interest income	\$ 15,517	\$ 14,906	\$ 13,989	\$ 13,268
Provision for loan and lease losses	1,775	167	630	981
Net interest income after provision for loan and lease losses	13,742	14,739	13,359	12,287
Noninterest income	8,962	6,911	6,786	7,986
Noninterest expense	16,424	14,922	14,667	14,646
Income taxes	2,070	2,087	1,560	1,806
Income from continuing operations	4,210	4,641	3,918	3,821
Gain from operations of discontinued operations (including gain on disposal of \$2,602)	3,124	224	202	201
Income tax expense	1,228	88	79	79
Gain on discontinued operation	1,896	136	123	122
Net income	\$ 6,106	\$ 4,777	\$ 4,041	\$ 3,943

Per share:

Earnings per share-basic	\$ 0.41	\$ 0.32	\$ 0.27	\$ 0.27
Earnings per share-diluted	0.41	0.32	0.27	0.27
Earnings per common share from continuing operations - basic ¹	0.29	0.32	0.27	0.26
Earnings per common share from continuing operations - diluted ¹	0.29	0.31	0.26	0.26
Adjusted earnings per common - basic ²	0.41	0.32	0.27	0.27
Adjusted earnings per common - diluted ²	0.41	0.32	0.27	0.27
Adjusted earnings per common share form continuing operations - basic ³	0.29	0.32	0.27	0.26
Adjusted earnings per common share from continuing operations - diluted ³	0.29	0.31	0.26	0.26

Cash dividends declared on common stock	0.07	0.07	0.07	0.07
Book value per common share	8.40	8.13	7.79	7.49
Market price - high	11.80	10.20	10.00	9.33
Market price - low	10.00	9.60	9.07	8.53
Weighted average common shares outstanding	14,716,752	14,728,722	14,713,383	14,593,698
Weighted average diluted common shares outstanding	14,835,401	14,842,325	14,809,263	14,690,649

Ratios:

Return on average assets	1.39%	1.13%	0.96%	0.95%
Return on average equity	20.06	16.2	13.98	14.19
Net interest margin	4.06	4.12	4.02	3.86
Efficiency ratio	66.78	69.08	70.43	69.04

¹ Excludes the discontinued operations for the sale of our Eau Claire branch in the fourth quarter of 2002 and the related gain on sale.

² Excludes goodwill amortization discontinued with the adoption of FAS 142 on January 1, and the adoption of FAS 147 on September 30, 2002.

³ Excludes goodwill amortization discontinued with the adoption of FAS 142 on January 2, 2002, and the adoption of FAS 147 on September 30, 2002, and the discontinued operations for the sale of our Eau Claire branch in the fourth quarter of 2002 and the related gain on sale.

ITEM 9.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A.

CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of Heartland's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Heartland's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of December 31, 2003. Based on that evaluation, Heartland's management, including the Chief Executive Officer and Chief Financial Officer, concluded that Heartland's disclosure controls and procedures were effective. There have been no significant changes in Heartland's internal controls or in other factors that could significantly affect internal controls.

PART III

ITEM 10.

DIRECTORS AND EXECUTIVE OFFICERS

The information in the Heartland Proxy Statement for the 2004 Annual Meeting of Stockholders to be held on May 19, 2004, (the "2004 Proxy Statement") under the caption "Election of Directors" and under the caption, "Security Ownership of Directors and Executive Officers and Certain Beneficial Owners" is incorporated by reference. The information regarding executive officers is included pursuant to Instruction 3 to Item 401 (b) and (c) of Regulation S-K and is noted below.

EXECUTIVE OFFICERS

The term of office for the executive officers of Heartland is from the date of election until the next annual organizational meeting of the board of directors. The names and ages of the executive officers of Heartland as of December 31, 2003, offices held by these officers on that date and other positions held with Heartland and its subsidiaries are set forth below.

Name	Age	Position with Heartland and Subsidiaries and Principal Occupation
Lynn B. Fuller	54	Chairman, President and Chief Executive Officer of Heartland; Vice Chairman of Dubuque Bank and Trust Company; Director of Galena State Bank, First Community Bank, Riverside Community Bank, Wisconsin Community Bank, New Mexico Bank & Trust, Arizona Bank & Trust; Director and President Citizens Finance Co.; Chairman of ULTEA, Inc.; and Chairman of HTLF Capital Corp.
John K. Schmidt	44	Director, Executive Vice President and Chief Financial Officer of Heartland; Director, President and Chief Executive Officer of Dubuque Bank and Trust Company; Director and Treasurer of Citizens Finance Co.; Treasurer of ULTEA, Inc.
Kenneth J. Erickson	52	Executive Vice President, Chief Credit Officer, of Heartland; Executive Vice President, Lending, of Dubuque Bank and Trust Company; Senior Vice President of Citizens Finance Co.; Director and Senior Vice President of ULTEA, Inc.
Edward H. Everts	52	Senior Vice President, Operations and Retail Banking, of Heartland; Senior Vice President, Operations and Retail Banking, of Dubuque Bank and Trust Company
Douglas J. Horstmann	50	Senior Vice President, Lending, of Heartland; Executive Vice President, Head of Lending, of Dubuque Bank and Trust Company
Paul J. Peckosh	58	Senior Vice President, Trust, of Heartland; Executive Vice President, Trust, of Dubuque Bank and Trust Company

Mr. Lynn B. Fuller is the brother-in-law of Mr. James F. Conlan, who is a director of Heartland. There are no other family relationships among any of the directors or executive officers of Heartland.

Lynn B. Fuller has been a director of Heartland and of Dubuque Bank and Trust Company since 1984 and has been President of Heartland since 1987. He has been a director of Galena State Bank since its acquisition by Heartland in 1992 and First Community Bank since the merger in 1994. Mr. Fuller joined Dubuque Bank and Trust Company in 1971 as a consumer loan officer and was named Dubuque Bank and Trust Company's Executive Vice President and Chief Executive Officer in 1985. He was named Director of Riverside Community Bank in conjunction with the opening of the de novo operation in 1995, Director of Wisconsin Community Bank in conjunction with the purchase of Cottage Grove State Bank in 1997, Director of New Mexico Bank & Trust in conjunction with the opening of the de novo bank in 1998, and Director of Arizona Bank & Trust in conjunction with the opening of the de novo bank in 2003. 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.

John K. Schmidt has been Heartland's Executive Vice President and Chief Financial Officer since 1991. He has been employed by Dubuque Bank and Trust Company since 1984 and became Dubuque Bank and Trust Company's Vice President, Finance in 1986, Senior Vice President and Chief Financial Officer in 1991 and President and Chief Executive Officer in 1999. Mr. Schmidt is a certified public accountant and worked at KPMG LLP in Des Moines, Iowa, from 1982 until joining Dubuque Bank and Trust Company. Mr. Schmidt has been a director of Heartland since 2001.

Kenneth J. Erickson was named Executive Vice President, Chief Credit Officer, of Heartland in 1999. Mr. Erickson has been employed by Dubuque Bank and Trust Company since 1975, and was appointed Vice President, Commercial Loans in 1985, Senior Vice President, Lending in 1989 and Executive Vice President in 2000.

Edward H. Everts was appointed Senior Vice President of Heartland in 1996. Mr. Everts has been employed by Dubuque Bank and Trust Company as Senior Vice President, Operations and Retail Banking since 1992. Prior to his service with Dubuque Bank and Trust Company, Mr. Everts was Vice President and Lead Retail Banking Manager of First Bank, Duluth, Minnesota.

Douglas J. Horstmann was named Senior Vice President of Heartland in 1999. Mr. Horstmann has been employed by Dubuque Bank and Trust Company since 1980, was appointed Vice President, Commercial Loans in 1985, Senior Vice President, Lending in 1989 and Executive Vice President, Lending in 2000. Prior to joining Dubuque Bank and Trust Company, Mr. Horstmann was an examiner for the Iowa Division of Banking.

Paul J. Peckosh was appointed Senior Vice President of Heartland in 1999. Mr. Peckosh has been employed by Dubuque Bank and Trust Company since 1975, was appointed Assistant Vice President, Trust in 1975, Vice President, Trust in 1980, Senior Vice President, Trust in 1991 and Executive Vice President, Trust in 2000. Mr. Peckosh is an attorney and graduated from the Marquette University of Law School in 1970.

ITEM 11.

EXECUTIVE COMPENSATION

The information in the 2004 Proxy Statement, under the caption "Executive Compensation" is incorporated by reference.

ITEM 12.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information in the 2004 Proxy Statement, under the caption "Security Ownership of Certain Beneficial Owners and Management" is incorporated by reference.

The table below sets forth the following information as of December 31, 2003, for (i) all compensation plans previously approved by Heartland's stockholders and (ii) all compensation plans not previously approved by Heartland's stockholders:

- (a) the number of securities to be issued upon the exercise of outstanding options, warrants and rights;
- (b) the weighted-average exercise price of such outstanding options, warrants and rights;
- (c) other than securities to be issued upon the exercise of such outstanding options, warrants and rights, the number of securities remaining available for future issuance under the plans.

EQUITY COMPENSATION PLAN INFORMATION

	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities available for future issuance
Equity compensation plans approved by security holders	831,750	\$ 9.83	1,293,902
Equity compensation plans not approved by security holders	-	-	-
Total	831,750	\$ 9.83	1,297,902 ¹

¹ Includes 900,000 shares available for use under the Heartland Stock Option Plan and 397,902 shares available for use under the Heartland Employee Stock Purchase Plan.

ITEM 13.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information in the 2004 Proxy Statement under the caption "Transactions with Management" is incorporated by reference.

ITEM 14.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information in the 2004 Proxy Statement under the caption "Relationship With Independent Auditors" is incorporated by reference.

PART IV

ITEM 15.

EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

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

3. Exhibits

The exhibits required by Item 601 of Regulation S-K are included along with this Form 10-K and are listed on the "Index of Exhibits" immediately following the signature page.

(b) Reports of Form 8-K:

On October 24, 2003, Heartland filed a report on Form 8-K stating under Item 9 that Heartland issued a press release announcing its earnings for the quarter ended September 30, 2003.

On November 24, 2003, Heartland filed a report on Form 8-K stating under Item 5 that Heartland had declared a three-for-two stock split in the form of a 50% stock dividend payable on December 29, 2003.

On January 23, 2004, Heartland filed a report on Form 8-K stating under Item 9 that Heartland issued a press release announcing its earnings for the quarter ended on December 31, 2003.

On January 23, 2004, Heartland filed a report on Form 8-K stating under Item 5 that Heartland issued a press release announcing retirement of a director and the election of a new director.

On February 9, 2004, Heartland filed a report on Form 8-K stating under Item 5 that Heartland issued a press release announcing that Heartland entered into an Agreement and Plan of Merger with Rocky Mountain Bancorporation, Inc.

On March 3, 2004, Heartland filed a report on Form 8-K stating under Item 9 that Heartland issued its quarterly newsletter to stockholders.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 12, 2004.

HEARTLAND FINANCIAL USA, INC.

Date: March 12, 2004

By: /s/ Lynn B. Fuller

Principal Executive Officer

Date: March 12, 2004

By: /s/ John K. Schmidt

Executive Vice President and Principal Financial and
Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 12, 2004.

/s/ Lynn B. Fuller

Lynn B. Fuller
President, CEO, Chairman and Director

/s/ John K. Schmidt

John K. Schmidt
Executive Vice President, CFO and Director

/s/ James F. Conlan

James F. Conlan
Director

/s/ Mark C. Falb

Mark C. Falb
Director

/s/ Thomas L. Flynn

Thomas L. Flynn
Director

/s/ John W. Cox, Jr.

John W. Cox, Jr.
Director

/s/ Ronald A. Larson

Ronald A. Larson
Director

3. INDEX OF EXHIBITS

- 3.1 Certificate of Incorporation of Heartland Financial USA, Inc.
- 3.2 Bylaws of Heartland Financial USA, Inc.
- 4.1 Specimen Stock Certificate of Heartland Financial USA, Inc. (Exhibit 4.1 to the Registration Statement on

Form S-4 filed with the Commission May 4, 1994, as amended (SEC File No. 33-76228) and incorporated by reference herein.)

10.1 Form of Split-Dollar Life Insurance Plan effective November 13, 2001, between the Heartland subsidiaries and their selected officers who have met the three years of service requirement. These plans are in place at Dubuque Bank and Trust Company, Galena State Bank and Trust Company, First Community Bank, Riverside Community Bank, Wisconsin Community Bank, New Mexico Bank & Trust and ULTEA, Inc. (Filed as Exhibit 10.4 to the Registrant's Form 10-K for the year ended December 31, 2002, and incorporated by reference herein.)

10.2 Heartland Financial USA, Inc. Employee Stock Purchase Plan effective January 1, 1996. (Filed in conjunction with Form S-8 on June 18, 1996, and incorporated by reference herein.)

10.3 License and Service Agreement, Software License Agreement, and Professional Services Agreement between Fiserv and Heartland Financial USA, Inc. dated June 21, 1996. (Filed as Exhibit 10.43 to Registrant's form 10Q for the quarter ended June 30, 1996, and incorporated by reference herein.)

10.4 Indenture between Heartland Financial USA, Inc. and First Union Trust Company, National Association, dated as of October 21, 1999 (filed as Exhibit 4.1 to Form S-3 dated September 16, 1999, and incorporated by reference herein.)

10.5 Indenture between Heartland Financial USA, Inc. and State Street Bank and Trust Company of Connecticut, National Association, dated as of December 18, 2001. (Filed as Exhibit 10.17 to Registrant's Form 10K for the year ended December 31, 2001, and incorporated by reference herein.)

10.6 Indenture between Heartland Financial USA, Inc. and Wells Fargo Bank, National Association, dated as of June 27, 2002. (Filed as Exhibit 10.1 to the Registrant's 10Q for the six months ended June 30, 2002, and incorporated by reference herein.)

10.7 Dividend Reinvestment Plan dated as of January 24, 2002. (Filed as Form S-3D on January 25, 2002, and incorporated by reference herein.)

10.8 Stockholder Rights Agreement between Heartland Financial USA, Inc., and Dubuque Bank and Trust Company, as Rights Agent, dated as of June 7, 2002. (Filed as Form 8-K on June 11, 2002, and incorporated by reference herein.)

10.9 Change of Control Agreements including Golden Parachute Payment Adjustments and Restrictive Covenants between Heartland Financial USA, Inc. and Executive Officers dated January 1, 2003. (Filed as Exhibit 10.1 to the Registrant's 10Q for the six months ended June 30, 2003, and incorporated by reference herein.)

10.10 Change of Control Agreements between Heartland Financial USA, Inc. and Executive Officers dated January 1, 2003. (Filed as Exhibit 10.2 to the Registrant's 10Q for the six months ended June 30, 2003, and incorporated by reference herein.)

10.11 Agreement to Organize and Stockholder Agreement between Heartland Financial USA, Inc. and Investors in the Proposed Arizona Bank dated February 1, 2003. (Filed as Exhibit 10.24 to Registrant's Form 10K for the year ended December 31, 2002, and incorporated by reference herein.)

10.12 Supplemental Initial Investor Agreement between Heartland Financial USA, Inc. and Initial Investors in the Proposed Arizona Bank dated February 1, 2003. (Filed as Exhibit 10.25 to Registrant's Form 10K for the year ended December 31, 2002, and incorporated by reference herein.)

10.13 Heartland Financial USA, Inc. 2003 Stock Option Plan (Filed as Exhibit B to Registrant's Form DEF14A filed on April 7, 2003, and incorporated by reference herein.)

10.14 Indenture by and between Heartland Financial USA, Inc. and U.S. Bank National Association, dated as of October 10, 2003. (Filed as Exhibit 10.1 to the Registrant's Form 10Q for the nine months ended September 30, 2003,

and incorporated by reference herein.)

10.15 Agreement and Plan of Merger, among Heartland Financial USA, Inc., RMB Acquisition Corporation and Rocky Mountain Bancorporation, Inc., dated as of February 7, 2004. (Filed as Exhibit 99.2 to the Registrant's Form 8K filed on February 9, 2004, and incorporated by reference herein.)

10.16 Form of Executive Supplemental Life Insurance Plan effective January 20, 2004, between the Heartland subsidiaries and their selected officers. These plans are in place at Dubuque Bank and Trust Company, Galena State Bank and Trust Company, First Community Bank, Riverside Community Bank, Wisconsin Community Bank, New Mexico Bank & Trust and ULTEA, Inc.

10.17 Credit Agreement among Heartland Financial USA, Inc., The Northern Trust Company, Harris Trust and Savings Bank and U.S. Bank National Association, dated as of January 31, 2004.

11. Statement re Computation of Per Share Earnings

21.1 Subsidiaries of the Registrant

23.1 Consent of KPMG LLP

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).

32.1 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 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.

Exhibit 3.1

DELAWARE
THE FIRST STATE

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED ARE TRUE AND CORRECT COPIES OF ALL DOCUMENTS ON FILE OF "HEARTLAND FINANCIAL USA, INC." AS RECEIVED AND FILED IN THIS OFFICE.

THE FOLLOWING DOCUMENTS HAVE BEEN CERTIFIED:

CERTIFICATE OF INCORPORATION, FILED THE EIGHTEENTH DAY OF JUNE, A.D. 1993, AT 2 O'CLOCK P.M.

CERTIFICATE OF OWNERSHIP, FILED THE THIRTIETH DAY OF JUNE A.D. 1993, AT 9 O'CLOCK A.M.

CERTIFICATE OF DESIGNATION, FILED THE THIRTIETH DAY OF JUNE, A.D. 1993, AT 9:01 O'CLOCK A.M.

CERTIFICATE OF AMENDMENT, FILED THE EIGHTEENTH DAY OF MAY, A.D. 1995, AT 3:15 O'CLOCK P.M.

CERTIFICATE OF AMENDMENT, FILED THE TWENTY-NINTH DAY OF MAY, A.D. 1998, AT 9 O'CLOCK A.M.

CERTIFICATE OF AMENDMENT, FILED THE TWENTY-THIRD DAY OF MAY, A.D. 2001, AT 9 O'CLOCK A.M.

CERTIFICATE OF DESIGNATION, FILED THE TENTH DAY OF JUNE, A.D. 2001, AT 9 O'CLOCK A.M.

CERTIFICATE OF DESIGNATION, FILED THE TENTH DAY OF JUNE, A.D. 2002, AT 9 O'CLOCK A.M.

AND I DO HEREBY FURTHER CERTIFY THAT THE AFORESAID CERTIFICATES ARE THE ONLY CERTIFICATES ON RECORD OF THE AFORESAID CORPORATION.

/s/Harriet Smith Windsor

Harriet Smith Windsor, Secretary of State

AUTHENTICATION: 2878087

DATE: 01-20-04

CERTIFICATE OF INCORPORATION

OF

HEARTLAND FINANCIAL USA, INC.

ARTICLE I

NAME

The name of the corporation is:

Heartland Financial USA, Inc.

ARTICLE II

REGISTERED OFFICE AND AGENT

The address of the corporation's registered office in the State of Delaware is 32 Loockerman Square, Suite L-100, in the City of Dover, 19901, County of Kent. The name of the corporation's registered agent at such address is The Prentice-Hall Corporation System, Inc.

ARTICLE III

PURPOSE

The nature of the business or purposes to be conducted or promoted by the corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware, as amended from time to time, or any successor thereto.

ARTICLE IV

AUTHORIZED STOCK

The total number of shares of stock which the corporation shall have authority to issue is 3,000,000 shares of Common Stock, par value of \$1.00 per share, and 200,000 shares of Preferred Stock, par value of \$1.00.

The shares of Preferred Stock may be issued from time to time in one or more series. The board of directors of this corporation shall have authority to fix by resolution or resolutions the designations and the powers, preferences and relative, participating, optional or other special rights and qualifications, limitations or restrictions thereof, including, without limitation, the voting rights, the dividend rate, conversion rights, redemption price and liquidation preference, of any series of shares of Preferred Stock, to fix the number of shares constituting any such series and to increase or decrease the number of shares of any such series (but not below the number of shares thereof then outstanding). In case the number of shares of any such series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution or resolutions originally fixing the number of shares of such series.

ARTICLE V

INCORPORATORS

The name and mailing address of the sole incorporator is as follows:

<u>Name</u>	<u>Mailing Address</u>
Lynn S. Fuller	c/o Dubuque Bank and Trust Company 1398 Central Avenue P.O. Box 778 Dubuque, Iowa 52001

ARTICLE VI

BYLAWS

The bylaws of the corporation may be amended, altered or repealed by the stockholders of the corporation, provided, however, that such amendment, alteration or repeal is approved by the affirmative vote of the holders of not less than 70% of the outstanding shares of stock of the corporation then entitled to vote generally in the election of directors. The bylaws may also be amended, altered or repealed by the board of directors in the manner provided in the bylaws.

ARTICLE VII

WRITTEN BALLOTS

Election of directors need not be by written ballot unless the bylaws of the corporation so provide.

ARTICLE VIII

AMENDMENTS

The corporation reserves the right to amend, alter, change or repeal any provision contained in this certificate of incorporation, in the

manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation. In addition to any other requirement for amendments, no amendment to this certificate of incorporation shall amend, alter, change or repeal any of the provisions of Article VI, Article XII, Article XIII, Article XIV, Article XV or this sentence of this Article VIII unless the amendment effecting such amendment, alteration, change or repeal shall have received the affirmative vote of the holders of shares having at least 70% of the voting power of all outstanding stock of the corporation entitled to vote thereon. Notwithstanding anything contained herein to the contrary, the provisions of the immediately preceding sentence shall not apply to any amendment, alteration, change or repeal which has been approved by not less than 66-2/3% of the number of directors as may be fixed from time to time, in the manner prescribed herein, by the board of directors of the corporation.

ARTICLE IX

INDEMNIFICATION

Each person who is or was a director or officer of the corporation and each person who serves or served at the request of the corporation as a director, officer or partner of another enterprise shall be indemnified by the corporation in accordance with, and to the fullest extent authorized by, the General Corporation Law of the State of Delaware, as the same now exists or may be hereafter amended. No amendment to or repeal of this Article IX shall apply to or have any effect on the rights of any individual referred to in this Article IX for or with respect to acts or omissions of such individual occurring prior to such amendment or repeal.

ARTICLE X

PERSONAL LIABILITY OF DIRECTORS

To the fullest extent permitted by the General Corporation Law of Delaware, as the same now exists or may be hereafter amended, a director of the corporation shall not be liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. No amendment to or repeal of this Article X shall apply to or have any effect on the liability or alleged liability of any director of the corporation for or with respect to any acts or omissions of such director occurring prior to the effective date of such amendment or repeal.

ARTICLE XI

CERTAIN ARRANGEMENTS BETWEEN THE

CORPORATION AND ITS CREDITORS

Whenever a compromise or arrangement is proposed between this corporation and its creditors or any class of them and/or between this corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this corporation under the provision of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this corporation under the provisions of Section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this corporation, as the case may be, and also on this corporation.

ARTICLE XII

BOARD OF DIRECTORS

The number of directors constituting the entire board of directors shall not be less than three nor more than nine as fixed from time to time by resolution of not less than 66-2/3% of the number of directors which immediately prior to such proposed change had been fixed, in the manner prescribed herein, by the board of directors of the corporation, provided, however, that the number of directors shall not be reduced as to shorten the term of any director at the time in office, and provided further, that the number of directors constituting the entire board of directors shall be five until otherwise fixed as described immediately above.

No person shall be eligible for election to the board of directors if such person has attained the age of seventy (70) years prior to the date of the stockholders' meeting at which directors are to be elected; provided, however, that this provision will not apply to any of the current

incumbent directors who have attained the age of sixty-five (65) years prior to January 1, 1993. Directors need not be stockholders of the corporation.

The directors of the corporation shall be divided into three classes, Class I, Class II and Class III, as nearly equal in number as the then total number of directors constituting the entire Board permits with the term of office of one class expiring each year. The corporation's initial directors and their respective classes are set forth below. At the annual meeting of stockholders in 1993, directors of Class I shall be elected to hold office for a term expiring at the 1994 annual meeting, directors of Class II shall be elected to hold office for a term expiring at the 1995 annual meeting and directors of Class III shall be elected to hold office for a term expiring at the 1996 annual meeting. Any vacancies in the board of directors for any reason, and any directorships resulting from any increase in the number of directors, may be filled by the board of directors, acting by a majority of the directors then in office, although less than a quorum, and any directors so chosen shall hold office until the next election of the class for which such directors shall have been chosen and until their successors shall be elected and qualified. If the number of directors is changed, any increase or decrease in the number of directors shall be apportioned among the classes so as to maintain all classes as equal in number as possible. At each annual meeting of stockholders after the meeting held in 1993, the successors to the class of directors whose term shall then expire shall be elected to hold office for a term expiring at the third succeeding annual meeting.

The name, address and class of each person who is to serve as a director until the first annual meeting of the stockholders or until a successor is elected and qualified is as follows:

Class I

Name

Mailing Address

Lynn B. Fuller

c/o Dubuque Bank and Trust Company
1398 Central Avenue
P.O. Box 778
Dubuque, Iowa 52001

Class II

Name

Mailing Address

James A. Schmid

c/o Dubuque Bank and Trust Company
1398 Central Avenue
P.O. Box 778
Dubuque, Iowa 52001

F. Robert Woodward, Jr.

c/o Dubuque Bank and Trust Company
1398 Central Avenue
P.O. Box 778
Dubuque, Iowa 52001

Class III

Name

Mailing Address

Lynn S. Fuller

c/o Dubuque Bank and Trust Company
1398 Central Avenue
P.O. Box 778
Dubuque, Iowa 52001

Evangeline K. Jansen

c/o Dubuque Bank and Trust Company
1398 Central Avenue
P.O. Box 778
Dubuque, Iowa 52001

Notwithstanding any other provisions of this certificate of incorporation or the bylaws of the corporation (and notwithstanding the fact that some lesser percentage may be specified by law, this certificate of incorporation or the bylaws of the corporation), any director or the entire board of directors of the corporation may be removed at any time, but only for cause and only by the affirmative vote of the holders of not less

than 70% of the outstanding shares of stock of the corporation entitled to vote generally in the election of directors (considered for this purpose as one class) cast at an annual meeting of stockholders or at a meeting of the stockholders called for that purpose.

ARTICLE XIII

ADDITIONAL VOTING REQUIREMENTS

A. Except as otherwise expressly provided in paragraph C of this Article XIII and notwithstanding any other provision of this certificate of incorporation:

(a) any merger or consolidation of the corporation or of any Subsidiary with or into any other corporation;

(b) any sale, lease, exchange or other disposition by the corporation or any Subsidiary of assets constituting all or substantially all of the assets of the corporation and its Subsidiaries taken as a whole to or with any other corporation, person or other entity in a single transaction or a series of related transactions;

(c) any issuance or transfer by the corporation or any Subsidiary, of any voting securities of the corporation (except for voting securities issued pursuant to a stock option, purchase, bonus or other plan for natural persons who are directors, employees, consultants and/or agents of the corporation or any Subsidiary) to any other corporation, person or other entity in exchange for cash, assets or securities or a combination thereof; and

(d) the voluntary dissolution of the corporation;

shall require the affirmative vote of the holders of shares having at least 70% of the voting power of all outstanding stock of the corporation entitled to vote thereon. Such affirmative vote shall be required notwithstanding the fact that no vote or a lesser vote may be required, or that some lesser percentage may be specified by law or otherwise in this certificate of incorporation or by the bylaws of the corporation.

B. For purposes of this Article XIII, the term "Subsidiary" means any entity in which the corporation beneficially owns, directly or indirectly, more than 75% of the outstanding voting stock. The phrase "voting security" as used in paragraph A of this Article XIII shall mean any security which is (or upon the happening of any event, would be) entitled to vote for the election of directors, and any security convertible, with or without consideration into such security or carrying any warrant or right to subscribe to or purchase such a security.

C. The provisions of this Article XIII shall not apply to any transaction described in clause (a), (b), (c) or (d) of paragraph A of this Article XIII: (i) approved at any time prior to its consummation by resolution adopted by not less than 66-2/3% of the number of directors as may be fixed from time to time, in the manner prescribed herein, by the board of directors of the corporation; or (ii) with any corporation of which a majority of the outstanding shares of all classes of stock is owned of record or beneficially by the corporation; or (iii) which is a merger with another corporation without action by the stockholders of the corporation to the extent and in the manner permitted from time to time by the law of the State of Delaware.

D. The interpretation, construction and application of any provision or provisions of this Article XIII and the determination of any facts in connection with the application of this Article XIII, shall be made by a majority of all of the directors of the corporation. Any such interpretation, construction, application or determination, when made in good faith, shall be conclusive and binding for all purposes of this Article XIII.

ARTICLE XIV

BUSINESS COMBINATIONS WITH INTERESTED STOCKHOLDERS

The provisions of Section 203 of the General Corporation Law of the State of Delaware, as the same now exists or may hereafter be amended or as such Section 203 may hereafter be renumbered or recodified, will be deemed to apply to the corporation, and the corporation shall be subject to all of the restrictions set forth in such Section 203.

ARTICLE XV

STOCKHOLDERS' ACTION

Any action required or permitted to be taken by the holders of capital stock of the corporation must be effected at a duly called annual or special meeting of the holders of capital stock of the corporation and may not be effected by any consent in writing by such holders.

Dated: June 18, 1993.

/s/ Lynn S. Fuller

Lynn S. Fuller

Being the sole incorporator of the corporation.

CERTIFICATE OF OWNERSHIP AND MERGER

of

**HEARTLAND FINANCIAL USA, INC.,
an Iowa corporation**

into

**HEARTLAND FINANCIAL USA, INC.,
a Delaware corporation**

It is hereby certified that:

1. Heartland Financial USA, Inc., (hereinafter called the "Corporation") is an Iowa corporation, the laws of which permit a merger of a corporation of that jurisdiction with a corporation of another jurisdiction.

2. The Corporation, as the owner of all of the outstanding shares of each class of the stock of Heartland Financial USA, Inc., a Delaware corporation, hereby merges itself into Heartland Financial USA, Inc.

3. The following is a copy of the resolutions adopted on the 8th day of December, 1992, by the Board of Directors of the Corporation to merge the Corporation into Heartland Financial USA, Inc.:

WHEREAS, after due consideration the Board of Directors of the Corporation deems it to be in the best interest of the Corporation to reincorporate the Corporation in the State of Delaware;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors of the Corporation hereby authorizes the reincorporation of the Corporation in the State of Delaware.

FURTHER RESOLVED, that the proposed reincorporation be presented to the stockholders of the Corporation and recommended for their approval at the annual meeting of stockholders to be held in May of 1993.

FURTHER RESOLVED, that if and when a majority of the stockholders of the Corporation have consented to such reincorporation, the proper officers of the Corporation are hereby authorized, empowered and directed to prepare, execute and file such documents with the Secretary of State of Iowa and the Secretary of State of Delaware as they deem necessary or appropriate to effectuate such reincorporation.

FURTHER RESOLVED, that the proper officers of the Corporation are hereby authorized, empowered and directed to execute and deliver any and all documents and to perform any and all such actions and deeds deemed by them to be necessary or appropriate to effectuate the intent of the foregoing resolutions.

4. The proposed merger herein certified has been adopted, approved, certified, executed and acknowledged by the Corporation in accordance with the laws under which it is organized.

5. The effective time of the Certificate of Ownership and Merger, and the time when the merger therein certified shall become effective, shall be the close of business on June 30, 1993.

Signed and attested to on June 21, 1993.

/s/ Lynn B. Fuller

Lynn B. Fuller

President
Heartland Financial USA, Inc.,
a Delaware corporation

Attest:

/s/ Lois K. Pearce

Lois K. Pearce
Secretary
Heartland Financial USA, Inc.,
a Delaware corporation

**CERTIFICATE OF DESIGNATION, NUMBER, POWERS, PREFERENCES
AND RELATIVE, PARTICIPATING, OPTIONAL AND OTHER
SPECIAL RIGHTS AND THE QUALIFICATIONS, LIMITATIONS,
RESTRICTIONS AND OTHER DISTINGUISHING CHARACTERISTICS
OF SERIES "A" PREFERRED STOCK
OF
HEARTLAND FINANCIAL USA, INC.**

It is hereby certified that:

1. The name of the corporation (hereinafter called the "Corporation") is

HEARTLAND FINANCIAL USA, INC.

2. The Certificate of Incorporation of the Corporation, filed June 18, 1993, with the Secretary of State of the State of Delaware authorizes the issuance of 3,000,000 shares of common stock, \$1.00 par value per share ("Common Stock"), and 200,000 shares of preferred stock, \$1.00 par value, and expressly vests in the Board of Directors of the Corporation the authority provided therein to issue any or all of said shares in one or more series and by resolution or resolutions, the designation, number, full or limited voting powers, or the denial of voting powers, preferences and relative, participating, optional and other special rights and the qualifications, limitations, restrictions and other distinguishing characteristics of each series to be issued.
3. The Board of Directors of the Corporation, pursuant to the authority expressly vested in it as aforesaid, has adopted the following resolutions creating an issue of Series A Preferred Stock (the "Series A Stock"):

RESOLVED, that the Series A Stock be issued subject to the following rights, preferences, privileges and restrictions:

1. **Issuance**. The Board of Directors of the Corporation has determined that 684.61 shares of the authorized and unissued preferred stock be identified as "Series A Preferred Stock" and has authorized such shares for issuance at a price of \$100.00 per share (hereinafter referred to as the "Series A Preferred Stock").
2. **Dividends**. The holders of the shares of Series A Preferred Stock shall be entitled to receive out of any funds of the Corporation at the time legally available for the declaration of dividends, dividends at a rate expressed as eight percent (8%) of the Liquidation Value

(as hereinafter defined), and no more, payable in cash quarterly, or at such intervals as the Board of Directors may from time to time determine, when and as declared by the Board of Directors. Dividends on the shares of Series A Preferred Stock first issued shall accrue from the date of issuance of such shares, and dividends on all shares of Series A Preferred Stock thereafter issued shall accrue from the day following the last day of the period for which dividends have already been paid on outstanding shares of Series A Preferred Stock. Dividends on all issued and outstanding shares of Series A Preferred Stock shall accrue from day to day, whether or not earned or declared. Such dividends shall be payable before any dividends shall be declared or paid upon or set apart for the shares of Common Stock, and shall be cumulative, so that if in any year or years dividends upon the outstanding shares of Series A Preferred Stock at the rate of eight percent (8%) per annum shall not have been paid therefor or declared and set apart therefor, the amount of the deficiency shall be fully paid or declared and set apart for payment, but without interest, before any distribution, whether by way of dividend or otherwise, shall be declared or paid upon, or set apart for, the shares of Common Stock.

- 3. Liquidation.** In the event of the voluntary liquidation, dissolution or winding up of the Corporation, the holders of shares of Series A Preferred Stock shall be entitled to receive out of the assets of the Corporation, whether such assets are capital or surplus of any nature, an amount equal to One Hundred Dollars (\$100.00) per share (the "Liquidation Value") plus a further amount equal to the dividends unpaid and accumulated thereon, as provided in Section 2 above, to the date of such distribution, whether earned or declared or not, and no more (such sum hereinafter sometimes referred to as the "Redemption Value"), before any payment shall be made or any assets distributed to the holders of shares of Common Stock.

In the event of any involuntary liquidation, dissolution, or winding up of the Corporation, the holders of the shares of Series A Preferred Stock shall be entitled to receive, out of the assets of the Corporation, whether such assets are capital or surplus of any nature, an amount equal to the Redemption Value of such shares of Series A Preferred Stock before any payment shall be made or any assets distributed to the holders of shares of the Common Stock.

If upon such liquidation, dissolution, or winding up whether voluntary or involuntary, the assets thus distributed among the holders of the shares of Series A Preferred Stock shall be insufficient to permit the payment of such stockholders of the whole preferential amount, then the entire assets of the Corporation to be distributed shall be distributed ratably among the holders of the shares of Series A Preferred Stock.

In the event of any liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary, subject to all of the preferential rights of the holders of shares of Series A Preferred Stock on distributions or otherwise, the holders of shares of the Common Stock shall be entitled to receive, ratably, all remaining assets of the Corporation.

A consolidation or merger of the Corporation with or into any other corporation or corporations shall not be deemed to be a liquidation, dissolution, or winding up, within the meaning of this section.

- 4. Redemption Upon Election by Corporation.** At any time after November 1, 1993, and upon (i) the consent and approval of the holders of a majority of the shares of the Corporation's Common Stock; and (ii) the affirmative vote of the Board of Directors, the whole or from time to time any part of the shares of Series A Preferred Stock may be redeemed by the Corporation on any dividend date by paying in cash therefor the Redemption Value. In case of the redemption of a part only of the outstanding shares of Series A Preferred Stock, the Board of Directors may determine the shares to be redeemed, or may effect such redemption pro rata. A partial redemption of shares of Series A Preferred Stock shall not be effected until all dividends accrued and in arrears upon all shares of Series A Preferred Stock outstanding shall have been paid for all past dividend periods, and until full dividends for the then current dividend period on all shares of Series A Preferred Stock then outstanding, other than the shares to be redeemed, shall have been paid or declared and the full amount thereof set apart for payment. At least thirty (30) days' previous notice by mail, postage prepaid, shall be given to the holders of record of the shares of Series A Preferred Stock to be redeemed, such notice to be addressed to each such stockholder at his post office address as shown by the records of the Corporation. On or after the date fixed for redemption and stated in such notice, each holder of shares of Series A Preferred Stock called for redemption shall surrender his certificate evidencing such shares to the Corporation at the place designated in such notice and shall thereupon be entitled to receive payment of the Redemption Value. In case less than all the shares represented by any such surrendered certificate are redeemed, a new certificate shall be issued representing the unredeemed shares. If such notice of redemption shall have been duly given, and if on the date fixed for redemption, funds necessary for the redemption shall be available therefor, then notwithstanding that the certificates evidencing any shares of Series A Preferred Stock called for redemption shall not have been surrendered, the dividends with respect to the shares so called for redemption shall cease to accrue after the date fixed for redemption and all rights with respect to the shares so called for redemption shall forthwith after such date cease and determine, except only the right of the holders to receive the Redemption Value thereof without interest upon surrender of their certificates therefor.

5. **Voting Rights**. Except as in this paragraph otherwise provided, the entire voting power of the Corporation shall be vested in the holders of shares of Common Stock. In the event that six consecutive quarterly dividends payable on the shares of Series A Preferred Stock are in default, then immediately upon the happening of such event, and until such defaulted dividends and all dividends subsequently defaulted are paid, the holders of shares of Series A Preferred Stock shall become entitled to one vote for each share of such preferred shares held by them, at any meeting of the Corporation or its stockholders, upon all matters coming before such meeting, along with the holders of shares of Common Stock, and the holders of the shares of Series A Preferred Stock shall be entitled to receive notice of any such meeting in the same manner as the holders of the shares of Common Stock. Upon payment in full of the defaulted dividends, the voting power and rights to notice of stockholders' meetings shall again be vested exclusively in the holders of shares of Common Stock.

FURTHER RESOLVED, that the statements contained in the foregoing resolutions creating and designating the said issue of Series A Preferred Stock and fixing the number, powers, preferences and relative, optional, participating, and other special rights and the qualifications, limitations, restrictions, and other distinguishing characteristics thereof shall, upon the effective date of said series, be deemed to be included in and be a part of the Certificate of Incorporation of the Corporation pursuant to the provisions of Sections 104 and 151 of the Delaware General Corporation Law.

Signed and attested to on June 21, 1993.

Attest:

/s/ Lois K. Pearce

Lois K. Pearce
Secretary

/s/ Lynn B. Fuller

Lynn B. Fuller
President

STATE OF IOWA)
) SS:
COUNTY OF DUBUQUE)

BE IT REMEMBERED that, on June 21, 1993, before me, a Notary Public duly authorized by law to take acknowledgement of deeds, personally came Lynn B. Fuller, President of Heartland Financial USA, Inc., who duly signed the foregoing instrument before me and acknowledged that such signing is his act and deed, that such instrument as executed is the act and deed of said corporation, and that the facts stated therein are true.

GIVEN under my hand on June 21, 1993.

/s/ Lu Ann M. Driscoll

Notary Public

CERTIFICATE OF AMENDMENT

OF

CERTIFICATE OF INCORPORATION

OF

HEARTLAND FINANCIAL USA, INC.

Heartland Financial USA, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

FIRST: That at a meeting of the Board of Directors of Heartland Financial USA, Inc. resolutions were duly adopted setting forth a proposed amendment to the Certificate of Incorporation of said corporation, declaring said amendment to be advisable and calling for the presentation to the stockholders of said corporation for consideration thereof. The resolution setting forth the proposed amendment is as follows:

RESOLVED, that the first sentence of Article Fourth of the Certificate of Incorporation be amended to read in its entirety as follows:

"The total number of shares of stock which the corporation shall have authority to issue is 7,000,000 shares of Common Stock, par value of \$1.00 per share, and 200,000 shares of Preferred Stock, par value of \$1.00."

SECOND: That thereafter, pursuant to resolution of the board of directors, an annual meeting of the stockholders of said corporation was duly called and held, upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware at which meeting the necessary number of shares as required by statute were voted in favor of the amendment.

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, Heartland Financial USA, Inc. has caused this certificate to be signed by its President this 17th day of May, 1995.

Heartland Financial USA, Inc.

By: /s/ Lynn B. Fuller
Lynn B. Fuller
President

CERTIFICATE OF AMENDMENT

OF THE

CERTIFICATE OF INCORPORATION

OF

HEARTLAND FINANCIAL USA, INC.

Heartland Financial USA, Inc. (hereinafter called the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify that:

1. The name of the Corporation is: Heartland Financial USA, Inc.
2. The first sentence of Article IV of the Certificate of Incorporation of the Corporation is hereby amended to read in its entirety as follows:

ARTICLE IV

AUTHORIZED STOCK

The total number of shares of stock which the corporation shall have authority to issue is 12,000,000 shares of Common Stock, par value of \$1.00 per share, and 200,000 shares of Preferred Stock, par value of \$1.00.

3. The amendment of the Certificate of Incorporation herein certified has been duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

Dated as of the 20 th day of May, 1998.

HEARTLAND FINANCIAL USA, INC.

By: /s/ Lynn B. Fuller
Lynn B. Fuller,
President

CERTIFICATE OF AMENDMENT

OF THE

CERTIFICATE OF INCORPORATION

OF

HEARTLAND FINANCIAL USA, INC.

Heartland Financial USA, Inc. (hereinafter called the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify that:

1. The name of the Corporation is: Heartland Financial USA, Inc.
2. The first sentence of Article IV of the Certificate of Incorporation of the Corporation is hereby amended to read in its entirety as follows:

ARTICLE IV

AUTHORIZED STOCK

The total number of shares of stock which the corporation shall have authority to issue is 16,000,000 shares of Common Stock, par value of \$1.00 per share, and 200,000 shares of Preferred Stock, par value of \$1.00.

3. The amendment of the Certificate of Incorporation herein certified has been duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

Dated as of the 16 th day of May, 2001.

HEARTLAND FINANCIAL USA, INC.

By: /s/ Lynn B. Fuller
Lynn B. Fuller,
President

CERTIFICATE OF DESIGNATION

of

SERIES A JUNIOR PARTICIPATING PREFERRED STOCK

of

HEARTLAND FINANCIAL USA, INC.

Pursuant to Section 151 of the General Corporation Law
of the State of Delaware

Heartland Financial USA, Inc., a corporation organized and existing under the General Corporation Law of the State of Delaware, in accordance with the provisions of Section 103 thereof, DOES HEREBY CERTIFY:

That pursuant to the authority vested in the Board of Directors in accordance with the provisions of the Certificate of Incorporation of the said Corporation, the said Board of Directors on June 3, 2002, adopted the following resolution creating a series of 16,000 shares of Preferred Stock designated as "Series A Junior Participating Preferred Stock":

RESOLVED, that pursuant to the authority vested in the Board of Directors of this Corporation in accordance with the provisions of the Certificate of Incorporation, a series of Preferred Stock, par value \$1.00 per share, of the Corporation be and hereby is created, and that the designation and number of shares thereof and the voting and other powers, preferences and relative, participating, optional or other rights of the shares of such series and the qualifications, limitations and restrictions thereof are as follows:

Series A Junior Participating Preferred Stock

1. Designation and Amount. There shall be a series of Preferred Stock that shall be designated as "Series A Junior Participating Preferred Stock," and the number of shares constituting such series shall be 16,000. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, however, that no decrease shall reduce the number of shares of Series A Junior Participating Preferred Stock to less than the number of shares then issued and outstanding plus the number of shares issuable upon exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Corporation.

2. Dividends and Distribution.

(A) Subject to the prior and superior rights of the holders of any shares of any class or series of stock of the Corporation ranking prior and superior to the shares of Series A Junior Participating Preferred Stock with respect to dividends, the holders of shares of Series A Junior Participating Preferred Stock, in preference to the holders of shares of any class or series of stock of the Corporation ranking junior to the Series A Junior Participating Preferred Stock in respect thereof, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the first business day of January, April, July and October in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Junior Participating Preferred Stock, in an amount per one one-thousandth of a share (rounded to the nearest cent) equal to the greater of (a) \$0.10 or (b) the Adjustment Number (as defined below) times the aggregate per share amount of all cash dividends, and the Adjustment Number times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock, par value \$1.00 per share, of the Corporation (the "Common Stock") since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Junior Participating Preferred Stock. The "Adjustment Number" shall initially be 1,000. In the event the Corporation shall at any time after June 7, 2002, (i) declare and pay any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Series A Junior Participating Preferred Stock as provided in paragraph (A) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock).

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Junior Participating Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Junior Participating Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Junior Participating Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 60 days prior to the date fixed for the payment thereof.

3. Voting Rights. The holders of shares of Series A Junior Participating Preferred Stock shall have the following voting rights:

(A) Each share of Series A Junior Participating Preferred Stock shall entitle the holder thereof to a number of votes equal to the Adjustment Number on all matters submitted to a vote of the stockholders of the Corporation.

(B) Except as required by law, by Section 3(C) and by Section 10 hereof, holders of Series A Junior Participating Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

(C) If, at the time of any annual meeting of stockholders for the election of directors, the equivalent of six quarterly dividends (whether or not consecutive) payable on any share or shares of Series A Junior Participating Preferred Stock are in default, the number of directors constituting the Board of Directors of the Company shall be increased by two. In addition to voting together with the holders of Common Stock for the election of other directors of the Company, the holders of record of the Series A Junior Participating Preferred Stock, voting separately as a class to the exclusion of the holders of Common Stock, shall be entitled at said meeting of stockholders (and at each subsequent annual meeting of stockholders), unless all dividends in arrears on the Series A Junior Participating Preferred Stock have been paid or declared and set apart for payment prior thereto, to vote for the election of two directors of the Company, the holders of any Series A Junior Participating Preferred Stock being entitled to cast a number of votes per share of Series A Junior Participating Preferred Stock as is specified in paragraph (A) of this Section 3. Each such additional director shall serve until his successor shall be elected and shall qualify, or until his right to hold such office terminates pursuant to the provisions of this Section 3(C). If and when such default shall cease to exist, the holders of the Series A Junior Participating Preferred Stock shall be divested of the foregoing special voting rights, subject to reversion in the event of each and every subsequent like default in payments of dividends. Upon the termination of the foregoing special voting rights, the terms of office of all persons who may have been elected directors pursuant to said special voting rights shall forthwith terminate, and the number of directors constituting the Board of Directors shall be reduced by two. The voting rights granted by this Section 3(C) shall be in addition to any other voting rights granted to the holders of the Series A Junior Participating Preferred Stock in this Section 3.

4. Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series A Junior Participating Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Junior Participating Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Participating Preferred Stock, except dividends paid ratably on the Series A Junior Participating Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled; or

(iii) purchase or otherwise acquire for consideration any shares of Series A Junior Participating Preferred Stock, or any shares of stock ranking on a parity with the Series A Junior Participating Preferred Stock, except in accordance with a purchase

offer made in writing or by publication (as determined by the Board of Directors) to all holders of Series A Junior Participating Preferred Stock, or to such holders and holders of any such shares ranking on a parity therewith, upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

5. Reacquired Shares. Any shares of Series A Junior Participating Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired promptly after the acquisition thereof. All such shares shall upon their retirement become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to any conditions and restrictions on issuance set forth herein.

6. Liquidation, Dissolution or Winding Up. (A) Upon any liquidation, dissolution or winding up of the Corporation, voluntary or otherwise, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Series A Junior Participating Preferred Stock shall have received an amount per one thousandth of a share (the "Series A Liquidation Preference") equal to the greater of (i) \$0.01 plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, or (ii) the Adjustment Number times the per share amount of all cash and other property to be distributed in respect of the Common Stock upon such liquidation, dissolution or winding up of the Corporation.

(B) In the event, however, that there are not sufficient assets available to permit payment in full of the Series A Liquidation Preference and the liquidation preferences of all other classes and series of stock of the Corporation, if any, that rank on a parity with the Series A Junior Participating Preferred Stock in respect thereof, then the assets available for such distribution shall be distributed ratably to the holders of the Series A Junior Participating Preferred Stock and the holders of such parity shares in proportion to their respective liquidation preferences.

(C) Neither the merger or consolidation of the Corporation into or with another corporation nor the merger or consolidation of any other corporation into or with the Corporation shall be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Section 6.

7. Consolidation, Merger, Etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the outstanding shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each share of Series A Junior Participating Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share equal to the Adjustment Number times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged.

8. No Redemption. Shares of Series A Junior Participating Preferred Stock shall not be subject to redemption by the Company.

9. Ranking. The Series A Junior Participating Preferred Stock shall rank junior to all other series of the Preferred Stock as to the payment of dividends and as to the distribution of assets upon liquidation, dissolution or winding up, unless the terms of any such series shall provide otherwise, and shall rank senior to the Common Stock as to such matters.

10. Amendment. At any time that any shares of Series A Junior Participating Preferred Stock are outstanding, the Certificate of Incorporation of the Corporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Junior Participating Preferred Stock so as to affect them adversely without the affirmative vote of the holders of two-thirds of the outstanding shares of Series A Junior Participating Preferred Stock, voting separately as a class.

11. Fractional Shares. Series A Junior Participating Preferred Stock may be issued in fractions of a share that shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Junior Participating Preferred Stock.

IN WITNESS WHEREOF , the undersigned has executed this Certificate this 7th day of June, 2002.

HEARTLAND FINANCIAL USA, INC.

By: /s/John K. Schmidt
John K. Schmidt
Executive Vice President

**CERTIFICATE ELIMINATING
REFERENCE TO SERIES
OF SHARES OF STOCK FROM THE
CERTIFICATE OF INCORPORATION
OF
HEARTLAND FINANCIAL USA, INC.**

Pursuant to the provisions of Section 151(g) of the General Corporation Law of the State of Delaware, it is hereby certified that:

1. The name of the corporation (hereinafter referred to as the "corporation") is

Heartland Financial USA, Inc.

2. The designation of the series of shares of stock of the corporation to which this certificate relates is

Series A Preferred Stock

3. The voting powers, designations, preferences, and the relative, participating, optional, or other rights, and the qualifications, limitations, and restrictions of the said series of shares of stock were provided for in a resolution adopted by the Board of Directors of the corporation pursuant to authority expressly vested in it by the provisions of the certificate of incorporation of the corporation. A certificate setting forth the said resolution has been heretofore filed with the Secretary of State of the State of Delaware pursuant to the provisions of Section 151(g) of the General Corporation Law of the State of Delaware.

4. The Board of Directors of the corporation has adopted the following resolution:

RESOLVED, that none of the authorized shares of stock of the Company of the Series A Preferred Stock designated is outstanding.

RESOLVED, that none of the said Series A Preferred Stock shares of stock of the Company will be issued.

RESOLVED, that the proper officers of the Company be and hereby are authorized and directed to file a certificate setting forth these resolutions with the Secretary of State of the State of Delaware pursuant to the provisions of Section 151(g) of the General Company Law of the State of Delaware for the purpose of eliminating from the certificate of incorporation of the Company all reference to the said Series A Preferred Stock.

5. The effective time of this certificate shall be upon filing.

IN WITNESS WHEREOF , the undersigned has executed this Certificate this 7th day of June, 2002.

HEARTLAND FINANCIAL USA, INC.

By: /s/John K. Schmidt
John K. Schmidt
Executive Vice President

Exhibit 3.2

Bylaws
of
HEARTLAND FINANCIAL USA, INC.
A Delaware Corporation

ARTICLE I
Offices

Section 1.1 The corporation shall maintain a registered office in the State of Delaware as required by law. The corporation may also have offices at other places, within or without the State of Delaware, as the business of the corporation may require.

ARTICLE II
Stockholders

Section 2.1 ANNUAL MEETING. An annual meeting of the stockholders shall be held commencing in 1994 on the Wednesday following the third Tuesday in May of each year, if not a legal holiday, and if a legal holiday, then on the next succeeding business day, or on such date as shall be determined by the board of directors, for the election of directors and for the transaction of such other business as may come before the meeting.

Section 2.2 SPECIAL MEETINGS. Special meetings of the stockholders may be called by the chairman of the board, the vice chairman of the board, the president, the board of directors, or at the request in writing of stockholders owning a majority of the issued and outstanding voting stock of the corporation. Within ten days after the receipt of such a written request, the president or another officer designated by the president must send a notice of meeting in accordance with Section 2.5 hereof.

Section 2.3 ACTION BY STOCKHOLDERS.

(a) At any annual or special meeting of stockholders, only such new business shall be conducted, and only such proposals shall be acted upon, as shall have been brought before the meeting by, or at the direction of, the board of directors, or by any stockholder entitled to vote at such meeting, provided, however, that such stockholder has complied with the procedures set forth in this Section 2.3.

(b) For a proposal to be properly brought before a special or annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the secretary of the corporation as set forth in this Section 2.3. To be timely, a stockholder's notice must be delivered, mailed or telegraphed to the principal executive offices of the corporation not less than 30 days nor more than 75 days prior to the date of the originally scheduled meeting, regardless of any postponements, deferrals or adjournments of that meeting to a later date; provided, however, that, if less than 40 days' notice of the date of the scheduled meeting is given or made by the corporation, notice by the stockholder, to be timely, must be so delivered, mailed or telegraphed to the corporation not later than the close of business on the 10th day following the day on which notice of the date of the scheduled meeting was first mailed to

stockholders. Such stockholder's notice shall set forth as to each matter the stockholder proposes to bring before the meeting: (i) a brief description of the proposal desired to be brought before the meeting and the reasons for conducting such business at the meeting; (ii) the name and address, as they appear on the corporation's books, of the stockholder proposing such business; (iii) the number of shares of the corporation's common stock beneficially owned by such stockholder on the date of such stockholder's notice; and (iv) any financial or other interest of such stockholder in the proposal.

(c) The board of directors may reject any stockholder proposal not timely made in accordance with this Section 2.3. If the board of directors determines that the information provided in a stockholder's notice does not satisfy the informational requirements hereof, the secretary of the corporation shall promptly notify such stockholder of the deficiency in the notice. The stockholder shall then have an opportunity to cure the deficiency by providing additional information to the secretary within such period of time, not to exceed 10 days from the date such deficiency notice is given to the stockholder, as the board of directors shall determine. If the deficiency is not cured within such period, or if the board of directors determines that the additional information provided by the stockholder, together with the information previously provided, does not satisfy the requirements of this Section 2.3, then the board of directors may reject such stockholder's proposal. The secretary of the corporation shall notify a stockholder in writing whether his or her proposal has been made in accordance with the time and information requirements hereof.

(d) This Section 2.3 shall not prevent the consideration and approval or disapproval at a special or annual meeting of reports of officers, directors and committees of the board of directors, but in connection therewith no new business shall be acted upon at any such meeting unless stated, filed and received as herein provided.

Section 2.4 PLACE OF MEETING. The board of directors may designate any place, either within or without the State of Delaware, as the place of meeting for any annual meeting or for any special meeting called by the board of directors. If no designation is made or if a special meeting is called otherwise than by the board of directors, the place of meeting shall be the principal place of business of the corporation.

Section 2.5 NOTICE OF MEETING. Written notice stating the place, date and hour of the meeting, the place where the stockholder list may be examined prior to the meeting, if different from the place of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given in person or by mail or telegram not less than ten nor more than sixty days before the date of the meeting, or in the case of a merger or consolidation of the corporation requiring stockholder approval or a sale, lease or exchange of all or substantially all of the corporation's property and assets, not less than twenty nor more than sixty days before the date of meeting, by or at the direction of the chairman of the board, the president, any executive vice president, the secretary or the officer or persons calling the meeting, to each stockholder of record entitled to vote at such meeting. If mailed, notice shall be deemed given when deposited in the United States mail, postage prepaid, directed to the stockholder at his or her address as it appears on the records of the corporation. If notice is given by telegram, such notice shall be deemed to be delivered when the telegram is delivered to the telegraph company. If notice is given by overnight delivery service, such notice will be deemed delivered on the next business day after the date of delivery to a nationally recognized overnight delivery service. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken, unless the adjournment is for more than thirty days, or unless, after adjournment, a new record date is fixed for the adjourned meeting, in either of which cases notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. Notice need not be given to any stockholder who submits a written waiver of notice signed by such stockholder either before or after any meeting. Attendance by a stockholder at a meeting of stockholders shall constitute a waiver of notice of such meeting, except when the stockholder attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting need be specified in any waiver of notice of such meeting.

Section 2.6 NOMINATIONS OF DIRECTORS.

(a) Nominations, other than those made by, or at the direction of, a majority of the board of directors or a committee thereof shall be made only if timely written notice of such nomination or nominations has been given to the secretary of the corporation. To be timely, such notice shall be delivered to or mailed and received at the principal executive offices of the corporation not less than 30 days nor more than 75 days prior to the meeting

irrespective of any deferrals, postponements or adjournments thereof to a later date; provided, however, that in the event that less than 40 days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the 10th day following the day on which such notice of the date of meeting was mailed or such public disclosure was made, whichever first occurs. Each such notice to the secretary shall set forth: (i) the name and address of record of the stockholder who intends to make the nomination; (ii) a representation that the stockholder is a holder of record of shares of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (iii) the name, age, business and residence addresses, and principal occupation or employment of each nominee; (iv) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or person) pursuant to which the nomination or nominations are to be made by the stockholder; (v) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission, as then in effect; and (vi) the consent of each nominee to serve as a director of the corporation if so elected. The corporation may require any proposed nominee to furnish such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as a director of the corporation.

(b) The nominating and compensation committee may reject any nomination by a stockholder not timely made or otherwise not in accordance with the terms of this Section 2.6. If the nominating and compensation committee reasonably determines that the information provided in a stockholder's notice does not satisfy the informational requirements of this Section 2.6 in any material respect, the secretary of the corporation shall promptly notify such stockholder of the deficiency in writing. The stockholder shall have an opportunity to cure the deficiency by providing additional information to the secretary within such period of time, not to exceed 10 days from the date such deficiency notice is given to the stockholder, as the nominating and compensation committee shall reasonably determine. If the deficiency is not cured within such period, or if the nominating and compensation committee reasonably determines that the additional information provided by the stockholder, together with the information previously provided, does not satisfy the requirements of this Section 2.6 in any material respect, then the nominating and compensation committee may reject such stockholder's nomination. The secretary of the corporation shall notify a stockholder in writing whether his or her nomination has been made in accordance with the time and information requirements of this Section 2.6.

Section 2.7 FIXING OF RECORD DATE.

(a) In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors, and which record date shall not be more than sixty nor less than ten days before the date of such meeting. If no record date is fixed by the board of directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

(b) In order that the corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than sixty days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

Section 2.8 VOTING LISTS. The officer or agent who has charge of the stock ledger of the corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and number of shares registered in his or her name, which list, for a period of ten days prior to such meeting, shall be kept on file

either at a place within the city where the meeting is to be held and which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held, and shall be open to the examination of any stockholder, for any purpose germane to the meeting, at any time during ordinary business hours. Such list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 2.9 STOCK LEDGER. The stock ledger shall be the only evidence as to who are the stockholders entitled to examine the stock ledger or the books of the corporation, or to vote in person or by proxy at any meeting of stockholders.

Section 2.10 QUORUM. A majority of the outstanding shares of voting stock of the corporation, represented in person or by proxy, shall constitute a quorum at any meeting of stockholders; provided, however, that if less than a majority of the outstanding shares of voting stock are represented at said meeting, a majority of the shares of voting stock so represented may adjourn the meeting. If a quorum is present, the affirmative vote of a majority of the shares of voting stock represented at the meeting shall be the act of the stockholders in all matters other than the election of directors, who shall be elected by a plurality of the votes of the shares present in person or by proxy and entitled to vote on the election of directors, unless the vote of a greater number or voting by classes is required by the General Corporation Law of the State of Delaware, the certificate of incorporation or these bylaws. At any adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the original meeting. Withdrawal of stockholders from any meeting shall not cause failure of a duly constituted quorum at that meeting.

Section 2.11 PROXIES. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for such stockholder by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. Every proxy must be signed by the stockholder or his or her attorney-in-fact. A duly executed proxy shall be irrevocable if it states that it is irrevocable, and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the corporation generally.

Section 2.12 VOTING OF STOCK. Subject to the provisions of the certificate of incorporation, each stockholder shall at every meeting of the stockholders be entitled to one vote for each share of the voting stock held by such stockholder.

Section 2.13 VOTING OF STOCK BY CERTAIN HOLDERS.

(a) Persons holding stock in a fiduciary capacity shall be entitled to vote the shares so held. Persons whose stock is pledged shall be entitled to vote, unless in the transfer by the pledgor on the books of the corporation he or she has expressly empowered the pledgee to vote thereon, in which case only the pledgee or his or her proxy may represent such stock and vote thereon. Shares of its own stock belonging to the corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held by the corporation, shall neither be entitled to vote nor counted for quorum purposes, but shares of its stock held, directly or indirectly, by the corporation in a fiduciary capacity may be voted by it and counted for quorum purposes.

(b) Subject always to the specific directions of the board of directors, any share or shares of stock issued by any other corporation and owned or controlled by the corporation may be voted at any stockholders' meeting of such other corporation by the chairman of the board or the president, if he or she be present, or in his or her absence by any executive vice president. Whenever, in the judgment of the chairman of the board or the president, or in his or her absence, any executive vice president, it is desirable for the corporation to execute a proxy or give a stockholders' consent in respect to any share or shares of stock issued by any other corporation and owned by the corporation, such proxy or consent shall be executed in the name of the corporation by the chairman of the board or the president and shall be attested by the secretary without necessity of any authorization by the board of directors. Any person or persons designated in the manner above stated as the proxy or proxies of the corporation shall have full right, power and authority to vote the share or shares of stock issued by such other corporation and owned by the corporation the same as such share or shares might be voted by the corporation.

Section 2.14 VOTING BY BALLOT. Voting in any election of directors may, if permitted by the certificate of incorporation, be by voice vote, and voting on any other questions shall be by voice vote unless, in each case, the presiding officer shall order or any stockholder shall demand that voting be by ballot.

Section 2.15 INSPECTORS. The board of directors, in advance of any meeting, may, but need not, appoint one or more inspectors of election to act at the meeting or any adjournment thereof. If an inspector or inspectors are not appointed, the person presiding at the meeting may, or upon the request of any stockholder shall, appoint one or more inspectors. In case any person who may be appointed as an inspector fails to appear or act, the vacancy may be filled by appointment made by the directors in advance of the meeting or at the meeting by the person presiding thereat. Each inspector, if any, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his or her ability. The inspectors, if any, shall determine the number of shares of stock outstanding and the voting power of each, the shares of stock represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes or ballots, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes or ballots, determine the results, and do such acts as are proper to conduct the election or vote with fairness to all stockholders. On request of the person presiding at the meeting, the inspector or inspectors, if any, shall make a report in writing of any challenge, question or matter determined by the inspector or inspectors and execute a certificate of any fact found by the inspector or inspectors.

ARTICLE III

Directors

Section 3.1 GENERAL POWERS. The business of the corporation shall be managed by or under the direction of its board of directors, except as otherwise provided in the certificate of incorporation.

Section 3.2 NUMBER AND QUALIFICATIONS.

(a) The number of directors of the corporation shall be not less than three nor more than nine or such other number as may be determined from time to time as provided in the certificate of incorporation.

(b) No person shall be eligible for election to the board of directors if such person has attained the age of seventy (70) years prior to the date of the stockholders' meeting at which directors are to be elected; provided, however, that this provision will not apply to any of the current incumbent directors who have attained the age of sixty-five (65) years prior to January 1, 1993. Directors need not be stockholders of the corporation, citizens of the United States or residents of the State of Delaware.

(c) The directors of the corporation shall be divided into three classes, Class I, Class II and Class III, as nearly equal in number as the then total number of directors constituting the entire board permits with the term of office of one class expiring each year. At the annual meeting of stockholders in 1993, directors of Class I shall be elected to hold office for a term expiring at the 1994 annual meeting, directors of Class II shall be elected to hold office for a term expiring at the 1995 annual meeting and directors of Class III shall be elected to hold office for a term expiring at the 1996 annual meeting. Any vacancies in the board of directors for any reason, and any directorships resulting from any increase in the number of directors, may be filled by the board of directors, acting by a majority of the directors then in office, although less than a quorum, and any directors so chosen shall hold office until the next election of the class for which such directors shall have been chosen and until their successors shall be elected and qualified. If the number of directors is changed, any increase or decrease in the number of directors shall be apportioned among the classes so as to maintain all classes as equal in number as possible. At each annual meeting of stockholders, the successors to the class of directors whose term shall then expire shall be elected to hold office for a term expiring at the third succeeding annual meeting.

(d) Notwithstanding any other provisions of the certificate of incorporation of the corporation or these bylaws (and notwithstanding the fact that some lesser percentage may be specified by law, the certificate of incorporation or these bylaws of the corporation), any director or the entire board of directors of the corporation may be removed at any time, but only for cause and only by the affirmative vote of the holders of not less than 70% of the outstanding shares of stock of the corporation entitled to vote generally in the election of directors (considered for this

purpose as one class) cast at an annual meeting of stockholders or at a meeting of the stockholders called for that purpose.

Section 3.3 ELECTION AND VACANCIES. Each class of directors to be elected shall be elected at the annual meeting of the stockholders of the corporation and shall hold office until their successors are elected and qualified or until their earlier death, resignation or removal. Any director may resign at any time upon written notice to the corporation. Thereafter, directors who are elected at an annual meeting of stockholders, and directors who are elected in the interim to fill vacancies and newly created directorships, shall hold office until the next annual meeting of stockholders at which directors of such class are to be elected and until their successors are elected and qualified or until their earlier death, resignation or removal. In the interim between annual meetings of stockholders or of special meetings of stockholders called for the election of directors and/or for the removal of one or more directors and for the filling of any vacancy in that connection, newly created directorships and any vacancies in the board of directors, including vacancies resulting from the removal of directors, may be filled by the vote of a majority of the remaining directors then in office, although less than a quorum, by the nominating and compensation committee, or by the sole remaining director.

Section 3.4 ASSOCIATE DIRECTORS . The board of directors, from time to time, may appoint one or more non-voting associate directors. The associate directors, who would not be members of the board of directors, shall serve in a non-voting advisory capacity with respect to the board of directors of the corporation, and may be invited, without obligation, to attend the meetings of the board of directors of the corporation, without the power of final decision in matters concerning the business of the corporation. Any listing of the associate directors shall distinguish between them and the corporation's board of directors or indicate their associate status. Associate directors may receive such fees as may be determined by the board of directors.

Section 3.5 REGULAR MEETINGS. A regular meeting of the board of directors shall be held without other notice than this bylaw, immediately after, and at the same place as, the annual meeting of stockholders. The board of directors may provide, by resolution, the time and place, either within or without the State of Delaware, for the holding of additional regular meetings without other notice than such resolution.

Section 3.6 SPECIAL MEETINGS. Special meetings of the board of directors may be called by or at the request of the president or any director. The person or persons calling such special meeting of the board of directors shall fix a place, either within or without the State of Delaware, as the place for holding any special meeting of the board of directors.

Section 3.7 NOTICE. Notice of any special meeting of the board of directors stating the time and place of such meeting shall be given by delivery of notice not less than forty-eight hours prior to the time of such proposed meeting by: (a) written notice delivered personally or by mail, recognized overnight delivery service, telegraph or telecopy to each director at his or her business or residence address or telecopy number or at any other address or telecopy number provided by a director to the corporation; or (b) oral notice given in person or provided to such director by telephone wherever he or she may be located. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, on a business day before 5:00 p.m. local time, so addressed, with postage thereon prepaid. If notice is given by overnight delivery service, such notice will be deemed delivered on the next business day after the date of delivery to a nationally recognized overnight delivery service. If notice is given by telegram, such notice shall be deemed to be delivered when the telegram is delivered to the telegraph company. If notice is given by telecopy, such notice shall be deemed to be delivered when sent to the telecopy number provided to the corporation by any director and receipt is confirmed by telephone with such director, or any adult family member, employee or agent of such director. Written notice delivered personally and oral notice given in person or by telephone shall be deemed delivered when so delivered or given to such director. Notice need not be given to any director who submits a written waiver of notice signed by him or her either before or after any meeting. The attendance of a director at any meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the board of directors need be specified in the notice or waiver of such meeting.

Section 3.8 QUORUM. A majority of the number of directors fixed by or determined in accordance with these bylaws shall constitute a quorum for the transaction of business at any meeting of the board of directors,

provided, however, that if less than a majority of such number of directors are present at said meeting, a majority of the directors present may adjourn the meeting from time to time without further notice. A majority of the number of directors serving on a committee of the board shall constitute a quorum for the transaction of business at any meeting of the committee. Interested directors may be counted in determining the presence of a quorum at a meeting of the board of directors or of any committee thereof.

Section 3.9 MANNER OF ACTING. The vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors or of a committee of the board, as the case may be.

Section 3.10 ACTION WITHOUT A MEETING. Any action required or permitted to be taken at any meeting of the board of directors or of any committee thereof may be taken without a meeting if all the members of the board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the board or committee.

Section 3.11 COMPENSATION. The board of directors shall have authority to establish reasonable compensation of all directors for services to the corporation as directors, officers or otherwise.

Section 3.12 LIABILITY FOR UNLAWFUL PAYMENT OF DIVIDEND. In case of any willful or negligent violation of the provisions of sections 160 or 173 of the Delaware General Corporation Law regarding the payment of dividends, any director who may have been absent when the same was done, or who may have dissented from the act or resolution by which the same was done, may exonerate himself or herself from such liability by causing his or her dissent to be entered on the books containing the minutes of the proceedings of the directors at the time the same was done, or immediately after he or she has notice of the same.

Section 3.13 TELEPHONE MEETINGS. Members of the board of directors, or of any committee thereof, may participate in a meeting of the board or committee, as the case may be, by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation shall constitute presence in person at the meeting.

ARTICLE IV

Committees

Section 4.1 COMMITTEES. The board of directors may, by resolution passed by a majority of the whole board, designate one or more committees, each committee to consist of one or more of the directors of the corporation. Any such committee, to the extent provided in the resolution of the board of directors, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation, to the extent permitted under the Delaware General Corporation Law. The designation of any such committee and the delegation thereto of authority shall not operate to relieve the board of directors, or any member thereof, of any responsibility imposed by law.

Section 4.2 EXECUTIVE COMMITTEE. The board of directors by resolution adopted by a majority of the full board of directors, may designate two or more of its members to constitute an executive committee. The executive committee, when the board of directors is not in session, shall have and may exercise all of the authority of the board of directors except to the extent, if any, that such authority shall be limited by the resolution appointing the executive committee and except also that the executive committee shall not have the authority of the board of directors in reference to any action for which the certificate of incorporation or the bylaws would require approval by the vote of greater than a majority of the number of directors as may be fixed from time to time, in the manner prescribed in the certificate of incorporation, by the board of directors of the corporation.

Section 4.3 AUDIT AND CORPORATE GOVERNANCE COMMITTEE . The board of directors by a resolution adopted by a majority of the full board of directors, may designate three or more outside directors to constitute an audit and corporate governance committee. The audit and corporate governance committee shall have, to the extent provided in the resolution of the board of directors or in these bylaws, the authority to retain the independent auditor for the corporation, and to conduct discussions with such auditor concerning the financial statements, operations, internal controls and other related matters and such other authority as may be provided to the audit and

corporate governance committee by the board of directors.

Section 4.4 NOMINATING AND COMPENSATION COMMITTEE . The board of directors by a resolution adopted by a majority of the full board of directors, may designate three or more directors to constitute a nominating and compensation committee. The nominating and compensation committee shall have, to the extent provided in the resolution of the board of directors or in these bylaws, the authority to establish the compensation, benefits and perquisites for the executive officers, directors and other employees of the corporation, identify and select qualified individuals to serve as directors of the corporation and nominate such individuals for election as directors at the corporation's annual meeting of stockholders, and such other authority as may be provided to the nominating and compensation committee by the board of directors.

Section 4.5 TENURE AND QUALIFICATION. Each member of each committee shall hold office until the next regular annual meeting of the board of directors following his or her designation and until his or her successor is designated as a member of such committee and is elected and qualified.

Section 4.6 MEETINGS. Regular meetings of each committee may be held without notice at such times and places as such committee may fix from time to time by resolution. Special meetings of each committee may be called by any member thereof by notice stating the place, date and hour of the meeting which is delivered not less than twenty-four hours prior to the time of such proposed meeting by: (a) written notice delivered personally or by mail, recognized overnight delivery service, telegraph or telecopy to such committee member at his or her business or residence address or telecopy number or at any other address or telecopy number provided by such committee member to the corporation; or (b) oral notice given in person or provided to such committee member by telephone wherever he or she may be located. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, on a business day before 5:00 p.m. local time, so addressed, with postage thereon prepaid. If notice is given by overnight delivery service, such notice will be deemed delivered on the next business day after the date of delivery to a nationally recognized overnight delivery service. If notice is given by telegram, such notice shall be deemed to be delivered when the telegram is delivered to the telegraph company. If notice is given by telecopy, such notice shall be deemed to be delivered when sent to the telecopy number provided to the corporation by any such committee member and receipt is confirmed by telephone with such committee member, or any adult family member, employee or agent of such committee member. Written notice delivered personally and oral notice given in person or by telephone shall be deemed delivered when so delivered or given to any committee members. Any member of a committee may waive notice of any meeting and no notice of any meeting need be given to any member thereof who attends in person. The notice of a meeting of any committee need not state the business proposed to be transacted at the meeting.

Section 4.7 QUORUM. A majority of the members of a committee shall constitute a quorum for the transaction of business at any meeting thereof and action of such committee must be authorized by the affirmative vote of a majority of the members present at a meeting at which a quorum is present.

Section 4.8 ACTION WITHOUT A MEETING. Any action that may be taken by a committee at a meeting may be taken without a meeting if a consent in writing, setting forth the action so to be taken, shall be signed by all of the members of such committee before such action is taken.

Section 4.9 VACANCIES. Any vacancy on a committee may be filled by a resolution adopted by a majority of the full board of directors.

Section 4.10 RESIGNATIONS AND REMOVAL. Any member of any committee may be removed at any time with or without cause by resolution adopted by a majority of the full board of directors. Any member of a committee may resign from such committee at any time by giving written notice to the president or secretary, and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 4.11 PROCEDURE. Each committee shall elect a presiding officer from its members and may fix its own rules or procedures which shall not be inconsistent with these bylaws."

ARTICLE V

Officers

Section 5.1 **NUMBER.** The officers of the corporation shall be a chairman of the board, a vice chairman, a president, one or more executive vice presidents, a secretary and a treasurer, each of whom shall be elected by the board of directors. Such other officers (including one or more vice presidents or senior vice presidents, besides any executive vice presidents), assistant officers and acting officers as may be deemed necessary may be elected or appointed by the board of directors. Any two or more offices may be held by the same person.

Section 5.2 **ELECTION AND TERM OF OFFICE.** The officers of the corporation to be elected by the board of directors shall be elected annually by the board of directors at the first meeting of the board of directors held after each annual meeting of the stockholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as conveniently may be. Vacancies may be filled or new offices created and filled at any meeting of the board of directors. Each officer shall hold office until his or her successor shall have been duly elected and qualified or until his or her death or until he or she shall resign or shall have been removed in the manner hereinafter provided. Election or appointment of an officer or agent shall not of itself create contract rights.

Section 5.3 **REMOVAL.** Any officer or agent elected or appointed by the board of directors may be removed by the board of directors whenever in its judgment the best interests of the corporation would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed.

Section 5.4 **VACANCIES.** A vacancy in any office because of death, removal, disqualification or otherwise, may be filled by the board of directors for the unexpired portion of the term of such office.

Section 5.5 **THE CHAIRMAN OF THE BOARD.** The chairman of the board shall act as the chief executive officer of the corporation and shall preside at all meetings of the stockholders and of the board of directors and exercise such other powers and perform such duties as the board of directors shall lawfully authorize.

Section 5.6 **VICE CHAIRMAN OF THE BOARD.** In the absence of the chairman of the board, the vice chairman of the board shall preside at all meetings of the stockholders and of the board of directors and exercise such other powers and perform such duties as the board of directors shall lawfully authorize.

Section 5.7 **THE PRESIDENT.** In the absence of the chairman of the board and vice chairman of the board, the president shall preside at all meetings of the stockholders and of the board of directors. He or she shall, with the secretary, execute all contracts and instruments which the board of directors shall lawfully authorize. The president shall exercise a general supervision and direction of the affairs of the corporation.

Section 5.8 **EXECUTIVE VICE PRESIDENTS.** Each executive vice president shall assist the president as he or she may direct in exercising general supervision and direction of the affairs of the corporation. Any executive vice president shall, with the secretary, in the absence of the president, execute all contracts and instruments which the board of directors shall lawfully authorize.

Section 5.9 **THE SECRETARY.** The secretary shall: (a) keep the minutes of the stockholders' and of the board of directors' meetings in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these bylaws or as required by law; (c) be custodian of the corporate records; (d) keep a register of the post office address of each stockholder which shall be furnished to the secretary by such stockholder; (e) have general charge of the stock transfer books of the corporation; and (f) in general, perform all duties incident to the office of secretary and such other duties as from time to time may be assigned to the secretary by the president or by the board of directors.

Section 5.10 **THE TREASURER.** If required by the board of directors, the treasurer shall give a bond for the faithful discharge of his or her duties in such sum and with such surety or sureties as the board of directors shall determine. He or she shall: (a) have charge and custody of and be responsible for all funds and securities of the corporation; receive and give receipts for monies due and payable to the corporation from any source whatsoever, and deposit all such monies in the name of the corporation in such banks, trust companies or other depositories as shall be selected in accordance with the provisions of Article VI of these bylaws; and (b) in general perform all of the duties incident to the office of treasurer and such other duties as from time to time may be assigned to him or her by the president or by the board of directors.

Section 5.11 OTHER OFFICERS, ASSISTANTS AND ACTING OFFICERS. The board of directors shall have the power to appoint other officers than those specifically named in this Article as it may deem necessary from time to time, and such other officers shall have the powers and duties as from time to time may be granted or assigned to them by the board of directors. The board of directors shall also have the power to appoint assistant officers and acting officers to act in such capacity and as assistant to any officer, or to perform the duties of such officer whenever for any reason it is impracticable for such officer to act personally, and such assistant or acting officer so appointed by the board of directors shall have the power to perform all the duties of the office to which he or she is so appointed to be assistant, or as to which he or she is so appointed to act, except as such power may be otherwise defined or restricted by the board of directors.

Section 5.12 SALARIES. The salaries of the officers shall be fixed from time to time by the board of directors and no officer shall be prevented from receiving such salary by reason of the fact that he or she is also a director of the corporation.

ARTICLE VI

Written Instruments, Loans, Checks and Deposits

Section 6.1 WRITTEN INSTRUMENTS. Subject always to the specific directions of the board of directors, all deeds and mortgages made by the corporation to which the corporation shall be a party shall be executed in its name by the president or any executive vice president and attested by the secretary. All other written contracts and agreements to which the corporation shall be a party shall be executed in its name by the president or any executive vice president or such other officer as may be designated by the board of directors.

Section 6.2 LOANS. No loans shall be contracted on behalf of the corporation and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the board of directors. Such authority may be general or confined to specific instances.

Section 6.3 CHECKS AND DRAFTS. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the corporation, shall be signed by such officer or officers, agent or agents of the corporation and in such manner as shall from time to time be determined by resolution of the board of directors.

Section 6.4 DEPOSITS. All funds of the corporation not otherwise employed shall be deposited from time to time to the credit of the corporation in such banks, trust companies or other depositories as the board of directors may select.

ARTICLE VII

Certificates for Shares of Capital Stock and Their Transfer

Section 7.1 CERTIFICATES FOR SHARES OF CAPITAL STOCK. Certificates representing shares of stock of the corporation shall be in such form as may be determined by the board of directors. Such certificates shall be signed by the president or any executive vice president and the secretary or an assistant secretary. If any such certificate is manually countersigned by a transfer agent other than the corporation or its employee, any other signature on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue. All certificates for shares of stock shall be consecutively numbered or otherwise identified. The name of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the books of the corporation. All certificates surrendered to the corporation for transfer shall be cancelled and no new certificates shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled, except that in case of a lost, destroyed or mutilated certificate a new

certificate may be issued therefor upon such terms and indemnity to the corporation as the board of directors may prescribe.

Section 7.2 TRANSFER OF SHARES OF STOCK. Transfers of shares of stock of the corporation shall be made on the books of the corporation by the holder of record thereof or by his or her legal representative, who shall furnish proper evidence of authority to transfer, or by his or her attorney thereunto authorized by power of attorney duly executed and filed with the secretary of the corporation, and on surrender for cancellation of the certificate for such shares. The person in whose name shares of stock stand on the books of the corporation shall be deemed the owner thereof for all purposes as regards the corporation.

Section 7.3 TRANSFER AGENTS AND REGISTRARS. The board of directors may appoint one or more transfer agents or assistant transfer agents and one or more registrars of transfers, and may require all certificates for shares of stock of the corporation to bear the signature of a transfer agent or assistant transfer agent and a registrar of transfers. The board of directors may at any time terminate the appointment of any transfer agent or any assistant transfer agent or any registrar of transfers.

ARTICLE VIII

Indemnification

Section 8.1 DIRECTORS AND OFFICERS.

(a) The corporation shall indemnify any person who was or is a party or is threatened to be made party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he or she is or was a director or officer of the corporation, or is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of *nolo contendere* or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his or her conduct was unlawful.

(b) The corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he or she is or was a director or officer of the corporation, or is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection with the defense or settlement of such action or suit if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery of the State of Delaware or such other court shall deem proper.

(c) To the extent that any person referred to in paragraphs (a) and (b) of this Section 8.1 has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to therein or in defense of any claim, issue or matter therein, he or she shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection therewith.

(d) Any indemnification under paragraphs (a) and (b) of this Section 8.1 (unless ordered by a court) shall be made by the corporation only as authorized in the specific case upon a determination that

indemnification of the director or officer is proper in the circumstances because he or she has met the applicable standard of conduct set forth in paragraphs (a) and (b) of this Section 8.1. Such determination shall be made (i) by the board of directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding or (ii) if such quorum is not obtainable, or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (iii) by the stockholders.

(e) Expenses (including attorneys' fees) incurred in defending any civil, criminal, administrative or investigative action, suit or proceeding may be paid by the corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the corporation as provided in this Section 8.1. Such expenses (including attorneys' fees) incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the board of directors deems appropriate.

(f) The indemnification and advancement of expenses provided by or granted pursuant to this Section 8.1 shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office.

(g) The corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the corporation would have the power to indemnify him or her against such liability under the provisions of this Section 8.1.

(h) For purposes of this Section 8.1, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the corporation" shall include any service as a director, officer, employee or agent of the corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to an employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner he or she reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the corporation" as referred to in this Section 8.1.

(i) The indemnification and advancement of expenses provided by, or granted pursuant to, this Section 8.1 shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

(j) Unless otherwise determined by the board of directors, references in this section to "the corporation" shall not include in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under this section with respect to the resulting or surviving corporation as he or she would have with respect to such constituent corporation if its separate existence had continued.

Section 8.2 EMPLOYEES AND AGENTS. The board of directors may, by resolution, extend the indemnification provisions of the foregoing Section 8.1 to any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding by reason of the fact that he or she is or was an employee or agent of the corporation, or is or was serving at the request of the corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise.

ARTICLE IX

Fiscal Year

Section 9.1 The fiscal year of the corporation shall end on December 31 or on such other date as the board of directors may from time to time determine by resolution.

ARTICLE X
Dividends

Section 10.1 The board of directors may from time to time declare, and the corporation may pay, dividends on its outstanding shares of stock in the manner and upon the terms and conditions provided by law and its certificate of incorporation.

ARTICLE XI
Seal

Section 11.1 The corporation shall have a corporate seal which shall be in the form of a circle and shall have inscribed thereon the name of the corporation and the words "Corporate Seal, Delaware."

ARTICLE XII
Waiver of Notice

Section 12.1 Whenever any notice whatsoever is required to be given under any provision of these bylaws or of the certificate of incorporation or of the General Corporation Law of the State of Delaware, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transactions of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders or directors or any committee need be specified in any written waiver of notice.

ARTICLE XIII
Amendments

Section 13.1 These bylaws may not be altered, amended, changed or repealed unless such alteration, amendment, change or repeal shall have received: (a) the affirmative vote of not less than 66 2/3% of the number of directors as may be fixed from time to time, in the manner prescribed in the certificate of incorporation, by the board of directors of the corporation, or the written consent of all of such directors; or (b) the affirmative vote of the holders of shares having at least 70% of the voting power of all outstanding capital stock of the corporation entitled to vote thereon.

118302 2.DOC **As amended January 20, 2004**

Exhibit 10.16

DUBUQUE BANK AND TRUST COMPANY
EXECUTIVE SUPPLEMENTAL LIFE INSURANCE PLAN

Pursuant to due authorization by its Board of Directors, the undersigned, DUBUQUE BANK AND TRUST COMPANY, a corporation located in DUBUQUE, IOWA, did constitute, establish and adopt the following Executive Supplemental Life Insurance Plan (the "Plan"), effective _____, 20__.

The purpose of this Plan is to attract, retain, and reward Employees, by dividing the death proceeds of certain life insurance policies, which are owned by the Company on the lives of the participating Employees, with the designated beneficiary of each insured participating Employee. The Company will pay the life insurance premiums from its general assets.

ARTICLE 1

DEFINITIONS

Whenever used in this Plan, the following terms shall have the meanings specified:

- 1.1 "Beneficiary" means each designated person, or the estate of a deceased Participant, entitled to benefits, if any, upon the death of a Participant.
- 1.2 "Beneficiary Designation Form" means the most recent form accepted by the Plan Administrator of the Dubuque Bank and Trust Company Split-Dollar Life Insurance Plan, dated November 13, 2001, unless a Participant completes, signs and returns to the Plan Administrator of the Plan a separate form to designate one or more Beneficiaries.
- 1.3 "Board" means the Board of Directors of the Company as from time to time constituted.
- 1.4 "Change of Control" means:
- (i) The consummation of the acquisition by a person (as such term is defined in Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of fifty-one percent (51%) or more of the combined voting power of the then outstanding voting securities of the Company or Heartland Financial USA, Inc. ("Heartland"), Company's Parent; or
 - (ii) The individuals who, as of the date hereof, are members of the Board of Directors of the Company or Heartland (the "Board") cease for any reason to constitute a majority of the Boards, unless the election, or nomination for election by the stockholders, of any new director was approved by a vote of a majority of either Board and such new director shall, for purposes of this Plan, be considered as a member of either Board; or
 - (iii) Approval by stockholders of the Company or Heartland of: (1) a merger or consolidation if the stockholders, immediately before such merger or consolidation, do not, as a result of such merger or consolidation, own, directly or indirectly, more than fifty-one percent (51%) of the combined voting power of the then outstanding voting securities of the entity resulting from such merger or consolidation in substantially the same proportion as their ownership of the combined voting power of the voting securities of the Company or Heartland outstanding immediately before such merger or Company; or (2) a complete liquidation or dissolution or a plan for the sale or other disposition of all or substantially all of the assets of the Company or Heartland.

Notwithstanding the foregoing, a Change of Control shall not be deemed to occur solely because fifty-one percent (51%) or more of the combined voting power of the then outstanding securities of the Company or Heartland are acquired by: (1) a trustee or other fiduciary holding securities under one or more employee benefit plans maintained for employees of the entity; or (2) any corporation which, immediately prior to such acquisition, is owned directly or indirectly by the stockholders in the same proportion as their ownership of stock immediately prior to such acquisition.

1.5 "Company" means DUBUQUE BANK AND TRUST COMPANY and any of its subsidiaries (now in existence or hereafter formed or acquired) that have been selected by the Board to participate in the Plan and have adopted the Plan as a sponsor.

1.6 "Company's Interest" means the benefit set forth in Section 3.2.

1.7 "Compensation" means the Participant's total base annual salary, bonus and commissions for the previous twelve (12) months, at the earliest of: (i) the date of the Participant's death; (ii) the date of the Participant's Disability; (iii) the Participant's Normal Retirement Date; (iv) the date of the Participant's Early Retirement; (v) upon Change of Control.

1.8 " **Disability** " means the Participant's suffering a sickness, accident or injury which has been determined by the insurance carrier of any individual or group disability insurance policy covering the Participant, or by the Social Security Administration, to be a disability rendering the Participant totally and permanently disabled. Upon the request of the Plan Administrator, the Participant must submit proof to the Plan Administrator of the insurance carrier's or Social Security Administration's determination.

1.9 " **Early Retirement** " means the Participant's retirement between the ages of fifty-five (55) and sixty-five (65) provided there are ten (10) years of continuous service, as defined by the Heartland Financial Retirement Plan, provided to the Company.

1.10 " **Election to Participate** " means the form required by the Plan Administrator of an eligible Employee to indicate acceptance of participation in this Plan.

1.11 " **Employee** " means an active employee of the Company.

1.12 " **Insured** " means the individual Participant whose life is insured.

1.13 " **Insurer** " means the insurance company issuing the life insurance policy on the life of the Insured.

1.14 " **Net Death Proceeds** " means the total death proceeds of the Policy minus the cash surrender value.

1.15 " **Normal Retirement Age** " means the Participant attaining age 65.

1.16 " **Normal Retirement Date** " means the later of the Normal Retirement Age or the date of Termination of Employment for any reason other than Termination for Cause.

1.17 " **Participant** " means an Employee (i) who has been employed by the Company for at least three years; (ii) who is selected to participate in the Plan, (iii) who elects to participate in the Plan, (iv) who signs an Election to Participate and a Beneficiary Designation Form, (v) whose signed Election to Participate and Beneficiary Designation Form are accepted by the Plan Administrator, (vi) who commences participation in the Plan, and (vii) whose Participation has not terminated.

1.18 " **Participant's Interest** " means the benefit set forth in Section 3.1.

1.19 " **Policy** " means the individual insurance policy or policies adopted by the Plan Administrator for purposes of insuring a Participant's life under this Plan.

1.20 " **Plan Administrator** " means the plan administrator described in Article 10.

1.21 " **Termination of Employment** " means the termination of Participant's full-time service to the Company before Normal Retirement Age for reasons other than (i) death; (ii) Disability; (iii) Early Retirement; or (iv) a leave of absence approved by the Company.

1.22 " **Termination for Cause** " means that the Participant's employment with the Company has been or is terminated by the Board for any of the following reasons:

- (a) Gross negligence or gross neglect of duties; or
- (b) Commission of a felony or of a gross misdemeanor involving moral turpitude; or
- (c) Fraud, disloyalty, dishonesty or willful violation of any law or significant Company policy committed in connection with the Participant's employment and resulting in an adverse effect on the Company; or
- (d) Issuance by the Company's banking regulators of an order for removal of the Participant.

ARTICLE 2

PARTICIPATION

2.1 **Selection by Plan Administrator** . Participation in the Plan shall be limited to those Employees of the Company selected by the Plan Administrator, in its sole discretion, to participate in the Plan.

2.2 **Enrollment Requirements** . As a condition to participation, each selected Employee shall complete, execute and return to the Plan Administrator (i) an Election to Participate, and (ii) a Beneficiary Designation Form. In addition, the Plan Administrator shall establish from

time to time such other enrollment requirements as it determines in its sole discretion are necessary.

2.3 Eligibility; Commencement of Participation . Provided an Employee selected to participate in the Plan has met all enrollment requirements set forth in this Plan and required by the Plan Administrator, that Employee will become a Participant, be covered by the Plan and will be eligible to receive benefits at the time and in the manner provided hereunder, subject to the provisions of the Plan.

2.4 Termination of Participation . A Participant's rights under this Plan shall automatically cease and his or her participation in this Plan shall automatically terminate, if any of the following events occur: (i) if there is a Termination for Cause; (ii) if the Participant's employment with the Company is terminated prior to Normal Retirement Age for reasons other than Early Retirement, Disability (except as set forth in Section 2.5(b)) or a leave of absence approved by the Company; or (iii) upon the Participant's ninetieth (90 th) birthday. In the event that the Company decides to maintain the Policy after the Participant's termination of participation in the Plan, the Company shall be the direct beneficiary of the entire death proceeds of the Policy.

2.5 Disability .

- (a) Except as otherwise provided in paragraph (b) of this Section 2.5, if the Participant's employment with the Company is terminated because of the Participant's Disability, the Company shall maintain the Policy in full force and effect and, in no event, shall the Company amend, terminate or otherwise abrogate the Participant's Interest in the Policy. Notwithstanding, the Company may replace the Policy with a comparable insurance policy to cover the benefit provided under this Plan.
- (b) Notwithstanding the provisions of paragraph (a) of this Section 2.5, upon the disabled Participant's gainful employment with an entity other than the Company, the Company shall have no further obligation to the disabled Participant, and the disabled Participant's rights pursuant to the Plan shall cease. In the event the disabled Participant's rights are terminated hereunder and the Company decides to maintain the Policy, the Company shall be the direct beneficiary of the entire death proceeds of the Policy.

2.6 Retirement . If the Participant remains in the continuous employ of the Company, upon the Participant's Early Retirement or Normal Retirement Date, the Company shall maintain the Policy in full force and effect and in no event shall the Company amend, terminate or otherwise abrogate the Participant's Interest in the Policy. Notwithstanding, the Company may replace the Policy with a comparable insurance policy to cover the benefit under this Plan.

ARTICLE 3

POLICY OWNERSHIP/INTERESTS

3.1 Participant's Interest . The Participant, or the Participant's assignee, shall have the right to designate the Beneficiary of an amount of death proceeds equal to the lesser of (i) one million dollars (\$1,000,000) or (ii) two (2) times Compensation less any death proceeds provided to the Participant's beneficiary or beneficiaries under the Dubuque Bank and Trust Company Split-Dollar Life Insurance Plan, dated November 13, 2001, not to exceed the Net Death Proceeds, subject to:

- (a) Forfeiture of Participant's rights upon Termination of Employment;
- (b) Forfeiture of Participant's rights upon Termination for Cause;
- (c) Forfeiture of Participant's rights upon gainful employment following Disability;
- (d) Forfeiture of Participant's rights upon attaining age ninety (90);
- (e) Termination of the Plan and the corresponding forfeiture of rights for all Participants or any one Participant in accordance with Section 9.1 hereof; and
- (f) Forfeiture of the Participant's rights and interest hereunder that the Company may reasonably consider necessary to conform with applicable law (including the Sarbanes-Oxley Act of 2002).

3.2 Company's Interest . The Company shall own the Policy and shall have the right to exercise all incidents of ownership except that the

Company shall not sell, surrender or transfer ownership of a Policy so long as a Participant has an interest in the Policy as described in Section 3.1. This provision shall not impair the right of the Company, subject to Article 9, to terminate this Plan nor shall it impair the right of the Company to replace the Policy with a comparable insurance policy to cover the benefit under this Plan. With respect to each Policy, the Company shall be the beneficiary of the remaining death proceeds of the Policy after the Participant's Interest is determined according to Section 3.1.

ARTICLE 4

PREMIUMS

4.1 **Premium Payment**. The Company shall pay all premiums due on all Policies.

4.2 **Economic Benefit**. The Plan Administrator shall determine the economic benefit attributable to any Participant based on the amount of the current term rate for the Participant's age multiplied by the aggregate death benefit payable to the Participant's Beneficiary. The "current term rate" is the minimum amount required to be imputed under Internal Revenue Notice 2002-8, or any subsequent applicable authority.

4.3 **Imputed Income**. The Company shall impute the economic benefit to the Participant on an annual basis, by adding the economic benefit to the Participant's W-2, or if applicable, Form 1099.

ARTICLE 5

BENEFICIARIES

5.1 **Beneficiary**. Each Participant shall have the right, at any time, to designate a Beneficiary(ies) to receive any benefits payable under the Plan to a beneficiary upon the death of a Participant. The Beneficiary designated under this Plan may be the same as or different from the Beneficiary designation under any other plan of the Company in which the Participant participates.

5.2 **Beneficiary Designation; Change**. A Participant shall designate a Beneficiary by completing and signing the Beneficiary Designation Form, and delivering it to the Plan Administrator or its designated agent. The Participant's beneficiary designation shall be deemed automatically revoked if the Beneficiary predeceases the Participant or if the Participant names a spouse as Beneficiary and the marriage is subsequently dissolved. A Participant shall have the right to change a Beneficiary by completing, signing and otherwise complying with the terms of the Beneficiary Designation Form and the Plan Administrator's rules and procedures, as in effect from time to time. Upon the acceptance by the Plan Administrator of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be cancelled. The Plan Administrator shall be entitled to rely on the last Beneficiary Designation Form filed by the Participant and accepted by the Plan Administrator prior to the Participant's death.

5.3 **Acknowledgment**. No designation or change in designation of a Beneficiary shall be effective until received, accepted and acknowledged in writing by the Plan Administrator or its designated agent.

5.4 **No Beneficiary Designation**. If the Participant dies without a valid designation of beneficiary, or if all designated Beneficiaries predecease the Participant, then the Participant's surviving spouse shall be the designated Beneficiary. If the Participant has no surviving spouse, the benefits shall be made payable to the personal representative of the Participant's estate.

5.5 **Facility of Payment**. If the Plan Administrator determines, in its discretion, that a benefit is to be paid to a minor, to a person declared incompetent, or to a person incapable of handling the disposition of that person's property, the Plan Administrator may direct payment of such benefit to the guardian, legal representative or person having the care or custody of such minor, incompetent person or incapable person. The Plan Administrator may require proof of incompetence, minority or guardianship as it may deem appropriate prior to distribution of the benefit. Any payment of a benefit shall be a payment for the account of the Participant and the Participant's Beneficiary, as the case may be, and shall be a complete discharge of any liability under the Plan for such payment amount.

ARTICLE 6

ASSIGNMENT

Any Participant may irrevocably assign without consideration all or part of such Participant's Interest in this Plan to any person, entity or trust. In the event a Participant shall transfer all or part of such Participant's Interest, then all or part of that Participant's Interest in this Plan shall be vested in his or her transferee, who shall be substituted as a party hereunder, and that Participant shall have no further interest in this Plan.

ARTICLE 7

INSURER

The Insurer shall be bound only by the terms of its given Policy. Any payments the Insurer makes or actions it takes in accordance with a Policy shall fully discharge it from all claims, suits and demands of all persons relating to that Policy. The Insurer shall not be bound by or deemed to have notice of the provisions of this Plan. The Insurer shall have the right to rely on the Plan Administrator's representations with regard to any definitions, interpretations or Policy interests as specified under this Plan.

ARTICLE 8

CLAIMS AND REVIEW PROCEDURE

8.1 **Claims Procedure**. A Participant or Beneficiary ("claimant") who has not received benefits under the Plan that he or she believes should be paid shall make a claim for such benefits as follows:

8.1.1 **Initiation – Written Claim**. The claimant initiates a claim by submitting to the Plan Administrator a written claim for the benefits.

8.1.2 **Timing of Plan Administrator Response**. The Plan Administrator shall respond to such claimant within 90 days after receiving the claim. If the Plan Administrator determines that special circumstances require additional time for processing the claim, the Plan Administrator can extend the response period by an additional 90 days by notifying the claimant in writing, prior to the end of the initial 90-day period, that an additional period is required. The notice of extension must set forth the special circumstances and the date by which the Plan Administrator expects to render its decision.

8.1.3 **Notice of Decision**. If the Plan Administrator denies part or all of the claim, the Plan Administrator shall notify the claimant in writing of such denial. The Plan Administrator shall write the notification in a manner calculated to be understood by the claimant. The notification shall set forth:

- (a) The specific reasons for the denial;
- (b) A reference to the specific provisions of the Plan on which the denial is based;
- (c) A description of any additional information or material necessary for the claimant to perfect the claim and an explanation of why it is needed;
- (d) An explanation of the Plan's review procedures and the time limits applicable to such procedures; and
- (e) A statement of the claimant's right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review.

8.2 **Review Procedure**. If the Plan Administrator denies part or all of the claim, the claimant shall have the opportunity for a full and fair review by the Plan Administrator of the denial, as follows:

8.2.1 **Initiation – Written Request**. To initiate the review, the claimant, within 60 days after receiving the Plan Administrator's notice of denial, must file with the Plan Administrator a written request for review.

8.2.2 **Additional Submissions – Information Access**. The claimant shall then have the opportunity to submit written comments, documents, records and other information relating to the claim. The Plan Administrator shall also provide the claimant, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the claimant's claim for benefits.

8.2.3 **Considerations on Review**. In considering the review, the Plan Administrator shall take into account all materials and information

the claimant submits relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.

8.2.4 Timing of Plan Administrator's Response . The Plan Administrator shall respond in writing to such claimant within 60 days after receiving the request for review. If the Plan Administrator determines that special circumstances require additional time for processing the claim, the Plan Administrator can extend the response period by an additional 60 days by notifying the claimant in writing, prior to the end of the initial 60-day period, that an additional period is required. The notice of extension must set forth the special circumstances and the date by which the Plan Administrator expects to render its decision.

8.2.5 Notice of Decision . The Plan Administrator shall notify the claimant in writing of its decision on review. The Plan Administrator shall write the notification in a manner calculated to be understood by the claimant. The notification shall set forth:

- (a) The specific reasons for the denial;
- (b) A reference to the specific provisions of the Plan on which the denial is based;
- (c) A statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the claimant's claim for benefits; and
- (d) A statement of the claimant's right to bring a civil action under ERISA Section 502(a).

ARTICLE 9

AMENDMENTS AND TERMINATION

9.1 Amendment or Termination of Plan . Except as otherwise provided in Sections 2.5, 2.6, 9.2 and 9.4, the Company has the unilateral right at any time (i) to amend or terminate the Plan, except this Plan shall not be amended or terminated within twelve (12) months prior to a Change of Control without the Participant's written consent or (ii) to exercise its right to surrender the Policy.

9.2 Amendment or Termination of Plan Upon Change of Control . Notwithstanding anything herein to the contrary, if there should be a Change of Control in the Company, then the Participant's Interest under this Plan shall be frozen as of the date the Change of Control occurs. Further, the Company shall pay or create a vehicle to pay, or cause the successor in interest to repay any outstanding loans and to pay to Insurer the amount of premium necessary to acquire in full (endow) enough insurance coverage to pay the Participant's Interest as then frozen and the Company's premium payments under the Policy. Further, as of the date of the Change of Control, all amounts due to Participant under this Plan shall be fully vested and shall not be subject to subsequent events including, but not limited to, the termination of employment of the Participant.

9.3 Automatic Termination . Subject to Sections 3.1, 9.2 and 9.4, participation in this Plan shall automatically terminate upon the occurrence of any of the following events:

- 9.3.1 The bankruptcy, receivership or dissolution of the Company;
- 9.3.2 The Participant's violation of the terms of Article 11.

9.4 Disposition of the Policy on Termination of the Plan During the Participant's Lifetime . If the Plan is terminated, the Company shall give notice as set forth below.

9.4.1 Unless the Participant's interest in the Plan is terminated under Section 3.1 or 9.3 above, for sixty (60) days after the date the Participant receives notice from the Company of the termination of this Plan during the Participant's lifetime, the Participant shall have the assignable option to purchase the Policy from the Company. The purchase price for the Policy shall be the greater of the total amount of the premium payments made by the Company hereunder or the cash value of the Policy, less any indebtedness secured by the Policy which remains outstanding as of the date of such termination, including interest on such indebtedness. Upon receipt of such amount, the Company shall transfer all of its rights, title and interest in and to the Policy to the Participant or his or her assignee, by the execution and delivery of an appropriate instrument of transfer.

9.4.2 If the Participant or his or her assignee fails to exercise such option within such sixty (60) day period, then the Company may enforce any of its ownership rights under the policy. Thereafter, neither the Participant, the Participant's assignee nor the assignee's heirs, assigns or beneficiaries shall have any further interest in and to the Policy, either under the terms thereof or under this Plan.

ARTICLE 10

ADMINISTRATION

10.1 **Plan Administrator Duties**. This Plan shall be administered by a Plan Administrator which shall consist of the Board, or such committee or persons as the Board may choose. Members of the Plan Administrator may be Participants under this Plan. The Plan Administrator shall also have the discretion and authority to (i) make, amend, interpret and enforce all appropriate rules and regulations for the administration of this Plan and (ii) decide or resolve any and all questions including interpretations of this Plan, as may arise in connection with the Plan.

10.2 **Agents**. In the administration of this Plan, the Plan Administrator may employ agents and delegate to them such administrative duties as it sees fit, (including acting through a duly appointed representative), and may from time to time consult with counsel who may be counsel to the Company.

10.3 **Binding Effect of Decisions**. The decision or action of the Plan Administrator with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.

10.4 **Indemnity of Plan Administrator**. The Company shall indemnify and hold harmless the members of the Plan Administrator against any and all claims, losses, damages, expenses or liabilities arising from any action or failure to act with respect to this Plan, except in the case of willful misconduct by the Plan Administrator or any of its members.

10.5 **Information**. To enable the Plan Administrator to perform its functions, the Company shall supply full and timely information to the Plan Administrator on all matters relating to the Compensation of its Participants, the date and circumstances of the retirement, Disability, death or Termination of Employment of its Participants, and such other pertinent information as the Plan Administrator may reasonably require.

10.6 **Suicide, Misstatement or Fraud**. The Company shall not pay any benefit under this Plan if the Participant:

10.6.1 Commits suicide within two years (i) after the date of this Plan or (ii) issuance of the Policy, whichever occurs later;

10.6.2 Has made any material misstatement of fact or committed fraud (as determined by the Insurer) on any application for life insurance benefits provided by the Company under this Plan; or

10.6.3 Should die while engaged in any activity or under circumstances that are listed as exclusions in the Policy.

ARTICLE 11

NON-COMPETE

11.1 **Non-Compete**. For purposes of this Plan, a Participant may not engage in any competitive practices or activity prior to or after Early Retirement or Normal Retirement for a period of two years, in an area within a 50-mile radius of any branch or location of the Company or Heartland now or hereafter existing, without the express written consent of the Company or Heartland. A Participant shall not divulge to any person, firm or corporation, or use on Participant's own behalf, any information, acquired by Participant during Participant's employment with the Company or Heartland, concerning the Company or Heartland's accounts, clients, customers, policyholders, expiration lists or business or information of any kind whatsoever owned by the Company or Heartland. Furthermore, for purposes of this Plan, the Participant shall be deemed to compete with the Company or Heartland, if as hereinafter provided, the Participant (i) competes directly with the Company or Heartland; (ii) is or becomes financially or beneficially interested in any person and/or business who or which competes with the Company; however, ownership of not more than five percent (5%) of any class of securities traded actively over-the-counter or through a stock exchange shall not violate this condition (ii); or (iii) acts directly or indirectly, as broker, consultant, agent, lender, guarantor or salesman for or on behalf of any person or business who or which competes with the Company or Heartland.

A violation of this section shall cause the Participant's interest in the Plan to be terminated.

ARTICLE 12

MISCELLANEOUS

12.1 **Binding Effect**. This Plan shall bind each Participant and the Company, their beneficiaries, survivors, executors, administrators and transferees and any Beneficiary.

12.2 **No Guarantee of Employment**. This Plan is not an employment policy or contract. It does not give a Participant the right to remain an Employee of the Company, nor does it interfere with the Company's right to discharge a Participant. It also does not require a

Participant to remain an Employee nor interfere with a Participant's right to terminate employment at any time.

- 12.3 Applicable Law. The Plan and all rights hereunder shall be governed by and construed according to the laws of the State of Iowa, except to the extent preempted by the laws of the United States of America.
- 12.4 Reorganization. The Company shall not merge or consolidate into or with another company, or reorganize, or sell substantially all of its assets to another company, firm or person unless such succeeding or continuing company, firm or person agrees to assume and discharge the obligations of the Company under this Plan. Upon the occurrence of such event, the term "Company" as used in this Plan shall be deemed to refer to the successor or survivor company.

12.5 Notice. Any notice or filing required or permitted to be given to the Plan Administrator under this Plan shall be sufficient if in writing and hand-delivered, or sent by registered or certified mail, to the address below:

Director of Human Resources Heartland Financial USA, Inc. 1398 Central Avenue Dubuque, IA 52001
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Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark or the receipt for registration or certification.

Any notice or filing required or permitted to be given to a Participant under this Plan shall be sufficient if in writing and hand-delivered, or sent by mail, to the last known address of the Participant.

12.6 Entire Agreement. This Plan, along with a Participant's Election to Participate, Beneficiary Designation Form and any agreement in writing between the Company and any Participant, constitute the entire agreement between the Company and the Participant as to the subject matter hereof. No rights are granted to the Participant under this Plan other than those specifically set forth herein.

IN WITNESS WHEREOF, the Company executes this Plan as of the date indicated above.

DUBUQUE BANK AND TRUST COMPANY

By _____
Title _____

I designate the following as Beneficiary of benefits under the DUBUQUE BANK AND TRUST COMPANY Executive Supplemental Life Insurance Plan payable following my death.

Primary: _____

Contingent: _____

Note: To name a trust as Beneficiary, please provide the name of the trustee(s) and the exact name and

date of the trust agreement.

I understand that I may change these designations of beneficiary by filing a new written designation with the Plan Administrator. I further understand that the designations will be automatically revoked if the Beneficiary predeceases me, or, if I have named my spouse as beneficiary and our marriage is subsequently dissolved.

Participant Name:

Participant Signature:

Date:

Witness Name:

Witness Signature:

Date:

Acknowledged by the Plan Administrator this _____ day of _____, 20____

By _____

Title _____

DUBUQUE BANK AND TRUST COMPANY

Executive Supplemental Life Insurance Plan

ELECTION TO PARTICIPATE

I, _____, a designated employee as set forth in Section 2.1 of the DUBUQUE BANK AND TRUST COMPANY Executive Supplemental Life Insurance Plan dated _____ (the "Plan"), hereby elect to become a Participant of this Plan according to Section 2.2 of the Plan. Additionally, I acknowledge that I have read the Plan document and agree to be bound by its terms.

Executed this _____ day of _____, 2004.

Printed Name:

Signature:

Date:

Acknowledged by the Plan Administrator this _____ day of _____, 20____

By _____

Title _____

Exhibit 10.17

\$70,000,000

CREDIT AGREEMENT

among

HEARTLAND FINANCIAL USA, INC.,
as Borrower,

THE NORTHERN TRUST COMPANY,
as Agent,

and the BANKS named herein

Dated as of January 31, 2004

CREDIT AGREEMENT

CREDIT AGREEMENT dated as of January 31, 2004 among HEARTLAND FINANCIAL USA, INC. , a corporation formed under the laws of the State of Delaware (the " Borrower "), each of the banks named on the signature pages hereto under the caption "Banks" (individually, a " Bank " and, collectively, the " Banks ") and THE NORTHERN TRUST COMPANY, as agent for the Banks (in such capacity, together with its successors in such capacity, the " Agent "). All capitalized terms used herein without definition shall have the meanings set forth in Section 9.1 of this Agreement.

WHEREAS, the Borrower has requested that the Agent and Banks make available to it revolving credit loans in an aggregate amount not exceeding \$70,000,000 at any time, and the Agent and Banks are willing to make available such revolving credit loans upon the terms and conditions hereof;

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1. THE LOANS

1.1. Revolving Credit Loans.

(a) Each Bank severally agrees, on the terms and subject to the conditions of this Agreement (including without limitation Section 1.1(c)), to make loans to the Borrower during the period from and including the date hereof to and including the Revolving Credit Commitment Termination Date in an aggregate principal amount at any one time outstanding up to but not exceeding the amount of such Bank's Commitment as then in effect. Subject to the terms of this Agreement, during such period the Borrower may borrow, repay, and reborrow the amount of the Commitments from time to time in effect by means of Prime Rate Loans, Eurodollar Loans and Fed Funds Rate Loans and may Convert Loans of one type into Loans of another type or Continue Eurodollar Loans; provided that no more than five (5) Eurodollar Loans may be outstanding from each Bank at any one time.

(b) Revolving Credit Loans may be borrowed pursuant to Section 1.2 , upon notice given by the Borrower.

(c) Anything in this Agreement to the contrary notwithstanding, the Banks shall have no obligation to make any Loans if, after giving effect thereto, the Total Credits would exceed the Total Commitments.

1.2. Revolving Credit Loans Pursuant to Notice. The Borrower may, subject to the terms and conditions of this Agreement, borrow Revolving Credit Loans by notice given by any two Authorized Officers to the Agent in accordance with Section 3.5(a) . Revolving Credit Loans made pursuant to this Section 1.2 on any day shall be in an aggregate amount not less than that specified in Section 3.4 and shall consist of Loans of the same type. Not later than 1:00 p.m. Chicago time on the date specified for each borrowing under this Section 1.2 , each Bank shall make available to the Agent at its principal office in Chicago, Illinois, in immediately available funds, the amount of the Loan to be made by it on such date. The amount so received by the Agent shall, subject to the terms and conditions of this Agreement, be made promptly available to the Borrower in immediately available funds in accordance with the

instructions of any two Authorized Officers of the Borrower.

1.3. Voluntary Reduction of Commitments. The Borrower shall have the right to terminate or reduce the aggregate amount of the Commitments at any time or from time to time, provided that: (a) the Borrower shall give notice of each such termination or reduction as provided in Section 3.5 hereof; (b) each partial reduction shall be in an aggregate amount at least equal to \$5,000,000 and in integral multiples of \$5,000,000; (c) the Total Commitments shall not be reduced below the Total Credits then outstanding; (d) no such reduction shall cause the Commitment of any Bank to be reduced below the outstanding principal amount of Loans made by such Bank; and (e) Commitments once terminated or reduced may not be reinstated.

1.4. Prepayment, Conversions and Continuations. Subject to Section 4.5 hereof, the Borrower shall have the right to prepay the principal of the Loans or to Convert Loans of one type into Loans of another type or Continue Eurodollar Loans as such at any time, provided that: (a) the Borrower shall give the Agent notice of each such prepayment, Conversion, or Continuation as provided in Section 3.5 hereof; (b) prepayments shall be in a minimum principal amount of \$1,000,000 and in integral multiples of \$1,000,000; and (c) Eurodollar Loans may be prepaid, Continued, or Converted only on the last day of an Interest Period therefor.

1.5. Interest.

(a) The Borrower promises to pay to the Agent for the account of each Bank interest on the unpaid principal amount of each Loan made by such Bank for the period from and including the date of such Loan to, but excluding, the date such Loan shall be paid in full, (i) while such Loan is a Prime Rate Loan, for each day at a rate per annum equal to the Prime Rate as in effect on such day minus 1.00%; (ii) while such Loan is a Eurodollar Loan, for each Interest Period relating thereto, at a rate per annum equal to the LIBOR Rate for such Loan for such Interest Period plus 1.15%; and (iii) while such Loan is a Fed Funds Rate Loan for each day, at a rate per annum equal to the Fed Funds Rate as in effect on such day plus 1.15%.

(b) Notwithstanding the foregoing, the Borrower will pay to the Agent for the account of the Bank entitled thereto interest at the Post-Default Rate on (i) any principal of any Loan and (ii) (to the fullest extent permitted by law) any interest or other amount payable by the Borrower hereunder or under any Note which shall not be paid in full when due (whether at stated maturity, by acceleration or otherwise), for each day during the period from and including the due date thereof to but excluding the date the same is paid in full.

(c) Accrued interest shall be payable in (i) in the case of Prime Rate Loans, monthly in arrears on the last Business Day of the month, (ii) in the case of Fed Funds Rate Loans, monthly in arrears on the last Business Day of the month, (iii) in the case of a Eurodollar Loan, on the last day of each Interest Period thereof, and (iv) in the case of any Loan, upon the payment or prepayment thereof or the Conversion of such Loan to a Loan of another type (but only on the principal amount so paid, prepaid, or Converted); provided, that interest payable at the Post-Default Rate, if any, shall be payable from time to time on demand and interest on any Loan that is Converted into a Prime Rate Loan pursuant to Section 4.4 hereof shall be payable on the date of Conversion (but only to the extent so Converted).

1.6. Lending Offices. The Loans of each type made by each Bank shall be made and maintained at such Bank's Applicable Lending Office for Loans of such type.

1.7. Several Obligations; Remedies Independent. The obligations of the Banks under this Agreement are several and the failure of any Bank to make any Loan on the date specified therefor shall not relieve any other Bank of its obligation to make the Loan to be made by it on such date, but neither any Bank nor the Agent shall be responsible for the failure of any other Bank to make any Loan. The amounts payable by the Borrower at any time hereunder and under the Notes to the Agent and each Bank shall be a separate and independent debt, and the Agent and each Bank shall be entitled to protect and enforce its rights arising out of this Agreement and the Notes, and it shall not be necessary for any other Bank or the Agent to consent to, or be joined as an additional party in, any proceedings for such purposes.

1.8. Notes. The obligation of the Borrower to pay principal of and interest on the Loans made by each Bank hereunder shall be evidenced by a single promissory note of the Borrower payable to such Bank in substantially the form of Exhibit A hereto. The date, amount, and type of each Loan made by each Bank, and the date and amount of

each payment made on account of the principal thereof, shall be recorded by such Bank on its books and, prior to any transfer of any Note evidencing such Loan held by it, endorsed by such Bank on the schedule attached to such Note or any continuation thereof; provided, however, that any failure to so record shall not affect the Borrower's obligations under this Agreement or the Notes.

1.9. Business Day Payments. If the due date of any amount payable hereunder shall fall on a day, which shall not be a Business Day, the due date of such amount shall be postponed to the next Business Day thereafter.

1.10. Extension of Commitments and Replacement of Banks.

(a) The Borrower may request an extension of the Revolving Credit Commitment Termination Date by submitting a request for extension to the Agent and each Bank (other than a Bank excluded from such request as provided in the last sentence of this Section 1.10(a)) (each such request being an " Extension Request ") no later than sixty (60) days prior to the then existing Revolving Credit Commitment Termination Date. The Agent and each Bank receiving such an Extension Request may, in accordance with such Extension Request but in the absolute and sole discretion of the Agent and such Bank, agree to extend the Revolving Credit Commitment Termination Date by delivering to the Borrower and the Agent an irrevocable notice (a " Consent Notice ") to such effect, which consent shall specifically refer to this Section 1.10 and which shall be given no later than thirty (30) days prior to the then existing Revolving Credit Commitment Termination Date (the period between the receipt of the Extension Notice and the 30-day deadline for response being referred to as the " Consent Period "). The new Revolving Credit Commitment Termination Date shall be no more than 364 days after the current Revolving Credit Commitment Termination Date. No Extension Request shall be effective with respect to a Bank (i) that, by a notice (a " Withdrawal Notice ") to the Borrower and the Agent during the Consent Period, declines to consent to such extension or (ii) that has failed to respond to the Borrower and the Agent within the Consent Period or (iii) that was excluded from the Borrower's Extension Request (each such Bank giving a Withdrawal Notice or failing to respond in a timely manner or being excluded from the Borrower's Extension Request being called a " Withdrawing Bank "). So long as no Default exists, the Borrower may elect to exclude any Bank from its request for extension of the Revolving Credit Termination Date pursuant to this Section 1.10(a) by providing a notice to such effect to the Agent and the Banks.

(b) The Borrower may replace any Withdrawing Bank during the 25-day period (the " Replacement Period ") commencing at the end of the Consent Period and ending on (and including) the date five days before the Revolving Credit Commitment Termination Date then in effect, provided, that (i) no Default shall have occurred and be continuing, (ii) the Bank being replaced has been paid in full of all its Loans, including principal and interest, and other amounts due to it hereunder, (iii) the Total Commitments shall remain unchanged following such replacement, (iv) any such replacement bank assumes all the rights and obligations of a "Bank" hereunder pursuant to such accession documentation as the Agent shall specify pursuant to Section 1.10(d), and (v) the Agent shall have consented to such replacement bank, which consent shall not be unreasonably withheld.

(c) If the Agent does not timely provide a Consent Notice as to an Extension Request, or if there is a Withdrawing Bank and the Borrower does not find a replacement bank which satisfies all the conditions stated in Section 1.10(b) by the end of the Replacement Period, the Revolving Credit Commitment Termination Date shall not be extended, any Withdrawing Bank shall continue to be a Bank hereunder, and its Commitments shall expire on the Revolving Credit Commitment Termination Date as provided herein without giving effect to any extension. If all of the Banks and the Agent provide a Consent Notice with respect to an Extension Request and there is no Withdrawing Bank, or if all of the Banks (other than any Withdrawing Bank) and the Agent give a Consent Notice and each Withdrawing Bank is replaced by a replacement bank during the Replacement Period and all the conditions stated in Section 1.10(b) shall be satisfied with respect to such replacement bank, then the Revolving Credit Commitment Termination Date shall be extended in accordance with the relevant Extension Request, the Commitments shall be extended accordingly, and any Withdrawing Bank shall be discharged from its Commitment and any other obligation as a Bank which arises after the date which would have been the Revolving Credit Commitment Termination Date but for such extension.

(d) Any replacement bank may become a "Bank" under this Agreement by executing and delivering to the Borrower and the Agent an accession agreement in form and substance satisfactory to the Agent and the Borrower and such related documentation as shall be satisfactory in form and substance to the Borrower and the Agent, pursuant to which such bank shall assume the rights, privileges, duties, and obligations of a "Bank" hereunder. Upon the

effectiveness of any such accession agreement and related documentation, the acceding bank shall become a "Bank" for all purposes of this Agreement having the Commitments specified in such accession agreement.

(e) The Agent shall promptly provide a copy of each accession agreement to each of the Banks.

(f) If any Loans shall be outstanding at the time an accession agreement becomes effective, the Borrower shall repay such portion of such Loans and borrow an equal principal amount of new Loans from the Bank which has acceded so that after giving effect to such prepayment and borrowing the Loans are held pro rata among the Banks in accordance with the Commitments. The Banks shall make disbursements among themselves to give effect to such prepayment and borrowing pursuant to instructions from the Agent. The Borrower shall pay accrued interest to the date of prepayment on any Loans so prepaid, together with any amounts payable as a result of such prepayment pursuant to Section 4.5, such prepayments being due on the date of such prepayments. Any Eurodollar Loans made by such acceding Bank shall be (if not made on the first day of the relevant Interest Period(s) for Eurodollar Loans hereunder) at such rate(s) per annum as shall be set forth in the accession agreement.

1.11. Repayment. All principal amounts on the Loans shall be payable on the Revolving Credit Commitment Termination Date, or, if sooner, as provided in Section 8.2.

SECTION 2. FEES

2.1. Facility Fee. The Borrower shall pay to the Agent for the account of each Bank a facility fee on the amount of such Bank's Commitment, for the period from and including the date of this Agreement to, but not including the earlier of the date such Commitment is terminated or the Revolving Credit Commitment Termination Date, at the rate per annum of 0.125%. The accrued facility fee in respect of the Commitments shall be payable in arrears on the last Business Day of each calendar quarter in each year, beginning with the first of such dates to occur after the date of this Agreement, and on the earlier of the date the Commitments are terminated or the Revolving Credit Commitment Termination Date.

2.2. Agency Fee. The Borrower shall pay to the Agent for the account of the Agent such agency fee as shall be set forth in a letter agreement dated the date of this Agreement between the Agent and the Borrower.

SECTION 3. THE PAYMENTS; PRO RATA TREATMENT; COMPUTATIONS; ETC.

3.1. Payments.

(a) Except to the extent otherwise provided herein, all payments and prepayments of principal, interest, fees and other amounts to be made by the Borrower under this Agreement and the Notes shall be made in Dollars, in immediately available funds, without deduction, set-off, or counterclaim, to the Agent, for the benefit of the Agent and the Banks, at such account as it may specify, not later than 11:00 a.m. Chicago time on the date on which such payment shall become due (each such payment made after such time to be deemed to have been made on the next succeeding Business Day).

(b) Each payment received by the Agent under this Agreement or any Note for the account of a Bank shall be paid promptly to such Bank, in immediately available funds, for the account of such Bank's Applicable Lending Office for the Loan in respect of which such payment is made.

3.2. Pro Rata Treatment. Except to the extent otherwise provided herein: (a) the borrowing from the Banks of Loans under Section 1.2 hereof shall be made from the Banks, and the payment of the facility fee under Section 2.1 hereof shall be made for the account of the Banks, and each reduction of the Commitments pursuant to Section 1.3 hereof shall be applied to the Commitments of the Banks, pro rata according to the amounts of their respective Percentages; (b) the making, Conversion, and Continuation of Loans of a particular type (other than Conversions provided for by Section 4.4 hereof) shall be pro rata among the Banks according to the amounts of their respective Percentages; (c) each payment or prepayment of principal by the Borrower shall be made for the account of the Banks pro rata in accordance with the respective unpaid principal amounts of the Loans held by the Banks; and (d) each payment of interest on Loans by the Borrower shall be made for the account of the Banks pro rata in accordance with the amounts of interest due and payable to the respective Banks.

3.3. Computations . Interest and fees shall be computed on the basis of a year of 360 days and actual days elapsed (including the first day but excluding the last day) occurring in the period for which payable.

3.4. Minimum Amounts . Except for Conversions or prepayments made pursuant to Section 4.4 hereof, each borrowing pursuant to Section 1.2 , Conversion, and prepayment of principal of Loans shall be in an amount at least equal to \$1,000,000 and in integral multiples of \$1,000,000 (prepayments or Conversions of or into Loans of different types or, in the case of Eurodollar Loans, having different Interest Periods at the same time hereunder to be deemed separate Conversions and prepayments for purposes of the foregoing, one for each type or Interest Period). Anything in this Agreement to the contrary notwithstanding, the aggregate principal amount of Eurodollar Loans having the same Interest Period shall be at least equal to \$1,000,000 and if any Eurodollar Loans would otherwise be in a lesser principal amount for any period, such Loans shall be Prime Rate Loans during such period.

3.5. Certain Notices .

(a) Notices by the Borrower to the Agent of voluntary reductions of the Commitments, borrowings, Conversions, Continuation and prepayments of Loans, of type of Loans, and of the duration of Interest Periods shall be irrevocable and shall be effective only if received by the Agent not later than 10:00 a.m. Chicago time on the number of Business Days prior to the date of the relevant reduction, borrowing, Conversion, Continuation or prepayment or the first day of such Interest Period specified below:

<u>Notice</u>	<u>Business Days Prior</u>
Reduction of Commitments	five
Borrowing or prepayment of, or Conversions into, Prime Rate Loans or Fed Funds Rate Loans	same day
Borrowing or prepayment of, Conversions into, Continuations as, or duration of Interest Period for, Eurodollar Loans	three

(b) Each notice of reduction of the Commitments shall specify the amount of such reduction. Each notice of borrowing, Conversion, Continuation, or prepayment shall specify the Loans to be borrowed, Converted, Continued, or prepaid and the amount (subject to Section 3.4 hereof) and type of the Loans to be borrowed, Converted, Continued, or prepaid and the date of Conversion, Continuation, or prepayment (which shall be a Business Day). Each such notice of the duration of an Interest Period shall specify the Loans to which such Interest Period is to relate. The Agent shall promptly notify the Banks of the contents of each such notice.

(c) In the event that the Borrower fails to select the type of Loan or the duration of any Interest Period for any Eurodollar Loan within the time period and otherwise as provided in this Section 3.5 , such Loan (if outstanding as a Eurodollar Loan) will be automatically Converted into a Prime Rate Loan on the last day of the then current Interest Period for such Loan or will be made as a Prime Rate Loan; provided , that the Borrower shall continue to have the right to Convert any such Loan on the terms and conditions of this Agreement.

3.6. Non-Receipt of Funds by the Agent . Unless the Agent shall have been notified by a Bank or the Borrower (the " Payor ") prior to the date on which the Payor is scheduled to make a payment to the Agent (a " Required Payment "), which notice shall be effective upon receipt, that the Payor does not intend to make the Required Payment to the Agent, the Agent may assume that the Required Payment has been made and may in reliance upon such assumption (but shall not be required to) make the amount thereof available to the intended recipient(s) on such date and, if the Payor has not in fact made the Required Payment to the Agent, the recipient(s) of such payment shall, on demand, repay to the Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date such amount was so made available by the Agent until the date the Agent recovers

such amount at a rate per annum equal to (if the recipient is the Borrower) the Prime Rate for such day, and (if the recipient is a Bank) the Fed Funds Rate for such day as determined by the Agent; and if such recipient(s) shall fail promptly to make such payment, the Agent shall be entitled to recover such amount, on demand, from the Payor, together with interest as aforesaid at the Prime Rate (if the Payor is the Borrower) or the Fed Funds Rate (if the Payor is a Bank).

3.7. Sharing of Payments . If any Bank shall obtain payment in any manner whatsoever of any principal of or interest on any Loan or any other amount due hereunder or under the Notes and, as a result of such payment, such Bank shall have received a greater percentage of the principal or interest or such other amount than due hereunder or under the Notes by the Borrower to such Bank than the percentage received by any other Banks, it shall promptly purchase from such other Banks participations in the Loans made by such other Banks in such amounts and make such other adjustments from time to time as shall be equitable to the end that all the Banks shall share the benefit of such excess payment pro rata in accordance with the unpaid principal and/or interest on the Loans held by each of the Banks. To such end all the Banks shall make appropriate adjustments among themselves (by the resale of participations sold or otherwise) if such payment is rescinded or must otherwise be restored.

SECTION 4. YIELD, CAPITAL MAINTENANCE AND TAX PROVISIONS

4.1. Additional Costs .

(a) The Borrower shall pay directly to each Bank from time to time on demand such amounts as such Bank may determine to be necessary to compensate it for any costs which such Bank determines are attributable to its making or maintaining of any Eurodollar Loans or Fed Funds Rate Loans or its obligation to make any Eurodollar Loans or Fed Funds Rate Loans hereunder, or any reduction in any amount received or receivable by such Bank hereunder in respect of any Eurodollar Loans or Fed Funds Rate Loans or such obligation (such increases in costs and reductions in amounts received or receivable being herein called "Additional Costs"), resulting from any Regulatory Change which:

(i) changes the basis of taxation of any amounts payable to such Bank under this Agreement or its Note (other than taxes on the overall net income of such Bank or its Applicable Lending Office imposed by the United States of America or by the jurisdiction in which such Bank has its principal office or such Applicable Lending Office);

(ii) imposes, modifies, or deems applicable any reserve, special deposit, or similar requirements relating to any extensions of credit or other assets of, or any deposits with or other liabilities of, such Bank or the Commitment of such Bank in respect of Eurodollar Loans or Fed Funds Rate Loans; or

(iii) imposes any other condition affecting this Agreement or its Note (or any of such extensions of credit or liabilities) or Commitment in respect of Eurodollar Loans or Fed Funds Rate Loans.

(b) Without limiting the effect of the foregoing provisions of this Section 4.1 (but without duplication), the Borrower shall pay directly to each Bank from time to time on demand such amounts as such Bank may determine to be necessary to compensate such Bank or any Person controlling such Bank for any increased costs which it determines are attributable to the maintenance by such Bank or such Person (or any Applicable Lending Office) of capital in respect of such Bank's Commitment or Loans as a result of any Regulatory Change, such compensation to include, without limitation, an amount equal to any reduction of the rate of return on assets or equity of such Bank or such Person (or any Applicable Lending Office) to a level below that which such Bank or such Person (or any Applicable Lending Office), taking into account its policies concerning capital adequacy, could have achieved but for such Regulatory Change.

(c) Each Bank will notify the Borrower of any event occurring after the date of this Agreement that will entitle such Bank to compensation under paragraph (a) or (b) of this Section 4.1 as promptly as practicable. Together with the delivery of such notice, the relevant Bank will furnish to the Borrower a certificate setting forth the basis and amount of each request by such Bank for compensation under paragraph (a) or (b) of this Section 4.1 . Determinations and allocations by any Bank for purposes of this Section 4.1 of the effect of any Regulatory Change, law, regulation, or request of any central bank or other monetary authority and computations of amounts payable set forth in the certificate referred to in the preceding sentence shall be made in good faith and shall be conclusive and binding on the Borrower

in the absence of manifest error.

4.2. Limitation on Types of Loans. Anything herein to the contrary notwithstanding, if, on or prior to the determination of any LIBOR Base Rate for any Interest Period for any Eurodollar Loans or determination of the Fed Funds Rate for any Fed Funds Rate Loans:

(a) the Agent determines (which determination shall be conclusive) that quotations of interest rates for the relevant deposits referred to in the definition of "LIBOR Base Rate" or "Fed Funds Rate," as the case may be, are not being provided in the relevant amounts or for the relevant maturities for purposes of determining the LIBOR Base Rate for such Interest Period or the Fed Funds Rate for such day, as the case may be, as provided herein; or

(b) any Bank determines (which determination shall be conclusive) and notifies the Agent that the relevant rates of interest referred to in the definition of (i) "LIBOR Base Rate" for such Interest Period are not likely to adequately cover the cost to such Bank of making or maintaining its Eurodollar Loan for such Interest Period or (ii) "Fed Funds Rate" are not likely to adequately cover the cost of such Bank of making or maintaining its Fed Funds Rate Loans;

then with respect to Loans of the affected type, the Agent shall give the Borrower and each Bank prompt notice thereof, and so long as such condition remains in effect, the affected Banks shall be under no obligation to make or Continue Loans of the affected type and the Borrower shall either prepay (on the last day of the current Interest Period for any outstanding Eurodollar Loans) each affected Bank's Loans of the affected type or Convert (on the last day of the current Interest Period for any outstanding Eurodollar Loans) such Loans to a type which are not so affected in accordance with Section 1.4 hereof.

4.3. Illegality. Notwithstanding any other provision of this Agreement, in the event that because of any Regulatory Change it becomes unlawful for any Bank or its Applicable Lending Office to honor its obligation to make or maintain Eurodollar Loans or Fed Funds Rate Loans, then such Bank shall promptly notify the Borrower thereof (with a copy to the Agent) and such Bank's obligation to make or Continue, or to Convert Loans into, the affected type of Loans or to make or Convert the affected type of Loans shall be suspended until such time as such Bank may again make and maintain the affected type of Loans (in which case the provisions of Section 4.4 hereof shall be applicable).

4.4. Treatment of Affected Loans.

(a) If the obligation of any Bank to make or Continue, or to Convert Loans into, Eurodollar Loans or Fed Funds Rate Loans is suspended pursuant to Section 4.2 or 4.3 hereof (such Loans being called " Affected Loans " in this Section 4.4), such Bank's Affected Loans shall be automatically Converted into Prime Rate Loans on the last day (s) of the then current Interest Period(s) unless sooner required under the Regulatory Change referred to in Section 4.3 and, unless and until such Bank gives notice as provided below that the circumstances specified in Section 4.2 or 4.3 hereof which gave rise to such Conversion no longer exist:

(i) to the extent that such Bank's Affected Loans have been so Converted, all payments and prepayments of principal which would otherwise be applied to such Bank's Affected Loans shall be applied instead to its Prime Rate Loans; and

(ii) all Loans which would otherwise be made or Continued by such Bank as Affected Loans shall be made or Continued instead as Prime Rate Loans and all Loans of such Bank which would otherwise be Converted into Affected Loans shall remain as Prime Rate Loans.

(b) If such Bank gives notice to the Borrower (with a copy to the Agent) that circumstances specified in Section 4.2 or 4.3 hereof which gave rise to the Conversion of such Bank's Affected Loans pursuant to this Section 4.4 no longer exist (which such Bank agrees to do promptly upon such circumstances ceasing to exist) at a time when Affected Loans are outstanding, such Bank's Prime Rate Loans shall be automatically Converted, on the first day(s) of the next succeeding Interest Period(s) for such outstanding Affected Loans to the extent necessary so that, after giving effect thereto, all Affected Loans are held pro rata (as to principal amounts, types and Interest Periods) in accordance with the Commitments.

4.5. Compensation.

(a) The Borrower shall pay to the Agent for the account of each Bank, upon the demand of such Bank through the Agent, such amount or amounts as shall be sufficient (in the reasonable opinion of such Bank) to compensate it for any loss, cost or expense which such Bank determines are attributable to (i) any payment, prepayment or Conversion of a Eurodollar Loan made by such Bank for any reason (including, without limitation, the acceleration of the Loans pursuant to Section 8 hereof) on a date other than the last day of an Interest Period for such Loan; or (ii) any failure by the Borrower for any reason (including, without limitation, the failure of any of the conditions precedent specified in Section 5 hereof to be satisfied) to borrow a Eurodollar Loan from such Bank on the date of the making of such Loan specified as provided in this Agreement.

(b) Without limiting the effect of Section 4.5(a), such compensation shall include an amount equal to the excess, if any, of (i) the amount of interest which otherwise would have accrued on the principal amount so paid, prepaid or Converted or not borrowed for the period from the date of such payment, prepayment, Conversion or failure to borrow to the last day of the then current Interest Period for such Loan (or, in the case of a failure to borrow, the Interest Period for such Loan which would have commenced on the date specified for such borrowing) at the applicable rate of interest for such Loan over (ii) the interest component of the amount such Bank would have bid in the London interbank market for Dollar deposits of leading banks in amounts comparable to such principal amount and with maturities comparable to such period (as reasonably determined by such Bank).

(c) Any Bank requesting compensation pursuant to this Section 4.5 shall provide to the Borrower a certificate showing its computation of the amount requested, which shall be conclusive and binding on the Borrower in the absence of manifest error.

4.6. Taxes. The Borrower covenants and agrees that:

(a) All payments on account of the principal of and interest on the Loans and all other amounts payable by the Borrower under or in respect of this Agreement or the Notes or the letter agreement referred to in Section 2.2 hereof, including amounts payable under paragraph (c) of this Section 4.6, shall be made free and clear of and without reduction by reason of any present or future income, stamp and other taxes, levies, deductions, charges and withholdings whatsoever imposed, assessed, levied or collected by any state, nation or other governmental authority (other than taxes on the overall net income of such Bank or its Applicable Lending Office imposed by the United States of America or the jurisdiction in which such Bank has its principal office or such Applicable Lending Office, such excluded taxes being called "Excluded Taxes"), or any political subdivision or taxing authority thereof or therein (each, a "Taxing Authority"), and interest thereon and penalties with respect thereto, if any, on or in respect of (i) this Agreement, the Notes, the Commitments, the Loans or the letter agreement referred to in Section 2.2 hereof, (ii) the registration, notarization or other formalization of any thereof, (iii) any payments of principal, interest, charges, fees or other amounts made on, under or in respect thereof, or (iv) any of the income, profits or revenues of the Agent, any Bank or any Applicable Lending Office as a result of the transactions contemplated hereby other than Excluded Taxes (collectively, "Taxes"), all of which will be paid by the Borrower, for its own account, prior to the date on which penalties attach thereto.

(b) The Borrower will indemnify the Agent and each Bank against, and reimburse the Agent and each Bank on demand for, any Taxes and any loss, liability, claim or expense, including interest, penalties and legal fees, which the Agent or any Bank may incur at any time arising out of or in connection with any failure of the Borrower to make any payment of Taxes when due.

(c) In the event that the Borrower is required by applicable law, decree or regulation to deduct or withhold any Taxes from any amount payable on, under or in respect of this Agreement or the Notes or the letter agreement referred to in Section 2.2 hereof, the Borrower shall withhold such amount and pay it to the relevant Taxing Authority and shall pay to the Agent or the Banks such additional amount as may be required, after such deduction or withholding, to enable the Agent or the Banks to receive from the Borrower an amount equal to the full amount stated to be payable under this Agreement or the Notes or the letter agreement referred to in Section 2.2 hereof.

(d) The Borrower shall furnish to the Agent original or certified copies of tax receipts in respect of any withholding of Taxes required under this Section 4.6 within thirty (30) days after the date of the payment of interest or

other amount in respect of which any withholding was required to be made, and the Borrower shall promptly furnish to the Agent any other information, documents and receipts that the Agent may require, in its sole discretion from time to time, to establish to its satisfaction that full and timely payment has been made of all Taxes required to be paid hereunder.

(e) The covenants and agreements of the Borrower under this Section 4.6 shall survive the repayment of the Loans and payment of other amounts payable under this Agreement, the Notes and the letter agreement referred to in Section 2.2 hereof.

(f) At least five Business Days prior to the first date on which interest or fees are payable hereunder for the account of any Bank, each Bank that is not incorporated under the laws of the United States of America or a state thereof agrees that it will deliver to each of the Borrower and the Agent two duly completed copies of United States Internal Revenue Service Form W-8BEN, W-8ECI or W-8IMY, certifying in either case that such Bank is entitled to receive payments under this Agreement and the Notes without deduction or withholding of any United States federal income taxes. Each Bank which is so obligated to deliver a Form W-8BEN, W-8ECI or W-8IMY further undertakes to deliver to each of the Borrower and the Agent two additional copies of such form (or a successor form) on or before the date that such form expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent form so delivered by it, and such amendments thereto or extensions or renewals thereof as may be reasonably requested by the Borrower or the Agent, in each case certifying that such Bank is entitled to receive payments under this Agreement and the Notes without deduction or withholding of any United States federal income taxes, unless an event (including without limitation any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Bank from duly completing and delivering any such form with respect to it and such Bank advises the Borrower and the Agent that it is not capable of receiving payments without any deduction or withholding of United States federal income tax.

SECTION 5. CONDITIONS PRECEDENT

5.1. Initial Credit Extension. The obligation of each Bank to make its initial Loan hereunder is subject to the receipt by the Agent of the following documents and payments, each of which documents shall be satisfactory to the Agent in form and substance:

(a) Agreement. This Agreement, duly completed and executed.

(b) Notes. The Notes, duly completed and executed.

(c) Borrower Corporate Action. The certificate of incorporation (certified by the Secretary of State of Delaware dated no earlier than 30 days prior to this Agreement) and by-laws of the Borrower and all corporate action taken by the Borrower authorizing this Agreement and the Notes and the borrowing by the Borrower hereunder (including the resolutions of the Board of Directors of the Borrower authorizing the transactions contemplated hereby), in each case, certified by the secretary or assistant secretary of the Borrower.

(d) Borrower Incumbency. A certificate of the secretary or assistant secretary of the Borrower naming and setting forth the specimen signature of each of the officers of the Borrower (i) who is authorized to sign on its behalf this Agreement or the Notes and (ii) who is (A) an Authorized Officer or (B) who will, until replaced by another officer or officers duly authorized for that purpose, act as its representative for the purposes of signing documents and giving notices and other communications (other than notices required to be given by an Authorized Officer) in connection with this Agreement and the transactions contemplated hereby.

(e) Officer's Certificate. A certificate of a senior officer of the Borrower dated the date of the initial Credit Extension to the effect that on and as of such date: (i) no Default shall have occurred and be continuing; and (ii) the representations and warranties made by the Borrower in Section 6 hereof are true and correct with the same force and effect as if made on and as of such date.

(f) Opinion of Counsel of Borrower. An opinion of counsel of the Borrower, substantially in the form of Exhibit B hereto.

(g) Approvals. Certified copies of any filings, authorizations, approvals, licenses, consents or registrations necessary in order for the Borrower to execute, deliver and perform this Agreement or the Notes.

(h) Fee Letter and Payments. An executed copy of the letter agreement referred to in Section 2.2, payment of any agency fee then due under that letter agreement, and payment of any other fee which is then due and payable pursuant to this Agreement.

(i) Borrower Good Standing Certificates. A good standing certificate from (i) the Borrower's Federal Reserve Bank, (ii) the Secretary of State of the Borrower's state of incorporation, and (iii) each state in which the Borrower is required to be qualified to transact business as a foreign corporation, except from those states where the failure to so qualify would not have a material adverse impact on the consolidated assets, condition or prospects of the Borrower (in each of the foregoing cases, dated no earlier than 30 days prior to this Agreement).

(j) Bank Payoff Letter. A payoff letter from each of The Northern Trust Company and Harris Trust and Savings Bank addressed to the Borrower and the Agent, in form and substance satisfactory to the Agent, and otherwise setting forth the amount necessary to pay off and retire all Indebtedness of the Borrower to such bank and terminating their commitments to lend.

(k) Guaranty Agreements. A separate Guaranty Agreement duly completed and executed by each Guarantor.

(l) Guarantor Corporate Action. The articles of incorporation (also certified by the Secretary of State of each Guarantor's state of organization dated no earlier than 30 days prior to this Agreement) and by-laws of each Guarantor and all corporate action taken by each Guarantor authorizing their respective Guaranty Agreement and the performance of their obligations thereunder (including the resolutions of the Board of Directors of each Guarantor authorizing the transactions contemplated by their respective Guaranty Agreement), in each case, certified by the secretary or assistant secretary of such Guarantor.

(m) Guarantor Incumbency. A certificate of the secretary or assistant secretary of each Guarantor naming and setting forth the specimen signature of each of the officers of such Guarantor who is authorized to sign its Guaranty Agreement on its behalf (the Agent and each Bank may conclusively rely on such certificate until formally advised by a like certificate of any changes therein).

(n) Guarantor Good Standing Certificates. A good standing certificate from (i) the Secretary of State of each Guarantor's state of incorporation, and (iii) each state in which each Guarantor is required to be qualified to transact business as a foreign corporation, except from those states where the failure to so qualify would not have a material adverse impact on the consolidated assets, condition or prospects of such Guarantor (in each of the foregoing cases, dated no earlier than 30 days prior to this Agreement).

(o) Opinion of Counsel to Guarantor. An opinion of counsel to each Guarantor in the form of Exhibit C attached hereto.

(p) Lien Searches. Certified copies of (i) Uniform Commercial Code lien search reports certified by a party acceptable to the Agent, dated a date reasonably near to the date of this Agreement, listing all effective financing statements which name the Borrower and each Guarantor (under their present names and any previous names and under the names of any predecessor by merger, consolidation or otherwise) as debtor and which are filed in the Borrower's and such Guarantor's jurisdiction of organization and where the Borrower or such Guarantor has maintained any place of business within the last five years, together with copies of such financing statements and (ii) federal and state tax liens and pending suits and judgment searches against the Borrower and each Guarantor (under their present names and any previous names and under the names of any predecessor by merger, consolidation or otherwise) from jurisdictions where the Borrower and such Guarantor is organized and from where the Borrower or such Guarantor maintains any principal place of business, each of such searches certified by a party acceptable to the Agent and dated a date reasonably near to the date of this Agreement.

(q) Other Documents. Such other documents as the Agent or any Bank may reasonably request.

5.2. Initial and Subsequent Credit Extensions. The obligation of each Bank to make any Loan (including its initial Loan) and agree to any Continuation of Eurodollar Loans or any Conversion of Loans is subject to the further conditions precedent that, both immediately prior to such Credit Extension, Continuation or Conversion and also after giving effect thereto: (a) no Default shall have occurred and be continuing; and (b) the representations and warranties made by the Borrower in Section 6 hereof shall be true and correct on and as of the date of such Credit Extension, Continuation or Conversion with the same force and effect as if made on and as of such date. Each notice of borrowing, Continuation or Conversion given by the Borrower hereunder shall constitute a certification by the Borrower to the effect set forth in clauses (a) and (b) in the preceding sentence.

SECTION 6. REPRESENTATIONS AND WARRANTIES

To induce the Agent and the Banks to enter into this Agreement and make Credit Extensions, the Borrower represents and warrants to the Agent and the Banks that:

6.1. Organization. The Borrower and each Subsidiary are existing and in good standing under the laws of their state of formation, and are duly qualified, in good standing and authorized to do business in each jurisdiction where failure to do so might have a material adverse impact on the consolidated assets, condition or prospects of the Borrower. The Borrower and each Subsidiary have the power and authority to own their properties and to carry on their businesses as now being conducted.

6.2. Authorization; No Conflict. The execution, delivery and performance of this Agreement, the Notes, the other Loan Documents to which the Borrower is a party and all related documents and instruments: (a) are within the Borrower's powers; (b) have been authorized by all necessary corporate action; (c) have received any and all necessary governmental approval; and (d) do not and will not contravene or conflict with any provision of law or charter or by-laws of the Borrower or any agreement affecting the Borrower or its property.

6.3. Financial Statements. The Borrower has supplied copies of the following financial or other statements to the Agent and each Bank:

- (a) The Borrower's unaudited consolidated financial statements as of September 30, 2003; and
- (b) The Borrower's audited consolidated financial statements as of December 31, 2002.

Such statements have been furnished to the Agent and each Bank, have been prepared in conformity with GAAP applied on a basis consistent with that of the preceding fiscal year, and fairly present the financial condition of the Borrower and each Subsidiary as at such dates and the results of their operations for the respective periods then ended. Since the date of those financial statements, no material, adverse change in the business, condition, properties, assets, operations, or prospects of the Borrower or any Subsidiary has occurred. There is no known contingent liability of the Borrower or any Subsidiary which is known to be in an amount in excess of \$100,000 (excluding loan commitments, letters of credit, and other contingent liabilities incurred in the ordinary course of the banking business) in excess of insurance for which the insurer has confirmed coverage in writing which is not reflected in such financial statements.

6.4. Taxes. The Borrower and each Subsidiary have filed or caused to be filed all federal, state and local tax returns which, to the knowledge of the Borrower or such Subsidiary, were required to be filed, and have paid or have caused to be paid all taxes as shown on such returns or on any assessment received by them, to the extent that such taxes have become due (except for current taxes not delinquent and taxes being contested in good faith and by appropriate proceedings for which adequate reserves have been provided on the books of the Borrower or the appropriate Subsidiary, and as to which no foreclosure, sale or similar proceedings have been commenced). The Borrower and each Subsidiary have set up reserves which are adequate for the payment of additional taxes for years which have not been audited by the respective tax authorities.

6.5. Liens. None of the assets of the Borrower or any Subsidiary are subject to any Lien, except for Liens permitted by Section 7.5(b).

6.6. Adverse Contracts. Neither the Borrower nor any Subsidiary is a party to any agreement or

instrument or subject to any charter or other corporate restriction, nor is it subject to any judgment, decree or order of any court or governmental body, which may have a material and adverse effect on the business, assets, liabilities, financial condition, operations or business prospects of the Borrower and its Subsidiaries taken as a whole or on the ability of the Borrower to perform its obligations under this Agreement, the Note, the other Loan Documents to which it is a party. Neither the Borrower nor any Subsidiary has, nor with reasonable diligence should have had, knowledge of or notice that it is in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any such agreement, instrument, restriction, judgment, decree or order.

6.7. Regulation U. The Borrower is not engaged principally in, nor is one of the Borrower's important activities, the business of extending credit for the purpose of purchasing or carrying "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time hereinafter in effect.

6.8. Litigation and Contingent Liabilities. No litigation (including derivative actions), arbitration proceedings or governmental proceedings are pending or threatened against the Borrower or any Subsidiary which would (singly or in the aggregate), if adversely determined, have a material and adverse effect on the financial condition, continued operations or prospects of the Borrower or such Subsidiary, except as and if set forth (including estimates of the dollar amounts involved) on Schedule 6.8 attached to this Agreement.

6.9. FDIC Insurance. The deposits of each Subsidiary Bank of the Borrower are insured by the FDIC to the extent permitted by applicable law and no act has occurred which would adversely affect the status of such Subsidiary Bank as an FDIC insured bank.

6.10. Investigations. Neither the Borrower nor any Subsidiary Bank has received any notice that it is under investigation by, or is operating under the restrictions imposed by or agreed to in connection with, any regulatory authority.

6.11. Bank Holding Company. The Borrower has complied in all material respects with all federal, state and local laws pertaining to bank holding companies, including without limitation the Bank Holding Company Act of 1956, as amended, and there are no conditions precedent or subsequent to its engaging in the business of being a registered bank holding company.

6.12. ERISA.

(a) The Borrower and the ERISA Affiliates and the plan administrator of each Plan have fulfilled in all material respects their respective obligations under ERISA and the Code with respect to such Plan and such Plan is currently in material compliance with the applicable provisions of ERISA and the Code.

(b) With respect to each Plan, there has been no (i) "reportable event" within the meaning of Section 4043 of ERISA and the regulations thereunder which is not subject to the provision for waiver of the 30-day notice requirement to the PBGC; (ii) failure to make or properly accrue any contribution which is due to any Plan; (iii) action under Section 4041 of ERISA to terminate any Pension Plan; (iv) withdrawal from any Pension Plan with two or more contributing sponsors or the termination of any such Pension Plan resulting in liability pursuant to Sections 4063 or 4064 of ERISA; (v) institution by PBGC of proceedings to terminate any Pension Plan, or the occurrence of any event or condition which might constitute grounds under ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan; (vi) the imposition of liability pursuant to Sections 4062(e), 4069 or 4212 of ERISA; (vii) complete or partial withdrawal (within the meaning of Sections 4203 and 4205 of ERISA) from any Pension Plan which is a Multiemployer Plan that is in reorganization or insolvency pursuant to Sections 4241 or 4245 of ERISA, or that it intends to terminate or has terminated under Sections 4041A or 4042 of ERISA; (viii) prohibited transaction described in Section 406 of ERISA or 4975 of the Code which could give rise to the imposition of any material fines, penalties, taxes or related charges; (ix) assertion of a claim (other than routine claims for benefits) against any Plan (other than a Multiemployer Plan) which could reasonably be expected to be successful; (x) receipt from the Internal Revenue Service of notice of the failure of any Plan to qualify under Section 401(a) of the Code, or the failure of any trust forming part of any Plan to fail to qualify for exemption from taxation under Section 501(a) of the Code, if applicable; or (xi) imposition of a Lien pursuant to Section 401(a)(29) or 412(n) of the Code or Section 302(f) of ERISA.

6.13. Environmental Laws .

(a) The Borrower and each of its Subsidiaries have obtained all material permits, licenses and other authorizations which are required under the Environmental Laws and are in compliance in all material respects with any applicable Environmental Laws.

(b) On or prior to the date hereof, no notice, demand, request for information, citation, summons or order has been issued, no complaint has been filed, no penalty has been assessed and no investigation or review is pending or, to the best of the Borrower's knowledge, threatened by any governmental or other Person with respect to any alleged or suspected failure by the Borrower or any of its Subsidiaries to comply in any material respect with any Environmental Laws.

(c) There are no material liens arising under or pursuant to any Environmental Laws on any of the property owned or leased by the Borrower or any of its Subsidiaries.

(d) There are no conditions existing currently or likely to exist during the term of this Agreement which would subject the Borrower or any of its Subsidiaries or any of their property to any material lien, damages, penalties, injunctive relief or cleanup costs under any Environmental Laws or which require or are likely to require cleanup, removal, remedial action or other responses pursuant to Environmental Laws by the Borrower and its Subsidiaries.

6.14. Subsidiaries . Attached hereto as Schedule 6.14 is a correct and complete list of all Subsidiaries of the Borrower.

SECTION 7. COVENANTS

The Borrower agrees that, so long as the Commitments are in effect and until payment in full of the Loans and all other amounts payable by the Borrower hereunder and under the Notes the Borrower will, and will cause each Subsidiary to comply with the following covenants:

7.1. Existence, Mergers, Etc . The Borrower and each Subsidiary shall preserve and maintain their corporate, partnership or joint venture (as applicable) existence, and will not liquidate, dissolve, or merge, or consolidate with or into any other entity, or sell, lease, transfer or otherwise dispose of all or a substantial part of their assets other than in the ordinary course of business as now conducted, except that:

(a) any Subsidiary may merge or consolidate with or into the Borrower or any one or more wholly-owned Subsidiaries;

(b) any Subsidiary may sell, lease, transfer or otherwise dispose of any of its assets to the Borrower or one or more wholly-owned Subsidiaries;

(c) ULTEA may sell or lease assets to banks other than the Subsidiary Banks in an amount not to exceed 50% of its total lease assets;

(d) ULTEA may transfer an interest in accounts or notes receivable on a non-recourse or a limited recourse basis to a special purpose vehicle, provided , that the transfer qualifies as a sale under GAAP and that the total amount of the assets sold does not exceed \$30,000,000 in the aggregate during the term of this Agreement;

(e) the Borrower or any Subsidiary may merge with any other Person so long as the Borrower or such Subsidiary shall be the surviving Person and no Default before or after giving effect to such merger shall have occurred and be continuing; and

(f) the Borrower may dissolve any Trust Issuer after giving effect to the redemption of all outstanding Trust Preferred Securities of such Trust Issuer and the repayment in full by the Borrower of the Trust Indebtedness to such Trust Issuer, provided , that , such redemption of Trust Preferred Securities and repayment of Trust Indebtedness is made in compliance with other applicable provisions of this Agreement.

The Borrower and any Subsidiary shall take all steps to become and remain duly qualified, in good standing and authorized to do business in each jurisdiction where failure to do so might have a material adverse impact on the consolidated assets, condition or prospects of the Borrower.

7.2. Reports, Certificates and Other Information . The Borrower shall furnish (or cause to be furnished) to each Bank:

(a) Interim Reports . Within forty-five (45) days after the end of each quarter of each fiscal year of the Borrower, a copy of an unaudited financial statement of the Borrower and its Subsidiaries prepared on a consolidated basis consistent with the consolidated financial statements of the Borrower and its Subsidiaries referred to in Section 6.3 above, signed by an Authorized Officer of the Borrower and consisting of at least: (i) a balance sheet as at the close of such quarter; (ii) a statement of earnings and source and application of funds for such quarter and for the period from the beginning of such fiscal year to the close of such quarter; and (iii) all call reports and other financial statements required to be delivered by the Borrower and by each Subsidiary Bank to any governmental authority or authorities having jurisdiction over the Borrower or such Subsidiary Bank and all schedules thereto.

(b) Audit Report . Within ninety (90) days after the end of each fiscal year of Borrower, a copy of an annual report of Borrower and its Subsidiaries prepared on a consolidated basis and in conformity with GAAP applied on a basis consistent with the consolidated financial statements of Borrower and its Subsidiaries referred to in Section 6.3 above, duly audited by independent certified public accountants of recognized standing satisfactory to the Agent, accompanied by an opinion without qualification.

(c) Certificates . Contemporaneously with the furnishing of a copy of each annual report and of each quarterly statement provided for in this Section , a certificate dated the date of such annual report or such quarterly statement and signed by either the President, the Chief Financial Officer or the Treasurer of the Borrower, to the effect that no Default has occurred and is continuing, or, if there is any such event, describing it and the steps, if any, being taken to cure it, and containing (except in the case of the certificate dated the date of the annual report) a computation of, and showing compliance with, any financial ratio or restriction contained in this Agreement.

(d) Certificate as to US Bank Indebtedness . Within five (5) days after the end of each calendar quarter, a certificate dated as of the last day of such calendar quarter and signed by a senior officer of ULTEA, certifying the outstanding principal of the US Bank Indebtedness on such date.

(e) Reports to SEC . Notification of each filing and report made by the Borrower or any Subsidiary with or to any securities exchange, national quotation service or the Securities and Exchange Commission, promptly upon the filing or making thereof (with copies of such filings and reports promptly provided upon the Agent's or any Bank's request).

(f) Notice of Default, Litigation and ERISA Matters . Immediately upon learning of the occurrence of any of the following, written notice describing the same and the steps being taken by the Borrower or such Subsidiary affected in respect thereof: (i) the occurrence of a Default; (ii) the institution of, or any adverse determination in, any litigation, arbitration or governmental proceeding which is material to the Borrower or any Subsidiary on a consolidated basis; (iii) the occurrence of any event described in Section 6.12(b) ; (iv) the issuance of any cease and desist order, memorandum of understanding, cancellation of insurance, or proposed disciplinary action from the Federal Deposit Insurance Corporation or other regulatory entity; or (v) the receipt by the Borrower or any Subsidiary Bank of any notice that it is under investigation by, or is operating under the restrictions imposed by or agreed to in connection with, any regulatory authority.

(g) Other Information . From time to time such other information, financial or otherwise, concerning the Borrower, any Subsidiary or any Guarantor as the Agent or any Bank may reasonably request.

7.3. Inspection . The Borrower and each Subsidiary shall permit the Agent or any Bank and its agents at any time during normal business hours to inspect their properties and to inspect and make copies of their books and records, except as may be prohibited by any applicable laws. Any such inspection shall be at the Borrower's expense if a Default has occurred and is continuing.

7.4. Financial Requirements .

(a) Total Debt to Tier 1 Capital . The Borrower's total Indebtedness (specifically excluding Indebtedness of the Borrower's Subsidiaries) shall not at any time exceed forty-five percent (45%) of its consolidated Tier 1 Capital (provided that nothing in this paragraph shall permit the Borrower to borrow or incur Indebtedness except as specifically permitted elsewhere in this Agreement).

(b) Leverage Ratio . The Borrower shall maintain a ratio of Tier 1 Capital to average quarterly assets less all non-qualified intangible assets of at least five percent (5%), calculated on a consolidated basis as at the last day of each fiscal quarter of the Borrower. Each Subsidiary Bank shall maintain a ratio of Tier 1 Capital to average quarterly assets less all non-qualified intangible assets of at least five percent (5%), calculated as at the last day of each fiscal quarter of such Subsidiary Bank.

(c) Tier 1 Capital Ratio . The Borrower shall maintain a ratio of Tier 1 Capital to risk-weighted assets of not less than six percent (6%), calculated as at the last day of each fiscal quarter of the Borrower. Each Subsidiary Bank shall maintain a ratio of Tier 1 Capital to risk-weighted assets of not less than six percent (6%), calculated as at the last day of each fiscal quarter of such Subsidiary Bank.

(d) Risk-Based Capital Ratio The Borrower shall maintain a ratio of Total Capital to risk-weighted assets of not less than ten percent (10%), calculated as at the last day of each fiscal quarter of the Borrower. Each Subsidiary Bank shall maintain a ratio of Total Capital to risk-weighted assets of not less than ten percent (10%), calculated as at the last day of each fiscal quarter of such Subsidiary Bank.

(e) Return on Average Assets--Borrower . The Borrower's consolidated net income shall be at least one half percent (0.50%) of its average assets, calculated as at the last day of each fiscal quarter of the Borrower for the four fiscal quarter period ending on such date.

(f) Return on Average Assets--DBT . The consolidated net income of DBT shall be at least one percent (1.00%) of its average assets, calculated as at the last day of each fiscal quarter of DBT for the four fiscal quarter period ending on such date.

(g) Non-performing Assets . All assets of all Subsidiary Banks and other Subsidiaries classified as "non-performing" (which shall include all loans in non-accrual status, more than ninety (90) days past due in principal or interest, restructured or renegotiated, or listed as "other restructured" or "other real estate owned") on the Federal Deposit Insurance Corporation or other regulatory agency call report shall not exceed at any time three percent (3%) of all loans of the Borrower and its Subsidiaries on a consolidated basis.

(h) Loan Loss Reserves Ratio . The Borrower and each Subsidiary Bank shall maintain at all times on a consolidated basis a ratio of loan loss reserves to non-performing loans (not including "other real estate owned") of not less than one hundred percent (100%).

7.5. Indebtedness, Liens And Taxes . The Borrower and each Subsidiary shall:

(a) Indebtedness . Not incur, permit to remain outstanding, assume or in any way become committed for Indebtedness (specifically including but not limited to Indebtedness in respect of money borrowed from financial institutions but excluding deposits), except: (i) in the case of the Borrower, Indebtedness incurred hereunder, and in the case of the Guarantors, under their respective Guaranty Agreement; (ii) Indebtedness existing on the date of this Agreement and described on Schedule 7.5(a) hereof; (iii) Indebtedness of any Subsidiary arising in the ordinary course of the business of such Subsidiary; (iv) in the case of ULTEA, the US Bank Indebtedness outstanding on the date hereof in the principal amount of \$11,418,871.69, less the aggregate amount of all repayments thereunder after the date of this Agreement; (v) in the case of CFC, Indebtedness under commercial paper issued by CFC which, together with any other commercial paper identified on Schedule 7.5(a) hereto, shall not exceed an aggregate principal amount of \$20,000,000; (vi) in the case of the Borrower, Trust Indebtedness and Trust Guarantees, and in the case of any Trust Issuer, Trust Preferred Securities, provided, that the aggregate of such Trust Indebtedness (and the related Trust Guarantees and Trust Preferred Securities) shall not exceed \$65,000,000 at any time outstanding; and (vii) in the event

any transfer or contribution of accounts receivable of ULTEA to a special purpose vehicle in accordance with Section 7.1(d) is deemed to constitute a secured financing, Indebtedness of ULTEA to such special purpose vehicle, secured by the account receivables and related rights transferred to such special purpose vehicle only (the "Factored Receivables"), provided, that such Indebtedness shall not exceed an amount equal to \$30,000,000 in the aggregate during the term of this Agreement.

(b) Liens. Not create, suffer or permit to exist any Lien upon any of their assets now or hereafter owned or acquired (specifically including but not limited to the capital stock of any of the Subsidiary Banks), except: (i) Liens existing on the date of this Agreement and disclosed on Schedule 7.5(b); (ii) Liens securing deposits of public funds, repurchase agreements, Federal funds purchased, trust assets, advances or loans from a Federal Home Loan Bank, discount window borrowings from a Federal Reserve Bank and other similar Liens granted in the ordinary course of banking business; (iii) Liens of landlords, contractors, laborers or suppliers, tax liens, or liens securing performance or appeal bonds, or other similar liens or charges arising out of the Borrower's or any Subsidiary's business, provided that tax liens are removed before related taxes become delinquent and other liens are promptly removed, in either case unless contested in good faith and by appropriate proceedings, and as to which adequate reserves shall have been established and no foreclosure, sale or similar proceedings have commenced; (iv) Liens on the assets of any Subsidiary (other than CFC and ULTEA) arising in the ordinary course of the business of such Subsidiary; (v) Liens in favor of the Agent for the benefit of the Banks granted after the date hereof; and (vi) in the event any transfer or contribution of the Factored Receivables by ULTEA to a special purpose vehicle is deemed to constitute a secured financing, Liens upon the Factored Receivables in favor of such special purpose vehicle in an amount not to exceed \$30,000,000 in the aggregate during the term of this Agreement.

(c) Taxes. Pay and discharge all taxes, assessments and governmental charges or levies imposed upon them, upon their income or profits or upon any properties belonging to them, prior to the date on which penalties attach thereto, and all lawful claims for labor, materials and supplies when due, except that no such tax, assessment, charge, levy or claim need be paid which is being contested in good faith by appropriate proceedings as to which adequate reserves shall have been established in accordance with GAAP, and no foreclosure, sale or similar proceedings have commenced.

(d) Guaranties. Not assume, guarantee, endorse or otherwise become or be responsible in any manner (whether by agreement to purchase any obligations, stock, assets, goods or services, or to supply or loan or any portion thereof any funds, assets, goods or services, or otherwise) with respect to the obligation of any other Person or entity, except: (i) by the endorsement of negotiable instruments for deposit or collection in the ordinary course of business, issuance of letters of credit or similar instruments or documents in the ordinary course of business; (ii) as otherwise permitted by this Agreement; and (iii) DBT may issue a letter of credit for the benefit of the City of Dubuque for the account of the Borrower in an aggregate amount to be drawn not exceeding \$500,000, which letter of credit will secure the Borrower's obligations to the City of Dubuque under the CDBG Economic Development Loan Program (as described on Schedule 7.5(a)).

7.6. Investments and Loans. Neither the Borrower nor any Subsidiary shall make any loan, advance, extension of credit or capital contribution to, or purchase or otherwise acquire for a consideration, evidences of Indebtedness, capital stock or other securities of any Person, except that the Borrower and any Subsidiary may:

(a) purchase or otherwise acquire and own short-term money market items (specifically including but not limited to preferred stock mutual funds);

(b) invest, by way of purchase of securities or capital contributions, in the Subsidiary Banks or any other bank or banks, and upon the Borrower's purchase or other acquisition of fifty percent (50%) or more of the stock of any bank, such bank shall thereupon become a "Subsidiary Bank" for all purposes under this Agreement;

(c) invest, by way of loan, advance, extension of credit (whether in the form of lease, conditional sales agreement, or otherwise), purchase of securities, capital contributions, or otherwise, in Subsidiaries other than banks or Subsidiary Banks, except that in no event shall the Borrower's aggregate investment in CFC and ULTEA exceed 15% of its Tangible Net Worth;

(d) invest, by way of purchase of securities or capital contributions, in other Persons so long as before

and after giving effect thereto no Default shall have occurred and be continuing and the investment is in compliance with the Bank Holding Company Act of 1956, as amended, and the existing regulations of the Board of Governors of the Federal Reserve System relating to bank holding companies;

(e) make any investment permitted by applicable governmental laws and regulations;

(f) with respect to DBT, issue a letter of credit for the benefit of the City of Dubuque for the purposes permitted in Section 7.5(d) hereof; and

(g) in the case of any Trust Issuer, purchase any Trust Indebtedness and, in the case of the Borrower, purchase any common securities of any Trust Issuer and issue any Trust Guarantees (in each case, in accordance with the other applicable provisions of this Agreement).

Nothing in this Section 7.6 shall prohibit the Borrower or any Subsidiary Bank from making loans, advances, or other extensions of credit in the ordinary course of banking upon substantially the same terms as heretofore extended by them in such business or upon such terms as may at the time be customary in the banking business.

7.7. Capital Structure and Dividends. Neither the Borrower nor any Subsidiary shall purchase or redeem, or obligate itself to purchase or redeem, any shares of its capital stock, of any class, issued and outstanding from time to time if at the time of such purchase or redemption a Default has occurred and is continuing or would result therefrom. Neither the Borrower nor any Subsidiary shall declare or pay any dividend (other than dividends payable in its own common stock or dividends paid to the Borrower) or make any other distribution in respect of such shares or interest other than to the Borrower, except that (i) the Borrower may declare or pay cash dividends to holders of the stock of the Borrower in any fiscal year in an amount not to exceed 50% of the Borrower's consolidated net income for the immediately preceding fiscal year; (ii) Arizona Bank & Trust may pay the same dividend per share that it pays the Borrower to its minority shareholders; and (iii) a Trust Issuer may pay distributions on its Trust Preferred Securities and dividends on its common securities in accordance with their terms; provided, that with respect to all of the foregoing, no Default exists as of the date of such declaration or payment of such dividends or distributions or would result therefrom. Except as expressly provided herein, the Borrower shall continue to own, directly or indirectly, the same (or greater) percentage of the stock and partnership, joint venture, or other equity interest in each Subsidiary that it held on the date of this Agreement, and no Subsidiary shall issue any additional stock or partnership, joint venture or other equity interests, options or warrants in respect thereof, or securities convertible into such securities or interests, other than to the Borrower.

7.8. Maintenance Of Properties. The Borrower and each Subsidiary shall maintain, or cause to be maintained, in good repair, working order and condition, all their properties (whether owned or held under lease), and from time to time make or cause to be made all needed and appropriate repairs, renewals, replacements, additions, and improvements thereto, so that the business carried on in connection therewith may be properly and advantageously conducted at all times.

7.9. Insurance. The Borrower and each Subsidiary shall maintain insurance in responsible companies in such amounts and against such risks as is required by law and such other insurance, in such amount and against such hazards and liabilities, as is customarily maintained by bank holding companies and banks similarly situated. Each Subsidiary Bank shall have deposits insured by the FDIC.

7.10. Use of Proceeds.

(a) General. The proceeds of the Loans shall be used by the Borrower to pay off existing Indebtedness on the date of this Agreement to Northern Trust and Harris Trust and Savings Bank, for general corporate purposes and to provide funding for its Subsidiaries. Neither the Borrower nor any Subsidiary shall use or permit any proceeds of the Loans to be used, either directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of "purchasing or carrying any margin stock" within the meaning of Regulations U or X of the Board of Governors of the Federal Reserve System, as amended from time to time. If requested by the Agent or any Bank, the Borrower and each Subsidiary will furnish to the Agent or such Bank a statement in conformity with the requirements of Federal Reserve Form U-1. No part of the proceeds of the Loans will be used for any purpose which violates or is inconsistent with the provisions of Regulation U or X of the Board of Governors.

(b) Tender Offers and Going Private . Neither the Borrower nor any Subsidiary shall use (or permit to be used) any proceeds of the Loans to acquire any security in any transaction which is subject to Section 13 or 14 of the Securities Exchange Act of 1934, as amended, or any regulations or rulings thereunder.

7.11. Well Capitalized . Each Subsidiary Bank shall at all times be at least "well capitalized" as defined in the Federal Deposit Insurance Corporation Improvement Act of 1991 and any regulations issued thereunder, as such statute or regulation may be amended or supplemented from time to time.

7.12. Compliance with Law . The Borrower and each Subsidiary shall be in compliance with all laws and regulations (whether federal, state or local and whether statutory, administrative, judicial or otherwise) and with every lawful governmental order or similar actions (whether administrative or judicial), specifically including but not limited to all requirements of the Bank Holding Company Act of 1956, as amended, and with the existing regulations of the Board of Governors of the Federal Reserve System relating to bank holding companies, except where the failure to be in such compliance would not have a material adverse impact on the consolidated assets, condition or prospects of the Borrower .

7.13. Obligations Pertaining to Trust Preferred Securities and Trust Indebtedness . The Borrower shall not, and shall not permit any Trust Issuer to, purchase, accelerate the maturity date of, prepay or redeem any Trust Preferred Securities or any Trust Indebtedness, except that, the Borrower may prepay Trust Indebtedness and a Trust Issuer may redeem the related Trust Preferred Securities in accordance with their terms; provided , that no Default exists as of the date of such prepayment or redemption or would result therefrom, and provided further , that after giving effect to any such prepayment or redemption, at least \$33,000,000 of Trust Indebtedness (and the related Trust Preferred Securities) remains outstanding in the aggregate. The Borrower shall continue to own all of the common securities of a Trust Issuer while the related Trust Preferred Securities, Trust Guarantee and Trust Indebtedness are outstanding. A Trust Issuer may redeem its common securities after or concurrent with the payment in full of its Trust Preferred Securities and the related Trust Indebtedness and Trust Guarantee.

SECTION 8. EVENTS OF DEFAULT

8.1. Events of Default . One or more of the following events shall constitute an event of default hereunder and under the Notes (each, an " Event of Default "):

(a) failure to pay, when and as due, any principal, interest or other amounts payable hereunder or under any Note or the letter agreement referred to in Section 2.2 hereof;

(b) any default, event of default, or similar event shall occur or continue under any other instrument, document, note, agreement, or guaranty delivered to the Agent or any Bank in connection with this Agreement (including, without limitation, under any other Loan Document), or any such instrument, document, note, agreement, or guaranty shall not be, or shall cease to be, enforceable in accordance with its terms; or

(c) there shall occur any default or event of default, or any event or condition that might become such with notice or the passage of time or both, or any similar event, or any event that requires the prepayment of Indebtedness or the acceleration of the maturity thereof, under the terms of any evidence of Indebtedness or other agreement issued or assumed or entered into by the Borrower, any Subsidiary or any Guarantor, or under the terms of any indenture, agreement, or instrument under which any such evidence of Indebtedness or other agreement is issued, assumed, secured, or guaranteed, and such event shall continue beyond any applicable period of grace; or

(d) any representation, warranty, schedule, certificate, financial statement, report, notice, or other writing furnished by or on behalf of the Borrower, any Subsidiary or any Guarantor to the Agent or any Bank is false or misleading in any material respect on the date as of which the facts therein set forth are stated or certified; or

(e) any guaranty of or pledge of collateral security for the Loans shall be repudiated or become unenforceable or incapable of performance; or

(f) the Borrower or any Subsidiary shall fail to comply with Sections 7.1 or 7.4 hereof; or failure to

comply with or perform any agreement or covenant of the Borrower or any Subsidiary contained herein, which failure does not otherwise constitute an Event of Default, and such failure shall continue unremedied for ten (10) days after notice thereof to the Borrower by the Agent or any Bank; or

(g) any Guarantor shall dissolve, liquidate, merge, consolidate, or cease to be in existence for any reason except as permitted under Section 7.1 hereof; or

(h) a Change in Control shall have occurred with respect to the Borrower or any Guarantor; or

(i) any proceeding (judicial or administrative) shall be commenced against the Borrower, any Subsidiary or any Guarantor, or with respect to any assets of the Borrower, any Subsidiary or any Guarantor which shall threaten to have a material and adverse effect on the assets, condition or prospects of the Borrower, any Subsidiary or any Guarantor; or final judgment(s) and/or settlement(s) in an aggregate amount in excess of FIVE MILLION UNITED STATES DOLLARS (\$5,000,000) in excess of insurance for which the insurer has confirmed coverage in writing, a copy of which writing has been furnished to Bank, shall be entered or agreed to in any suit or action commenced against the Borrower, any Subsidiary or any Guarantor; or

(j) the Borrower, any Subsidiary or any Guarantor shall grant or any Person (other than the Agent for the benefit of the Banks) shall obtain a security interest in any assets of the Borrower, any Subsidiary or any Guarantor other than as permitted under Section 7.5(b) hereof; the Borrower, any Subsidiary or any Guarantor or any other person shall perfect (or attempt to perfect) such a security interest; or any notice of a federal tax lien against the Borrower, any Subsidiary or any Guarantor shall be filed with any public recorder; or

(k) the FDIC or other regulatory entity shall issue or agree to enter into a letter agreement, memorandum of understanding, or a cease and desist order with or against the Borrower or any Subsidiary; or the FDIC or other regulatory entity shall issue or enter into an agreement, order, or take any similar action with or against the Borrower or any Subsidiary materially adverse to the business or operation of the Borrower or any Subsidiary; or

(l) an event or condition specified in Section 6.12(b) shall occur or exist with respect to any Plan or Multiemployer Plan, and if as a result of such event or condition, together with all other such events or conditions, the Borrower or any ERISA Affiliate shall incur, or, in the opinion of the Majority Banks, shall be reasonably likely to incur, a liability to a Plan, a Multiemployer Plan or the PBGC (or any combination of the foregoing) which is, in the determination of the Majority Banks, material in relation to the consolidated financial condition, business, operations or prospects taken as a whole of the Borrower and its Subsidiaries; or

(m) any bankruptcy, insolvency, reorganization, arrangement, readjustment, liquidation, dissolution, or similar proceeding, domestic or foreign, is instituted by or against the Borrower, any Subsidiary or any Guarantor; or the Borrower, any Subsidiary or any Guarantor shall take any steps toward, or to authorize, such a proceeding; or

(n) the Borrower, any Subsidiary or any Guarantor shall become insolvent, generally shall fail or be unable to pay its debts as they mature, shall admit in writing its inability to pay its debts as they mature, shall make a general assignment for the benefit of its creditors, shall enter into any composition or similar agreement, or shall suspend the transaction of all or a substantial portion of its usual business.

8.2. Remedies. Upon the occurrence of any Event of Default set forth in subsections (a) through (l) of Section 8.1 and during the continuance thereof, the Agent, on request of the Majority Banks, shall declare the Commitments to be terminated and/or declare the Loans and any other amounts payable hereunder and under the Notes to the Agent and the Banks to be immediately due and payable, whereupon the Commitments shall be forthwith terminated and/or the Loans and any other amounts payable hereunder and under the Notes shall forthwith become due and payable. Upon the occurrence of any Event of Default set forth in subsections (m) through (n) of Section 8.1, the Commitments shall be immediately and automatically terminated and the Loans and any other amounts owed to the Agent and the Banks hereunder and under the Notes shall be immediately and automatically due and payable without action of any kind on the part of Agent or any Bank. The Borrower expressly waives diligence, presentment, demand, notice, or protest of any kind in connection herewith.

SECTION 9. DEFINITIONS AND ACCOUNTING

9.1. Defined Terms . As used herein, the following terms shall have the following meanings (terms defined in this Section 9.1 or in other provisions of this Agreement in the singular to have correlative meanings when used in the plural and vice versa):

" Agreement " means this Credit Agreement, as amended, modified, or supplemented from time to time.

" Applicable Lending Office " shall mean, for each Bank and for each type of Loan, the lending office of such Bank designated for such type of Loan on Schedule 1 hereto or such other office of such Bank as such Bank may from time to time specify to the Agent and the Borrower as the office by which its Loans of such type are to be made and maintained.

" Authorized Officer " shall mean, with respect to the giving of a notice of borrowing pursuant to Section 1.2 , each of the Persons named on Schedule 2 and any other Person identified in a notice from a Person who is then an Authorized Officer to the Agent as being an "Authorized Officer." Any "Authorized Officer" shall cease to be such at any time that a Person who is an Authorized Officer shall provide notice to the Agent that the named Authorized Officer has ceased to be an Authorized Officer; provided , that the Agent shall be fully protected in accepting and acting on borrowing notices or other notices from any Person who is an Authorized Officer prior to actual receipt of notice of such cessation and such notices shall bind the Borrower.

" Business Day " shall mean any day on which commercial banks are not authorized or required by law to close in Chicago, Illinois, and, if such day relates to a Conversion, notice, payment, or other transaction in respect of a Eurodollar Loan or the first or last day of an Interest Period, a day which is also a day on which dealings in Dollar deposits are carried out in the London interbank market.

" Capital Lease Obligations " shall mean, as to any Person, the obligations of such Person which are required to be accounted for as capital leases on a balance sheet of such Person under GAAP and, for purposes of this Agreement, the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

" CFC " shall mean Citizens Finance Co., an Iowa corporation and any successor thereof.

" Change in Control " shall mean, with respect to any Person, the acquisition by any Person or two or more Persons acting in concert of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934 as amended) of 20% or more of the voting stock of such Person.

" Code " shall mean the Internal Revenue Code of 1986 as amended from time to time.

" Commitment " shall mean, as to each Bank, the obligation of such Bank to make Loans to the Borrower under this Agreement in an aggregate amount not at any time exceeding the amount set forth opposite the name of such Bank in the "Commitment" column in Schedule 1 or, where the context so requires, the amount of such obligation, as the same may be reduced from time to time pursuant to Section 1.3 or increased pursuant to Section 1.11 . " Total Commitments " shall mean the aggregate amount of the Commitments of all the Banks.

" Continue ," " Continuation ," and " Continued " shall refer to the continuation pursuant to Section 1.4 hereof of a Eurodollar Loan as a Eurodollar Loan from one Interest Period to the next Interest Period.

" Convert ," " Conversion " and " Converted " shall refer to a conversion pursuant to Section 1.4 hereof of Loans of one type into Loans of another type.

" Credit Extension " shall mean the making of any Loan.

" DBT " shall mean Dubuque Bank & Trust, an Iowa state bank, and any successor thereof.

" Default " shall mean an Event of Default or an event that with notice or lapse of time or both would become an Event of Default.

" Dollars " and " \$ " shall mean lawful money of the United States of America.

" Environmental Laws " shall mean all federal, state, and local laws, including statutes, regulations, ordinances, codes, rules, and other governmental restrictions and requirements, relating to the release or discharge of air pollutants, water pollutants, or process waste water or otherwise relating to the environment or hazardous substances or the treatment, processing, storage, disposal, release, transport, or other handling thereof, including, but not limited to, the federal Solid Waste Disposal Act, the federal Clean Air Act, the federal Clean Water Act, the federal Resource Conservation and Recovery Act, the federal Hazardous Materials Transportation Act, the federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980, the federal Toxic Substances Control Act, regulations of the Nuclear Regulatory Agency, and regulations of any state department of natural resources or state environmental protection agency, in each case as now or at any time hereafter in effect.

" ERISA " shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

" ERISA Affiliate " shall mean any corporation or trade or business that is a member of the same controlled group of corporations (within the meaning of Section 414(b) of the Code) as the Borrower or is under common control (within the meaning of Section 414(c) of the Code) with the Borrower.

" Eurodollar Loans " shall mean Loans the interest rates on which are determined on the basis of rates referred to in the definition of "LIBOR Rate."

" Event of Default " shall have the meaning attributed thereto in Section 8 hereof.

" FDIC " shall mean the Federal Deposit Insurance Corporation and any successor thereof.

" Fed Funds Rate Loans " shall mean Loans the interest rates on which are determined on the basis of rates referred to in the definition of "Fed Funds Rate."

" Fed Funds Rate " shall mean the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers. The Fed Funds Rate shall be determined by the Agent on the basis of reports by federal funds brokers to, and published daily by, the Federal Reserve Bank of New York in the Composite Closing Quotations for U.S. Government Securities. If such publication is unavailable or the Fed Funds Rate is not set forth therein, the Fed Funds Rate shall be determined on the basis of any other source reasonably selected by the Agent. The Fed Funds Rate applicable each day shall be the Fed Funds Rate reported as applicable to federal funds transactions on that date. In the case of Saturday, Sunday, or legal holiday, the Fed Funds Rate shall be the rate applicable to federal funds transactions on the immediately preceding day for which the Fed Funds Rate is reported.

" GAAP " shall mean generally accepted accounting principles as in effect from time to time.

" Guarantee " shall mean (a) a guarantee, an endorsement, a contingent agreement to purchase or to furnish funds for the payment or maintenance of, or otherwise to be or become contingently liable under or with respect to, the Indebtedness, other obligations, net worth, working capital, or earnings of any Person, (b) a guarantee of the payment of dividends or other distributions upon the stock or other equity interests of any Person, or (c) an agreement to purchase, sell, or lease (as lessee or lessor) property or services primarily for the purpose of enabling a debtor to make payment of such debtor's obligations or to assure a creditor against loss, including causing a bank or other financial institution to issue a letter of credit or other similar instrument for the benefit of another Person, but excluding endorsements for collection or deposit in the ordinary course of business. The terms " Guarantee " and " Guaranteed " shall have correlative meanings.

" Guarantor " shall mean ULTEA and CFC, jointly and severally.

" Guaranty Agreement " means a guaranty agreement in the form of Exhibit D attached hereto, to be executed by each Guarantor.

" Indebtedness " shall mean, as to any Person: (a) obligations created, issued, or incurred by such Person in respect of deposits taken or for borrowed money (whether by loan or by the issuance and sale of certificates of deposit or debt securities or the sale of property to another Person subject to an understanding, contingent or otherwise, to repurchase such property from such Person); (b) obligations of such Person to pay the deferred purchase or acquisition price of property or services, other than trade accounts payable (other than for borrowed money) arising in the ordinary course of business; (c) obligations of others secured by a Lien on the property of such Person, whether or not the respective obligations so secured have been assumed by such Person; (d) obligations of such Person in respect of letters of credit or similar instruments issued or accepted by banks and other financial institutions for the account of such Person; (e) Capital Lease Obligations of such Person; and (f) Indebtedness of others Guaranteed by such Person.

" Interest Period " shall mean, with respect to any Eurodollar Loan, each period commencing on the date such Eurodollar Loan is made or Converted from a Prime Rate Loan or a Fed Funds Rate Loan or the last day of the next preceding Interest Period for such Eurodollar Loan and ending on the numerically corresponding day in the first, second, or third calendar month thereafter, as the Borrower may select, except that each Interest Period which commences on the last Business Day of a calendar month (or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month) shall end on the last Business Day of the appropriate subsequent calendar month; provided, that each Interest Period which would otherwise end on a day which is not a Business Day shall end on the next succeeding Business Day or, if such next succeeding Business Day falls in the next succeeding calendar month, on the next preceding Business Day.

" Investment " in any Person shall mean: (a) the acquisition of capital stock, bonds, notes, debentures, partnership, or other ownership interests, other securities, or Indebtedness of such Person; (b) any deposit with, or loan or other extension of credit to, such Person; (c) any Guarantee of Indebtedness or other liabilities of such Person; and (d) any amount committed to be lent to such Person.

" LIBOR Base Rate " shall mean, with respect to any Eurodollar Loans to be made or Converted from a Prime Rate Loan or a Fed Funds Rate Loan on any day for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/16 of 1%) quoted by the Reference Bank at approximately 11:00 a.m. London time on the date two Business Days prior to the first day of such Interest Period for the offering by the Reference Bank to leading banks in the London interbank market of Dollar deposits having a term comparable to such Interest Period and in an amount comparable to the principal amount of the Eurodollar Loans to be made or Converted on such day for such Interest Period. If the Reference Bank does not timely furnish such information for determination of any LIBOR Base Rate, the "LIBOR Base Rate" shall mean with respect to any Eurodollar Loans for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/16 of 1%) which is the British Bankers Association's interest settlement rate published on the Dow Jones Telerate Screen at approximately 11:00 a.m. London time on the date two Business Days prior to the first day of such Interest Period as the rate in the London interbank market for Dollar deposits having a term comparable to such Interest Period and in an amount comparable to the principal amount of the Eurodollar Loans to be outstanding for such Interest Period.

" LIBOR Rate " shall mean, for any Eurodollar Loan for any Interest Period therefor, a rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) determined by the Agent to be equal to (x) the LIBOR Base Rate for such Loan for such Interest Period divided by (y) the remainder of 1 minus the Reserve Requirement for such Loan for such Interest Period.

" Lien " shall mean, with respect to any property of any Person, any mortgage, lien, pledge, charge, security interest, or encumbrance of any kind in respect thereof, including the interest of a vendor or lessor under any conditional sale, security lease, or other title retention agreement with respect to any property purchased, leased, or otherwise held by such Person.

" Loan " shall mean each portion of any Revolving Credit Loan made by a Bank pursuant to Section 1.2 that is subject to a particular interest rate election (and, in the case of Eurodollar Loans, a particular Interest Period) and any portion of any thereof that the Borrower has elected to be subject to a particular interest rate election (and, in the case of Eurodollar Loans, a particular Interest Period) under Section 1.4.

" Loan Documents " shall mean collectively this Agreement, the Notes, the Guaranty Agreements, the letter agreement referred to in Section 2.2 of this Agreement and any and all other documents delivered in connection

herewith and therewith.

" Majority Banks " shall mean at any time Banks holding at least 51% of the unpaid principal amount of the Loans; provided, that if no Loan is then outstanding, "Majority Banks" shall mean Banks having at least 51% of the Total Commitments.

" Margin Stock " shall mean margin stock within the meaning of Regulations U and X.

" Multiemployer Plan " shall mean a multiemployer plan defined as such in Section 3(37) of ERISA to which contributions have been made by the Borrower or any ERISA Affiliate and which is covered by Title IV of ERISA.

" Non-performing loans " shall have the meaning attributed thereto in Section 7.4(g).

" Northern Trust " shall mean The Northern Trust Company, an Illinois state bank.

" Notes " shall mean the promissory notes provided for by Section 1.8 hereof.

" PBGC " shall mean the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

" Percentage " shall mean, as to any Bank at any time, the percentage equivalent (expressed as a decimal, rounded to the ninth decimal place) at such time of such Bank's Commitment divided by the Total Commitments.

" Pension Plan " means any Plan which is a "defined benefit plan" within the meaning of Section 3(35) of ERISA.

" Person " shall mean any individual, corporation, company, limited liability company, voluntary association, partnership, trust, estate, unincorporated organization, or government (or any agency, instrumentality, or political subdivision thereof).

" Plan " shall mean an "employee pension benefit plan" within the meaning of Section 3(2) of ERISA other than a Multiemployer Plan.

" Post-Default Rate " shall mean a rate per annum equal to 2% above the Prime Rate as in effect from time to time.

" Prime Rate " shall mean on any day the prime rate established by Northern Trust and in effect on such day. Each change in the Prime Rate shall be effective from the date of the announcement by Northern Trust of a change in its prime rate. Neither the Prime Rate nor the prime rate of Northern Trust is intended to constitute the lowest rate of interest charged by Northern Trust or any Bank.

" Prime Rate Loans " shall mean Loans the interest rates on which are determined on the basis of the Prime Rate.

" Regulations D, U, and X " shall mean, respectively, Regulations D, U, and X of the Board of Governors of the Federal Reserve System (or any successor), as the same may be amended or supplemented from time to time.

" Reference Bank " shall mean Northern Trust.

" Regulatory Change " shall mean any change after the date of this Agreement in federal, state, or foreign law or regulations (including, without limitation, Regulation D) or the adoption, modification, or making after such date of any interpretation, guideline, directive, or request applying to a Bank (whether or not having the force of law) by any court or governmental, regulatory, or monetary authority.

" Reserve Requirement " shall mean, (a) for any Interest Period for any Eurodollar Loan, the sum (expressed as a decimal) of the average maximum rate at which reserves (including any marginal, supplemental, or emergency

reserves) are required to be maintained during such Interest Period under Regulation D by member banks of the Federal Reserve System against "Eurocurrency liabilities" and (b) for any Fed Funds Rate Loan or Eurodollar Loan, any other reserves required to be maintained by such member banks by reason of any Regulatory Change against (i) any category of liabilities that includes deposits by reference to which the Fed Funds Rate or the LIBOR Base Rate is to be determined or (ii) any category of extensions of credit or other assets that includes a Fed Funds Rate Loan or a Eurodollar Loan.

" Revolving Credit Commitment Termination Date " shall mean January 30, 2005, as such date may be extended pursuant to Section 1.10 .

" Revolving Credit Loan " shall mean Loans made on or before the Revolving Credit Commitment Termination Date pursuant to Section 1.2 .

" Subsidiary " shall mean any corporation, partnership, joint venture, trust, or other legal entity of which the Borrower owns directly or indirectly fifty percent (50%) or more of the outstanding voting stock or interest, or of which the Borrower has effective control, by contract or otherwise. The term Subsidiary includes each Subsidiary Bank unless stated otherwise explicitly.

" Subsidiary Bank " shall mean each Subsidiary which is a bank or a thrift institution, including, without limitation, DBT, Galena State Bank and Trust Company, First Community Bank, Riverside Community Bank, Wisconsin Community Bank, Arizona Bank & Trust and New Mexico Bank & Trust.

" Tangible Net Worth " shall mean at any date the total shareholders' equity in the Borrower at such date (including all classes of capital stock, capital surplus, additional paid-in capital, retained earnings, contingencies, and capital reserves), minus the cost of common stock reacquired by the Borrower and other capital accounts of the Borrower at such date, minus goodwill, patents, trademarks, service marks, trade names, copyrights, and all intangible assets (including without limitation "core-deposit intangibles" and unidentifiable intangibles resulting from acquisitions) and all items that are treated as intangible assets under GAAP or that otherwise fit within the definition of "intangible assets" in the instructions for the call report of the FDIC.

" Tier 1 Capital " means, at any time, for any Person, Tier 1 Capital, as defined from time to time by the Board of Governors of the Federal Reserve System or other applicable governmental authority.

" Total Credits " shall mean at any time the sum of the aggregate outstanding principal amount of Loans.

" Trust Guarantee " shall mean any guarantee of the Borrower of the Trust Preferred Securities, which guarantee is subordinate and junior in right of payment to the prior payment of the obligations of the Borrower hereunder and under the Notes on terms satisfactory to the Agent.

" Trust Indebtedness " shall mean Indebtedness of the Borrower payable to the Trust Issuer or its transferees incurred as a result of the Trust Issuer's investment into the Borrower of proceeds derived from the issuance of the Trust Preferred Securities (a) which is due not earlier than the date thirty (30) years after its issuance, (b) which may not be redeemed earlier than five (5) years after issuance except upon certain tax, capital treatment or investment company events as may be provided in the indenture governing such Trust Indebtedness and (c) the payment of which is subordinate and junior in right of payment to the prior payment of the obligations of the Borrower hereunder and under the Notes on terms satisfactory to the Agent.

" Trust Issuer " shall mean a Subsidiary in which the Borrower owns 100% of the common stock and which qualifies as a Delaware or Connecticut statutory business trust.

" Trust Preferred Securities " shall mean preferred securities (or other type of similar securities representing undivided beneficial interests in the assets of the Trust Issuer) issued in a private placement transaction by the Trust Issuer, (a) the proceeds of which are used to purchase an equivalent principal amount of Trust Indebtedness issued by the Borrower, (b) which are subject to mandatory redemption not earlier than the date 30 years after issuance, (c) which may not be optionally redeemed earlier than 5 years after issuance except upon certain tax, capital treatment or investment company events as may be provided in the trust agreement governing such Trust Preferred Securities and

(d) which qualifies as Tier 1 Capital of the Borrower under applicable regulations of the Board of Governors of the Federal Reserve System.

" Type " means a type of Loan, i.e. either a Eurodollar Loan, a Federal Funds Rate Loan or a Prime Rate Loan.

" ULTEA " shall mean ULTEA, Inc., a Wisconsin corporation and any successor thereof.

" US Bank Indebtedness " shall mean Indebtedness of ULTEA to U.S. Bank National Association outstanding from time to time under that certain Loan Agreement dated as of February 26, 1993, as amended.

9.2. Accounting . Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all determinations with respect to accounting matters hereunder shall be made, and all financial statements and certificates and reports as to financial matters required to be furnished to the Agent or the Banks hereunder shall be prepared in accordance with GAAP applied on a basis consistent with the audited consolidated financial statements of the Borrower referred to in Section 6.3(a) hereof (except for changes concurred with by the Majority Banks).

SECTION 10. THE AGENT

10.1. Appointment, Powers and Immunities . Each Bank hereby irrevocably appoints and authorizes the Agent to act as its agent hereunder, under the Notes and the other Loan Documents with such powers as are specifically delegated to the Agent by the terms of the Loan Documents, together with such other powers as are reasonably incidental thereto. The Agent: (a) shall not have any duties or responsibilities except those expressly set forth in this Agreement, and shall not by reason of this Agreement be a trustee for any Bank; (b) shall not be responsible to the Banks for any recitals, statements, representations or warranties contained in this Agreement, the Notes or the other Loan Documents, or in any certificate or other documents referred to or provided for in, or received by any of them under, this Agreement, the Notes or the other Loan Documents, or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement, any Note or the other Loan Documents or any other document referred to or provided for herein or for any failure by the Borrower or any other Person to perform any of its obligations hereunder or thereunder; (c) shall not be required to initiate or conduct any litigation or collection proceedings hereunder; and (d) shall not be responsible for any action taken or omitted to be taken by it hereunder or under any other document or instrument referred to or provided for herein or in connection herewith, except for its own gross negligence or willful misconduct. The Agent may employ agents and attorneys-in-fact and shall not be responsible for the negligence or misconduct of any such agents or attorneys-in-fact selected by it in good faith. The Agent may deem and treat the payee of any Note as the holder thereof for all purposes hereof unless and until a written notice of the assignment or transfer thereof shall have been filed with the Agent.

10.2. Reliance by Agent . The Agent shall be entitled to rely upon any certification, notice or other communication (including any thereof by telephone or telecopy) believed by it to be genuine and correct and to have been signed or sent by or on behalf of the proper Person or Persons, and upon advice and statements of legal counsel, independent accountants and other experts selected by the Agent. As to any matters not expressly provided for by this Agreement, the Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder in accordance with instructions signed by the Majority Banks, and such instructions of the Majority Banks and any action taken or failure to act pursuant thereto shall be binding on all of the Banks.

10.3. Defaults . The Agent shall not be deemed to have knowledge or notice of the occurrence of a Default unless the Agent has received notice from the Borrower specifying such Default and stating that such notice is a "Notice of Default." In the event that the Agent receives such a notice of the occurrence of a Default, the Agent shall give prompt notice thereof to the Banks. The Agent shall (subject to Section 10.1 and Section 10.7 hereof) take such action with respect to such Default as shall be directed by the Majority Banks, provided that, unless and until the Agent shall have received such directions, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interest of the Banks.

10.4. Rights as a Bank . With respect to its Commitment and its Loans, Northern Trust in its capacity as a Bank hereunder shall have the same rights and powers hereunder as any other Bank and may exercise the same as though it were not acting as the Agent, and the term "Bank" or "Banks" shall, unless the context otherwise indicates, include Northern Trust in its individual capacity. Northern Trust and its affiliates may (without having to account

therefor to any Bank) accept deposits from, lend money to and generally engage in any kind of banking, trust or other business with the Borrower (and any of its affiliates) as if it were not acting as the Agent, and Northern Trust and its affiliates may accept fees (including the agency fee contemplated by Section 2.2) and other consideration from the Borrower for services in connection with this Agreement or otherwise without having to account for the same to the Banks.

10.5. Indemnification. The Banks agree to indemnify the Agent (to the extent not reimbursed under Section 11.3 hereof, but without limiting the obligations of the Borrower under said Section 11.3), ratably in accordance with their respective Percentages, for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever which may be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of this Agreement, the Notes or the other Loan Documents or any other documents contemplated by or referred to herein or the transactions contemplated hereby (including, without limitation, the costs and expenses which the Borrower is obligated to pay under Section 11.3 hereof but excluding, unless a Default has occurred and is continuing, normal administrative costs and expenses incident to the performance of its agency duties hereunder) or the enforcement of any of the terms hereof or of any such other documents, provided that no Bank shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the Agent.

10.6. Non-Reliance on Agent and other Banks. Each Bank agrees that it has, independently and without reliance on the Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own credit analysis of the Borrower and its Subsidiaries and decision to enter into this Agreement and accept its Note and that it will, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement and its Note. The Agent shall not be required to keep itself informed as to the performance or observance by the Borrower of this Agreement or any other document referred to or provided for herein or to inspect the properties or books of the Borrower or any of its Subsidiaries. Except for notices, reports and other documents and information expressly required to be furnished to the Banks by the Agent hereunder, the Agent shall not have any duty or responsibility to provide any Bank with any credit or other information concerning the affairs, financial condition or business of the Borrower or any of its Subsidiaries (or any of their affiliates) which may come into the possession of the Agent or any of its affiliates.

10.7. Failure to Act. Except for action expressly required of the Agent hereunder, the Agent shall in all cases be fully justified in failing or refusing to act hereunder unless it shall receive further assurances to its satisfaction from the Banks of their indemnification obligations under Section 10.5 hereof against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action.

10.8. Resignation of Agent. Subject to the appointment and acceptance of a successor Agent as provided below, the Agent may resign at any time by giving forty-five (45) days' notice thereof to the Agent, the Banks and the Borrower. Upon any such resignation, the Majority Banks shall have the right to appoint a successor to the resigning Agent; provided, that such successor is satisfactory to the Agent in its discretion. If no successor shall have been so appointed by the Majority Banks and shall have accepted such appointment within forty-five (45) days after the Agent's giving of notice of resignation, then the resigning Agent may, on behalf of the Banks, appoint a successor Agent, which shall be a bank which has an office in Chicago, Illinois and which has capital, surplus and undivided profits of at least \$250,000,000. Upon the acceptance of any appointment as the Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the resigning Agent, and the resigning Agent shall be discharged from its duties and obligations hereunder. After the resigning Agent's resignation hereunder, the provisions of this Section 10 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as the Agent.

SECTION 11. MISCELLANEOUS

11.1. Waiver. No failure on the part of the Agent or any Bank to exercise, no delay in exercising, and no course of dealing with respect to, any right, power or privilege under this Agreement, any Note or any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

11.2. Notices . Except as otherwise provided in this Agreement, all notices and other communications provided for herein shall be given or made in writing and telecopied, mailed or delivered to the notice address of the intended recipient set forth on the signature pages hereof, or as to any party, at such other address as shall be designated by such party in a notice to each other party. Except as otherwise provided in this Agreement, all such communications shall be deemed to have been duly given when properly transmitted by telecopier or personally delivered or, in the case of a mailed notice, upon receipt, in each case given or addressed as aforesaid.

11.3. Expenses, Etc. The Borrower agrees to pay or reimburse each of the Banks and the Agent for: (a) all reasonable out-of-pocket costs and expenses of the Agent (including, without limitation, the reasonable fees and expenses of Gardner Carton & Douglas LLP, special counsel to the Agent) in connection with (i) the negotiation, preparation, execution and delivery of this Agreement, the Notes and the other Loan Documents, and (ii) any amendment, modification or waiver of any of the terms of this Agreement, any of the Notes or the other Loan Documents; (b) all reasonable costs and expenses of the Banks and the Agent (including reasonable counsels' fees (which counsel may be employees of the Agent or the Banks)) in connection with any Default and any enforcement or collection proceedings resulting therefrom; and (c) all transfer, stamp, documentary or other similar taxes, assessments or charges levied by any governmental or revenue authority in respect of this Agreement, the Notes or any other Loan Document or any other document referred to herein or therein.

11.4. Amendments, Etc. Except as otherwise expressly provided in this Agreement, any provision of this Agreement may be waived, amended or modified only by an instrument in writing signed by the Borrower, the Agent and the Majority Banks; provided that no amendment, modification or waiver shall, unless by an instrument signed by the Agent and all of the Banks: (a) increase or extend the term of the Commitments, except as provided in Section 1.10, or extend the Revolving Credit Commitment Termination Date, (b) extend any date fixed for the payment of any principal of or interest on any Loan or any fee, (c) reduce the amount of any payment of principal thereof or the rate at which interest is payable thereon or any fee is payable hereunder, (d) alter the terms of this Section 11.4 or of Section 11.6(a), (e) amend the definition of the term "Majority Banks" or (f) waive any of the conditions precedent set forth in Section 5 hereof.

11.5. Successors and Assigns . This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

11.6. Assignments and Participations .

(a) The Borrower may not assign its rights or obligations hereunder or under the Notes without the prior consent of all of the Banks and the Agent.

(b) No Bank may assign any of its Loans, its Note or its Commitment without the prior consent of the Borrower and the Agent; provided, that (i) any such assignment shall be in the amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof; (ii) no Bank may assign in the aggregate more than 49% of the greatest amount of its Commitment after the date hereof, (iii) the Bank making such assignment shall pay a processing fee to the Agent in the amount of \$2,000, (iv) such assigning Bank shall also simultaneously assign to such assignee Bank the same proportion of each of its Loans then outstanding (together with the same proportion of its Note then outstanding) and (v) no consent of the Borrower shall be required in respect of any assignment (A) at any time that an Event of Default shall have occurred and be continuing or (B) to any Bank or affiliate of any Bank. In addition, any Bank may at any time, without the consent of the Borrower or the Agent, assign all or any portion of its rights under this Agreement and its Note to a Federal Reserve Bank; provided, that no such assignment to a Federal Reserve Bank shall release the transferor Bank from its obligations hereunder. Upon written notice to the Borrower and the Agent of an assignment permitted by the provisos of the preceding sentence (which notice shall identify the assignee Bank, the amount of the assigning Bank's Commitment and Loans assigned in detail reasonably satisfactory to the Agent) and upon the effectiveness of any assignment consented to by the Borrower and the Agent, the assignee shall have, to the extent of such assignment (unless otherwise provided in such assignment with the consent of the Borrower and the Agent), the obligations, rights and benefits of a Bank hereunder holding the Commitment and Loans (or portions thereof) assigned to it (in addition to the Commitment and Loans, if any, theretofore held by such assignee) and the assigning Bank shall, to the extent of such assignment, be released from the Commitment (or portions thereof) so assigned.

(c) A Bank may sell or agree to sell to one or more other Persons a participation in all or any part of any Loan held by it or Loans made or to be made by it, provided, however, so long as no Default has occurred and is continuing, the prior consent of the Borrower shall be obtained, which consent shall not be unreasonably withheld or delayed (provided, no consent of the Borrower shall be required for any participation to an affiliate of any Bank). A participant shall not have any rights or benefits under this Agreement or any Note (the participant's rights against such Bank in respect of such participation to be those set forth in the agreement (the "Participation Agreement") executed by such Bank in favor of the participant). All amounts payable by the Borrower to any Bank under Section 4 hereof shall be determined as if such Bank had not sold or agreed to sell any participations in such Loan and as if such Bank were funding the portion of such Loan in which no participations have been sold. In no event shall a Bank that sells a participation be obligated to the participant under the Participation Agreement to take or refrain from taking any action hereunder or under such Bank's Note except that such Bank may agree in the Participation Agreement that it will not, without the consent of the participant, agree to (i) the increase or extension of the term, or the extension of the time or waiver of any requirement for the reduction or termination, of such Bank's Commitment, (ii) the extension of any date fixed for the payment of principal of or interest on the related Loan or Loans or any fee (if the participant is entitled to any part thereof), (iii) the reduction of any payment of principal thereof, or (iv) the reduction of the rate at which either interest is payable thereon or (if the participant is entitled to any part thereof) commitment fee is payable hereunder to a level below the rate at which the participant is entitled to receive interest or a commitment fee (as the case may be) in respect of such participation.

(d) With the prior consent of the Borrower, which consent shall not be unreasonably withheld or delayed, a Bank may furnish any non-public information concerning the Borrower or any of its Subsidiaries in the possession of such Bank from time to time to actual or prospective assignees and participants (provided, no consent of the Borrower shall be required for any assignment or participation to an affiliate of any Bank); provided that such recipient shall agree in writing (naming the Borrower as a third party beneficiary thereof) with such Bank (on behalf of itself and each of its affiliates, directors, officers, employees and representatives) that (A) the information so furnished will not be used by it except in connection with this Agreement and (B) it shall use reasonable precautions, in accordance with its customary procedures for handling confidential information and in accordance with safe and sound banking practices, to keep such information confidential, provided that nothing in such agreement shall limit the disclosure of such information (i) to the extent required by statute, rule, regulation or judicial process, (ii) to its counsel or to counsel for any of the Banks or the Agent, (iii) to bank examiners, auditors or accountants or other professional advisors, (iv) to the Agent or any other Bank, (v) in connection with any litigation to which the Agent or any one or more of the Banks is a party or (vi) to the extent such information has become public (other than by its breach of such agreement).

11.7. Survival. The obligations of the Borrower under Sections 4.1, 4.5, 4.6 and 11.3 hereof shall survive the repayment of the Loans and the termination of the Commitments.

11.8. Captions. The table of contents and captions and Section headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Agreement.

11.9. Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any of the parties hereto may execute this Agreement by signing one or more of such counterparts.

11.10. Jurisdiction, Service of Process.

(a) Any suit, action or proceeding against the Borrower with respect to this Agreement, the Notes or the other Loan Documents or any judgment entered by any court in respect of any thereof may be brought in the courts of the State of Illinois located in Cook County or in the U.S. District Court for the Northern District of Illinois as the Agent or any Bank may elect, and the Borrower hereby submits to the non-exclusive jurisdiction of each such court for the purpose of any such suit, action or proceeding. The Borrower consents to the service of process upon it in any such suit, action or proceeding by regular first class mail addressed to it at its address specified in Section 11.2. The foregoing shall not, however, limit the right of the Agent or any Bank to serve process in any other manner permitted by law or to commence any suit, action or proceeding or to obtain execution of judgment in any appropriate jurisdiction. Without limiting the foregoing, the Borrower further agrees that the Agent or any Bank may at their option submit any dispute which may arise in connection with this Agreement or the Notes to any other court having jurisdiction over the Borrower or the Borrower's property.

(b) The Borrower hereby irrevocably waives any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement, the Notes or the other Loan Documents brought in the courts of the State of Illinois located in Cook County or the U.S. District Court for the Northern District of Illinois, and hereby further irrevocably waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

11.11. Set-off. The Borrower agrees that in addition to any right of recoupment, set-off, banker's lien or counterclaim the Agent or any Bank may otherwise have, the Agent and each Bank shall be entitled to offset deposits (including all account balances, whether provisional or final and whether or not collected or available) and other claims of the Borrower at any of the Agent's or such Bank's offices, in Dollars or in any other currency, against any amount payable to the Agent or such Bank hereunder which is not paid when due (regardless of whether such deposits and other claims are then due).

11.12. Governing Law. THIS AGREEMENT, THE NOTES AND THE OTHER LOAN DOCUMENTS SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAW OF THE STATE OF ILLINOIS.

11.13. Waiver of Jury Trial. THE BORROWER HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE NOTES OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

HEARTLAND FINANCIAL USA, INC.

By: /s/ John K. Schmidt

Name: John K. Schmidt

Title: Executive Vice President & CFO

Address: 1398 Central Avenue
Dubuque, Iowa 52004-0778

Telecopier No. (563) 589-1951

Attention: John K. Schmidt,
Executive Vice President and
Chief Financial Officer

Telephone No. (563) 589-1994

THE NORTHERN TRUST COMPANY ,
as Agent

By: /s/ T.E. Bernhardt

Name: T.E. Bernhardt

Title: Vice President

Address: 50 South LaSalle Street
Chicago, Illinois 60675

Telecopier No.: (312) 444-4906

Attention: Thomas E. Bernhardt
Vice President

Telephone No.: (312) 444-7202

BANKS:

THE NORTHERN TRUST COMPANY

By: /s/ T.E. Bernhardt

Name: T.E. Bernhardt

Title: Vice President

Address: 50 South LaSalle Street
Chicago, Illinois 60675

Telecopier No.: (312) 444-4906

Attention: Thomas E. Bernhardt
Vice President

Telephone No.: (312) 444-7202

HARRIS TRUST AND SAVINGS BANK

By: /s/ Michael S. Cameli

Name: Michael S. Cameli

Title: Vice President

Address: 111 West Monroe Street
5th Floor East
Chicago, IL 60603

Telecopier No. (312) 765-8382

Attention: Michael S. Cameli

Telephone No.: (312) 461-2396

U.S. BANK NATIONAL ASSOCIATION

By: /s/ Jason R. Hall

Name: Jason R. Hall

Title: Assistant Vice President

Address: 222 2nd Ave SE
Cedar Rapids, IA 52401

Telecopier No.: (319) 368-4229

Attention: Jason R. Hall

Telephone No.: (319) 368-4649

Exhibit 11

EARNINGS PER SHARE

Net income for the year ended December 31, 2003	\$ 17,719,000
Weighted average common shares outstanding	14,984,472
Assumed incremental common shares issued upon exercise of stock options	273,969
Weighted average common shares for diluted earnings per share	15,258,441
Earnings per common share – basic	\$ 1.18
Earnings per common share – diluted	\$ 1.16

Exhibit 21.1

Subsidiaries of the Registrant

1. Galena State Bank and Trust Company, an Illinois state bank with its main office located in Galena, Illinois
2. Dubuque Bank and Trust Company, an Iowa state bank with its main office located in Dubuque, Iowa
- 2.a. DB&T Insurance, Inc.
- 2.b. DB&T Community Development Corp.
3. Keokuk Bancshares, Inc. (dba KBS Investment Corp.)
4. First Community Bank, an Iowa state bank with its main office located in Keokuk, Iowa
- 4.a. KFS Services, Inc.
5. Riverside Community Bank, and Illinois state bank with its main office located in Rockford, Illinois
6. Citizens Finance Co.

7. ULTEA, Inc.
- 7.a. Autorent Wisconsin, Inc.
- 7.b. Econo Lease, Inc
8. Wisconsin Community Bank, a Wisconsin bank with its main office located in Cottage Grove, Wisconsin
- 8.a. DBT Investment Corporation
- 8.b. WCB Mortgage, LLC
9. New Mexico Bank & Trust, a New Mexico state bank with its main office located in Albuquerque, New Mexico
10. Arizona Bank & Trust, an Arizona state bank with its main office located in Mesa, Arizona
11. HTLF Capital Corp.
12. Heartland Capital Trust I
13. Heartland Statutory Trust II
14. Heartland Capital Trust II
15. Heartland Statutory Trust III
16. Heartland Community Development, Inc.

Exhibit 23.1

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
Heartland Financial USA, Inc.:

We consent to incorporation by reference in the Registration Statements (Nos. 333-06233, 333-81374, and 333-06219) on Form S-8 of Heartland Financial USA, Inc. of our report dated January 21, 2004, relating to the consolidated balance sheets of Heartland Financial USA, Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2003, which report appears in the December 31, 2003 annual report on Form 10-K of Heartland Financial USA, Inc. and subsidiaries. Our report refers to the adoption of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

/s/ KPMG LLP

Des Moines, Iowa
March 11, 2004

Exhibit 31.1

I, Lynn B. Fuller, certify that:

1. I have reviewed this annual report on Form 10-K of Heartland Financial USA, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and we have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. [intentionally omitted]
 - c. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Chief Executive Officer

Date: March 12, 2004

By: /s/ Lynn B. Fuller

President and Chief Executive Officer

Exhibit 31.2

I, John K. Schmidt, hereby certify:

1. I have reviewed this annual report on Form 10-K of Heartland Financial USA, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and we have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. [intentionally omitted]
 - c. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is

reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
- a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

/s/ John K. Schmidt

John K. Schmidt
Chief Financial Officer
March 12, 2004

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Heartland Financial USA, Inc. (the "Company") on Form 10-K for the year ending December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lynn B. Fuller, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Lynn B. Fuller

Lynn B. Fuller
Chief Executive Officer
March 12, 2004

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Heartland Financial USA, Inc. (the "Company") on Form 10-K for the year ending December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John K. Schmidt, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ John K. Schmidt

John K. Schmidt
Chief Financial Officer
March 12, 2004

End of Filing

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