HTLF 10-Q 9/30/2008

Section 1: 10-Q (FORM10Q093008)

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

FORM 10-Q
☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For quarterly period ended September 30, 2008
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For transition period __________ to __________

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)

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “accelerated filer,” “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Act.
Large accelerated filer ☐ **Accelerated filer** ☑ **Non-accelerated filer** ☐ **Smaller reporting company** ☐
(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined by Rule 12b-2 of the Securities Exchange Act of 1934). **Yes** ☐ **No** ☑

Indicate the number of shares outstanding of each of the classes of Registrant's common stock as of the latest practicable date: As of November 6, 2008, the Registrant had outstanding 16,248,625 shares of common stock, $1.00 par value per share.

HEARTLAND FINANCIAL USA, INC.
Form 10-Q Quarterly Report

Part I

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PART I

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Cash and due from banks	$ 30,537	$ 46,468
Federal funds sold and other short-term investments	36,537	364
Cash and cash equivalents	67,074	46,832
Securities:		
Trading, at fair value	1,962	1,888
Available for sale, at fair value (cost of $741,243 at September 30, 2008, and $672,499 at December 31, 2007)	733,820	682,383
Held to maturity, at cost (fair value of $23,574 at September 30, 2008, and $5,754 at December 31, 2007)	24,361	5,678
Loans held for sale	9,812	12,679
Gross loans and leases:		
Held to maturity	2,364,259	2,280,167
Allowance for loan and lease losses	(34,845)	(32,993)
Loans and leases, net	2,329,414	2,247,174
Premises, furniture and equipment, net	120,225	120,285
Other real estate, net	9,387	2,195
Goodwill	40,207	40,207
Other intangible assets, net	8,332	8,369
Cash surrender value on life insurance	55,684	55,532
Other assets	45,704	40,904
TOTAL ASSETS	$ 3,445,982	$ 3,264,126
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Demand	$ 373,193	$ 381,499
Savings	1,042,364	855,036
Time	1,152,350	1,139,764
Total deposits	2,567,907	2,376,299
Short-term borrowings	176,543	354,146
Other borrowings	440,146	263,607
Accrued expenses and other liabilities	36,074	39,474
TOTAL LIABILITIES	3,220,670	3,033,526
STOCKHOLDERS' EQUITY:		
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, 20,000,000 shares; issued 16,611,671 shares at September 30, 2008, and December 31, 2007)	16,612	16,612
Capital surplus	37,701	37,269
Retained earnings	182,227	173,891
Accumulated other comprehensive income (loss)	(4,043)	6,506
Treasury stock at cost (358,780 shares at September 30, 2008, and 184,655 shares at December 31, 2007)	(7,185)	(3,678)
TOTAL STOCKHOLDERS' EQUITY	225,312	230,600
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 3,445,982	$ 3,264,126

See accompanying notes to consolidated financial statements.

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

	Quarter Ended		Nine Months Ended	
	Sept. 30, 2008	Sept. 30, 2007	Sept. 30, 2008	Sept. 30, 2007
INTEREST INCOME:				
Interest and fees on loans and leases	$ 40,990	$ 47,406	$ 124,444	$ 140,712
Interest on securities:				
Taxable	8,228	5,446	22,728	16,010
Nontaxable	1,670	1,513	4,996	4,414
Interest on federal funds sold and other short-term investments	85	310	267	310
Interest on interest bearing deposits in other financial institutions	3	2	10	20
TOTAL INTEREST INCOME	50,976	54,677	152,445	161,466
INTEREST EXPENSE:				
Interest on deposits	15,622	20,477	48,375	58,325
Interest on short-term borrowings	776	2,764	4,049	10,545
Interest on other borrowings	4,692	4,199	13,562	10,762
TOTAL INTEREST EXPENSE	21,090	27,440	65,986	79,632
NET INTEREST INCOME	29,886	27,237	86,459	81,834
Provision for loan and lease losses	7,083	575	14,213	6,769
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	22,803	26,662	72,246	75,065
NONINTEREST INCOME:				
Service charges and fees, net	3,125	2,861	8,620	8,287
Loan servicing income	1,094	1,068	3,585	3,103
Trust fees	2,070	2,089	6,159	6,265
Brokerage and insurance commissions	942	820	2,717	2,158
Securities gains, net	5	31	1,015	303
Gain (loss) on trading account securities, net	(33)	(7)	(467)	80
Impairment loss on securities	(4,688)	-	(4,804)	-
Gains on sale of loans	295	604	1,279	2,051
Income (loss) on bank owned life insurance	(247)	595	596	1,212
Gain on sale of merchant credit card services	5,200	-	5,200	-
Other noninterest income	117	(145)	772	161
TOTAL NONINTEREST INCOME	7,880	7,916	24,672	23,620
NONINTEREST EXPENSES:				
Salaries and employee benefits	15,000	14,301	44,459	42,680
Occupancy	2,262	2,004	6,799	5,941
Furniture and equipment	1,662	1,669	5,201	5,124
Outside services	3,096	2,374	8,254	7,011
Advertising	1,012	886	2,853	2,694
Intangible assets amortization	236	241	708	652
Other noninterest expenses	3,392	3,272	9,588	9,970
TOTAL NONINTEREST EXPENSES	26,660	24,747	77,862	74,072
INCOME BEFORE INCOME TAXES	4,023	9,831	19,056	24,613
Income taxes	1,018	2,906	5,081	7,403
INCOME FROM CONTINUING OPERATIONS	3,005	6,925	13,975	17,210
Discontinued operations:				
Income from discontinued operations before income taxes	-	-	-	2,756
Income taxes	-	-	-	1,085
INCOME FROM DISCONTINUED OPERATIONS	-	-	-	1,671
NET INCOME	$ 3,005	$ 6,925	$ 13,975	$ 18,881
EARNINGS PER COMMON SHARE – BASIC	$ 0.18	$ 0.42	$ 0.86	$ 1.15
EARNINGS PER COMMON SHARE – DILUTED	$ 0.18	$ 0.42	$ 0.85	$ 1.14
EARNINGS PER COMMON SHARE FROM CONTINUING OPERATIONS – BASIC	$ 0.18	$ 0.42	$ 0.86	$ 1.04
EARNINGS PER COMMON SHARE FROM CONTINUING OPERATIONS– DILUTED	$ 0.18	$ 0.42	$ 0.85	$ 1.04
CASH DIVIDENDS DECLARED PER COMMON SHARE	$ 0.10	$ 0.09	$ 0.30	$ 0.27

See accompanying notes to consolidated financial statements.

HEARTLAND FINANCIAL USA, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME (Unaudited)
(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, 2007	$ 16,572	$ 37,963	$ 154,308	$ 868	$ -	$ 209,711
Net income			18,881			18,881
Unrealized gain (loss) on securities available for sale arising during the period				2,184		2,184
Unrealized gain (loss) on derivatives arising during the period				235		235
Reclassification adjustment for net security gains realized in net income				(303)		(303)
Income taxes				(786)		(786)
Comprehensive income						20,211
Cash dividends declared:						
Common, $0.27 per share			(4,411)			(4,411)
Purchase of 303,786 shares of common stock					(7,832)	(7,832)
Issuance of 184,360 shares of common stock	40	(1,801)			5,174	3,413
Commitments to issue common stock		1,183				1,183
Balance at September 30, 2007	$ 16,612	$ 37,345	$ 168,778	$ 2,198	$ (2,658)	$ 222,275
Balance at December 31, 2007	$ 16,612	$ 37,269	$ 173,891	$ 6,506	$ (3,678)	$ 230,600
Cumulative effect from adoption of EITF 06-4			(791)			(791)
Balance at January 1, 2008	16,612	37,269	173,100	6,506	(3,678)	229,809
Net income			13,975			13,975
Unrealized gain (loss) on securities available for sale arising during the period				(21,096)		(21,096)
Unrealized gain (loss) on derivatives arising during the period				563		563
Reclassification adjustment for net security losses realized in net income				3,789		3,789
Income taxes				6,195		6,195
Comprehensive income						3,426
Cash dividends declared:						
Common, $0.30 per share			(4,848)			(4,848)
Purchase of 306,864 shares of common stock					(6,126)	(6,126)
Issuance of 132,739 shares of common stock		(444)			2,619	2,175
Commitments to issue common stock		876				876
Balance at September 30, 2008	$ 16,612	$ 37,701	$ 182,227	$ (4,043)	$ (7,185)	$ 225,312

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended	
	September 30, 2008	**September 30, 2007**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 13,975	$ 18,881
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,028	6,635
Provision for loan and lease losses	14,213	6,769
Net amortization of premium on securities	(330)	143
Securities gains, net	(1,015)	(303)
Increase in trading account securities	(74)	(471)
Loss on impairment of securities	4,804	-
Stock-based compensation	876	1,183
Loans originated for sale	(203,758)	(233,626)
Proceeds on sales of loans	207,904	241,460
Net gains on sales of loans	(1,279)	(2,051)
(Increase) decrease in accrued interest receivable	1,538	(422)
Decrease in accrued interest payable	(3,626)	(745)
Other, net	(12,847)	(16,702)
Net cash provided by operating activities – continuing operations	27,409	20,751
Net cash provided by operating activities – discontinued operations	-	10
NET CASH PROVIDED BY OPERATING ACTIVITIES	27,409	20,761
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of securities available for sale	131,482	36,897
Proceeds from the maturity of and principal paydowns on securities available for sale	133,869	118,820
Proceeds from the maturity of and principal paydowns on securities held to maturity	121	24
Purchase of securities available for sale	(337,576)	(183,024)
Purchase of securities held to maturity	(18,782)	(1,157)
Net increase in loans and leases	(92,645)	(121,548)
Purchase of bank owned life insurance policies	-	(20,500)
Capital expenditures	(6,544)	(16,925)
Proceeds on sale of OREO and other repossessed assets	1,349	359
Net cash used by investing activities – continuing operations	(188,726)	(187,054)
Net cash provided by investing activities – discontinued operations	-	22,631
NET CASH USED BY INVESTING ACTIVITIES	(188,726)	(164,423)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand deposits and savings accounts	179,022	38,824
Net increase in time deposit accounts	12,586	101,509
Net decrease in short-term borrowings	(177,603)	(17,061)
Proceeds from other borrowings	221,972	62,114
Repayments of other borrowings	(45,433)	(17,921)
Purchase of treasury stock	(6,126)	(7,832)
Proceeds from issuance of common stock	1,723	2,568
Excess tax benefits on exercised stock options	266	845
Dividends paid	(4,848)	(4,411)
Net cash provided by financing activities – continuing operations	181,559	158,635
Net cash used by financing activities – discontinued operations	-	(32,525)
NET CASH PROVIDED BY FINANCING ACTIVITIES	181,559	126,110
Net increase (decrease) in cash and cash equivalents	20,242	(17,552)
Cash and cash equivalents at beginning of year	46,832	49,143
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 67,074	$ 31,591
Supplemental disclosures:		
Cash paid for income/franchise taxes	$ 7,646	$ 16,668
Cash paid for interest	$ 69,612	$ 80,377
Securities transferred from available for sale to trading	$ 541	$ -
Acquisition:		
Net assets acquired	$ -	$ 650
Cash paid for acquisition	$ -	$ (50)
Cash acquired	-	-
Net cash paid for acquisition	$ -	$ (50)

See accompanying notes to consolidated financial statements.

NOTE 1: BASIS OF PRESENTATION

The interim unaudited consolidated financial statements contained herein should be read in conjunction with the audited consolidated financial statements and accompanying notes to the consolidated financial statements for the fiscal year ended December 31, 2007, included in Heartland Financial USA, Inc.'s ("Heartland") Form 10-K filed with the Securities and Exchange Commission on March 17, 2008. Accordingly, footnote disclosures, which would substantially duplicate the disclosure contained in the audited consolidated financial statements, have been omitted.

The financial information of Heartland included herein has been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting and has been prepared pursuant to the rules and regulations for reporting on Form 10-Q and Rule 10-01 of Regulation S-X. Such information reflects all adjustments (consisting of normal recurring adjustments), that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of the interim period ended September 30, 2008, are not necessarily indicative of the results expected for the year ending December 31, 2008.

Earnings Per Share

Basic earnings per share is determined using net income and weighted average common shares outstanding. Diluted earnings per share is computed by dividing net income by the weighted average common shares and assumed incremental common shares issued. Amounts used in the determination of basic and diluted earnings per share for the three-month and nine-month periods ended September 30, 2008 and 2007, are shown in the tables below:

	Three Months Ended	
(Dollars and numbers in thousands, except per share data)	Sept. 30, 2008	Sept. 30, 2007
Net income	$ 3,005	$ 6,925
Weighted average common shares outstanding for basic earnings per share	16,264	16,447
Assumed incremental common shares issued upon exercise of stock options	91	97
Weighted average common shares for diluted earnings per share	16,355	16,544
Earnings per common share – basic	$ 0.18	$ 0.42
Earnings per common share – diluted	$ 0.18	$ 0.42

	Nine Months Ended	
(Dollars and numbers in thousands, except per share data)	Sept. 30, 2008	Sept. 30, 2007
Income from continuing operations	$ 13,975	$ 17,210
Income from discontinued operations	-	1,671
Net income	$ 13,975	$ 18,881
Weighted average common shares outstanding for basic earnings per share	16,315	16,487
Assumed incremental common shares issued upon exercise of stock options	77	133
Weighted average common shares for diluted earnings per share	16,392	16,620
Earnings per common share – basic	$ 0.86	$ 1.15
Earnings per common share – diluted	$ 0.85	$ 1.14
Earnings per common share from continuing operations – basic	$ 0.86	$ 1.04
Earnings per common share from continuing operations – diluted	$ 0.85	$ 1.04
Earnings per common share from discontinued operations – basic	$ -	$ 0.10
Earnings per common share from discontinued operations – diluted	$ -	$ 0.10

Stock-Based Compensation

Options are typically granted annually with an expiration date ten years after the date of grant. Vesting is generally over a five-year service period with portions of a grant becoming exercisable at three years, four years and five years after the date of grant. The 2008 standard stock option agreement provides that the options become fully exercisable and expire if not exercised within six months of the date of retirement at age 65 or later. Prior period stock option agreements included early retirement provisions at age 55 provided that the officer has provided ten years of service to Heartland. A summary of the status of the stock options as of September 30, 2008 and 2007, and changes during the nine months ended September 30, 2008 and 2007, follows:

	2008		2007	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at January 1	733,012	$ 18.61	815,300	$ 14.46
Granted	164,400	18.60	146,750	29.65
Exercised	(98,549)	11.56	(194,788)	9.86

Forfeited	(16,000)	24.96	(14,500)	25.24
Outstanding at September 30	782,863	$ 19.36	752,762	$ 18.40
Options exercisable at September 30	277,713	$ 13.60	300,554	$ 11.60
Weighted-average fair value of options granted during the nine-month periods ended September 30	$ 4.81		$ 7.69	

At September 30, 2008, the vested options totaled 277,713 shares with a weighted average exercise price of $13.60 per share and a weighted average remaining contractual life of 3.79 years. The intrinsic value for the vested options as of September 30, 2008, was $3.2 million. The intrinsic value for the total of all options exercised during the nine months ended September 30, 2008, was $1.3 million, and the total fair value of shares vested during the nine months ended September 30, 2008, was $876 thousand. At September 30, 2008, shares available for issuance under the 2005 Long-Term Incentive Plan totaled 474,810.

The fair value of the 2008 and 2007 stock options granted was estimated utilizing the Black Scholes valuation model. The fair value of a share of common stock on the grant date of the 2008 options was $18.60. The fair value of a share of common stock on the grant date of the 2007 options was $27.85. Significant assumptions include:

	2008	2007
Risk-free interest rate	3.10%	4.74%
Expected option life	6.4 years	6.2 years
Expected volatility	26.96%	24.20%
Expected dividends	1.99%	1.25%

The option term of each award granted was based upon Heartland's historical experience of employees' exercise behavior. Expected volatility was based upon historical volatility levels and future expected volatility of Heartland's common stock. Expected dividend yield was based on a set dividend rate. Risk free interest rate reflects the average of the yields on the 5 year and 7 year zero coupon U.S. Treasury bond. Cash received from options exercised for the nine months ended September 30, 2008, was $1.1 million, with a related tax benefit of $266 thousand. Cash received from options exercised for the nine months ended September 30, 2007, was $1.9 million, with a related tax benefit of $845 thousand.

Total compensation costs recorded were $864 thousand and $1.2 million for the nine months ended September 30, 2008 and 2007, respectively, for stock options, restricted stock awards and shares to be issued under the 2006 Employee Stock Purchase Plan. As of September 30, 2008, there was $2.8 million of total unrecognized compensation costs related to the 2005 Long-Term Incentive Plan for stock options and restricted stock awards which is expected to be recognized through 2012.

Fair Value Measurements

On January 1, 2008, Heartland adopted Statement of Financial Accounting Standards No. 157 ("FAS 157"), *Fair Value Measurements*. FAS 157 defines fair value, establishes a framework for measuring fair value under U.S. generally accepted accounting principles, and expands disclosures about fair value measurements. FAS 157 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FAS 157 clarifies that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. FAS 157 requires fair value measurements to be separately disclosed by level within the fair value hierarchy. Under FAS 157, Heartland bases fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For assets and liabilities recorded at fair value, it is Heartland's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy in FAS 157.

Fair value measurements for assets and liabilities where there exists limited or no observable market data, and therefore, are based primarily upon estimates, are often calculated based upon current pricing policy, the economic and competitive environment, the characteristics of the asset or liability and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values. Additional information regarding disclosures of fair value is presented in Note 5.

Heartland will apply the fair value measurement and disclosure provisions of FAS 157 effective January 1, 2009, to nonfinancial assets and nonfinancial liabilities measured on a nonrecurring basis. Heartland measures the fair value of the following on a nonrecurring basis: (1) long-lived assets, (2) foreclosed assets, (3) goodwill and other intangibles and (4) indefinite-lived assets.

Effect of New Financial Accounting Standards

In September 2006, the Emerging Issues Task Force Issue 06-4 ("EITF 06-4"), *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*, was ratified. EITF 06-4 addresses accounting for separate agreements which split life insurance policy benefits between an employer and employee and requires the employer to recognize a liability for future benefits payable to the employee under these agreements. The effects of applying EITF 06-4 must be recognized through either a change in accounting principle through an adjustment to equity or through the retrospective application to all prior periods. For calendar year companies, EITF 06-4 is effective beginning January 1, 2008. Heartland adopted EITF 06-4 on January 1, 2008, which resulted in a $791 thousand adjustment to Heartland's equity on January 1, 2008.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 ("FAS 159"), *The Fair Value Option for Financial Assets and Financial Liabilities*, which allows entities to voluntarily choose, at specified election dates, to measure many financial assets and financial liabilities at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, FAS 159 specifies that all subsequent changes in fair value for that instrument shall be reported in earnings. FAS 159 is effective for all financial statements issued for fiscal years beginning after November 15, 2007. Heartland adopted FAS 159 on January 1, 2008, and the adoption did not have an impact on its consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (Revised 2007) *Business Combinations* ("SFAS No. 141R") and Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, an amendment of ARB No. 51 ("SFAS No. 160"). SFAS No. 141R and SFAS No. 160 require significant changes in the accounting and reporting for business acquisitions and the reporting of a noncontrolling interest in a subsidiary. Among many changes under SFAS No. 141R, an acquirer will record 100% of all assets and liabilities at fair value at the acquisition date with changes possibly recognized in earnings, and acquisition related costs will be expensed rather than capitalized. SFAS No. 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary. Key changes under the standard are that noncontrolling interests in a subsidiary will be reported as part of equity, losses allocated to a noncontrolling interest can result in a deficit balance, and changes in ownership interests that do not result in a change of control are accounted for as equity transactions and upon a loss of control, gain or loss is recognized and the remaining interest is remeasured at fair value on the date control is lost. SFAS No. 141R and SFAS No. 160 apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is not permitted. Heartland will adopt these statements on January 1, 2009.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161 ("FAS 161"), *Disclosures about Derivative Instruments and Hedging Activities*, an amendment of FASB Statement No. 133, which changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. FAS 161 is effective for all financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Heartland is currently evaluating the impact of FAS 161 on its consolidated financial statement disclosures.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162 ("FAS 162"), *The Hierarchy of Generally Accepted Accounting Principles*, which identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented inconformity with GAAP in the United States (the "U.S. GAAP hierarchy"). The current U.S. GAAP hierarchy is set forth in the American Institute of Certified Public Accountants Statement of Auditing Standard No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.* The FASB has concluded that the U.S. GAAP hierarchy should reside in the accounting literature established by the FASB and issued FAS 162 to achieve that result. FAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to Interim Auditing Standards AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.* Heartland does not expect the adoption of FAS 162 to have an impact on its consolidated financial statements.

In June 2008, the FASB issued FASB Staff Position EITF 03-6-1 ("FSP EITF 03-6-1"), *Determining Whether Instruments Granted In Share-Based Payment Transactions Are Participating Securities*, which clarified that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented shall be adjusted retrospectively. Early application is not
permitted. Heartland does not expect the adoption of FSP EITF 03-6-1 to have an impact on its consolidated financial statements as none of its unvested restricted stock participates with common shareholders in dividends declared and paid.

In October 2008, the FASB issued FASB Staff Position No. 157-3 ("FAS 157-3"), *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, which clarifies the application of FAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This FSP was effective upon issuance, including prior periods for which financial statements have not been issued. Heartland adopted this guidance effective September 30, 2008, and the adoption did not have an impact on its consolidated financial statements.

The SEC released Staff Accounting Bulletin No. 109 ("SAB No. 109") in November 2007. SAB No. 109 provides guidance on written loan commitments that are accounted for at fair value through earnings. SAB No. 109 supersedes SAB No. 105 which provided guidance on derivative loan commitments pursuant to SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*". SAB No. 105 stated that in measuring the fair value of a derivative loan commitment it would be inappropriate to incorporate the expected net future cash flows related to the associated servicing of the loan. SAB No. 109, consistent with the guidance in SFAS No. 156 and SFAS No. 159, requires that expected net future cash flows related to the associated servicing of the loan be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SAB No. 109 is effective for fiscal quarters beginning after December 15, 2007. Heartland adopted SAB No. 109 on January 1, 2008, and the adoption of this issue did not have a material impact on its consolidated financial statements.

NOTE 2: CORE DEPOSIT PREMIUM AND OTHER INTANGIBLE ASSETS

The gross carrying amount of intangible assets and the associated accumulated amortization at September 30, 2008, and December 31, 2007, are presented in the table below, in thousands:

	September 30, 2008		December 31, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit intangibles	$ 9,757	$ 6,882	$ 9,757	$ 6,252
Mortgage servicing rights	7,641	3,058	6,505	2,592
Customer relationship intangible	1,177	303	1,177	226
Total	$ 18,575	$ 10,243	$ 17,439	$ 9,070
Unamortized intangible assets		$ 8,332		$ 8,369

Projections of amortization expense for mortgage servicing rights are based on existing asset balances and the existing interest rate environment as of September 30, 2008. Heartland's actual experience may be significantly different depending upon changes in mortgage interest rates and market conditions. There was no valuation allowance on mortgage servicing rights at September 30, 2008, or December 31, 2007. The fair value of Heartland's mortgage servicing rights was estimated at $7.6 million and $6.4 million at September 30, 2008, and December 31, 2007, respectively.

The following table shows the estimated future amortization expense for amortized intangible assets, in thousands:

	Core Deposit Intangibles	Mortgage Servicing Rights	Customer Relationship Intangible	Total
Three months ending December 31, 2008	$ 216	$ 339	$ 26	$ 581
Year ending December 31,				
2009	748	1,212	102	2,062
2010	465	1,010	100	1,575
2011	450	808	99	1,357
2012	421	607	55	1,083
2013	405	404	45	854
Thereafter	170	203	447	820

NOTE 3: SHORT-TERM BORROWINGS

On April 28, 2008, Heartland's credit agreement was renewed with two of the four unaffiliated banks, which resulted in a reduction in the amount Heartland could borrow at any one time under this unsecured revolving credit line from $60.0 million to $40.0 million. On June 30, 2008, an additional unaffiliated bank was added to this credit agreement and thereby increased the amount Heartland may borrow at any one time back to $60.0 million.

NOTE 4: DERIVATIVE FINANCIAL INSTRUMENTS

On occasion, Heartland uses derivative financial instruments as part of its interest rate risk management, including interest rate swaps, caps, floors and collars. Heartland's objectives in using derivatives are to add stability to its net interest margin and to manage its exposure to movements in interest rates.

To reduce the potentially negative impact a downward movement in interest rates would have on its interest income, Heartland entered into the following two transactions. On April 4, 2006, Heartland entered into a three-year interest rate collar transaction with a notional amount of $50.0 million. The collar was effective on April 4, 2006, and matures on April 4, 2009. Heartland is the payer on prime at a cap strike rate of 8.95% and the counterparty is the payer on prime at a floor strike rate of 7.00%. As of September 30, 2008, and December 31, 2007, the fair market value of this collar transaction was recorded as an asset of $502 thousand and $391 thousand, respectively.

On September 19, 2005, Heartland entered into a five-year interest rate collar transaction on a notional amount of $50.0 million. The collar has an effective date of September 21, 2005, and a maturity date of September 21, 2010. Heartland is the payer on prime at a cap strike rate of 9.00% and the counterparty is the payer on prime at a floor strike rate of 6.00%. As of September 30, 2008, and December 31, 2007, the fair market value of this collar transaction was recorded as an asset of $741 thousand and $387 thousand, respectively.

For accounting purposes, the two collar transactions above are designated as cash flow hedges of the overall changes in the cash flows above and below the collar strike rates associated with interest payments on certain of Heartland's prime-based loans that reset whenever prime changes. The hedged transactions for the two hedging relationships are designated as the first prime-based interest payments received by Heartland each calendar month during the term of the collar that, in aggregate for each period, are interest payments on principal from specified portfolios equal to the notional amount of the collar.

Prepayments in the hedged loan portfolios are treated in a manner consistent with the guidance in SFAS 133 Implementation Issue No. G25, Cash Flow Hedges: Using the First-Payments-Received Technique in Hedging the Variable Interest Payments on a Group of Non-Benchmark-Rate-Based

Loans, which allows the designated forecasted transactions to be the variable, prime-rate-based interest payments on a rolling portfolio of prepayable interest-bearing loans using the first-payments-received technique, thereby allowing interest payments from loans that prepay to be replaced with interest payments from new loan originations. Based on Heartland's assessments, both at inception and throughout the life of the hedging relationship, it is probable that sufficient prime-based interest receipts will exist through the maturity dates of the collars.

To reduce the potentially negative impact an upward movement in interest rates would have on its net interest income, Heartland entered into the following four cap transactions. For accounting purposes, these four cap transactions are designated as cash flow hedges of the changes in cash flows attributable to changes in LIBOR, the benchmark interest rate being hedged, above the cap strike rate associated with the interest payments made on $65.0 million of Heartland's subordinated debentures (issued in connection with the trust preferred securities of Heartland Financial Statutory Trust IV, V and VII) that reset quarterly on a specified reset date. At inception, Heartland asserted that the underlying principal balance will remain outstanding throughout the hedge transaction making it probable that sufficient LIBOR-based interest payments will exist through the maturity date of the caps.

The first transaction executed was a twenty-three month interest rate cap transaction on a notional amount of $20.0 million. The cap has an effective date of February 1, 2007, and a maturity date of January 7, 2009. Should 3-month LIBOR exceed 5.5% on a reset date, the counterparty will pay Heartland the amount of interest that exceeds the amount owed on the debt at the cap LIBOR rate of 5.5%. The floating-rate subordinated debentures contain an interest deferral feature that is mirrored in the cap transaction. As of September 30, 2008, and December 31, 2007, this cap transaction had no fair market value.

The second transaction executed on February 1, 2007, was a twenty-five month interest rate cap transaction on a notional amount of $25.0 million to reduce the potentially negative impact an upward movement in interest rates would have on its net interest income. The cap has an effective date of February 1, 2007, and a maturity date of March 17, 2009. Should 3-month LIBOR exceed 5.5% on a reset date, the counterparty will pay Heartland the amount of interest that exceeds the amount owed on the debt at the cap LIBOR rate of 5.5%. The floating-rate subordinated debentures contain an interest rate deferral feature that is mirrored in the cap transaction. As of September 30, 2008, and December 31, 2007, this cap transaction had no fair market value.

The third transaction executed on January 15, 2008, was a fifty-five month interest rate cap transaction on a notional amount of $20.0 million to reduce the potentially negative impact an upward movement in interest rates would have on its net interest income. The cap has an effective date of January 15, 2008, and a maturity date of September 1, 2012. Should 3-month LIBOR exceed 5.12% on a reset date, the counterparty will pay Heartland the amount of interest that exceeds the amount owed on the debt at the cap LIBOR rate of 5.12%. The floating-rate subordinated debentures contain an interest rate deferral feature that is mirrored in the cap transaction. As of September 30, 2008, the fair market value of this cap transaction was recorded as an asset of $230 thousand.

The fourth transaction executed on March 27, 2008, was a twenty-eight month interest rate cap transaction on a notional amount of $20.0 million to reduce the potentially negative impact an upward movement in interest rates would have on its net interest income. The cap has an effective date of January 7, 2009, and a maturity date of April 7, 2011. Should 3-month LIBOR exceed 5.5% on a reset date, the counterparty will pay Heartland the amount of interest that exceeds the amount owed on the debt at the cap LIBOR rate of 5.5%. The floating-rate subordinated debentures contain an interest rate deferral feature that is mirrored in the cap transaction. As of September 30, 2008, the fair market value of this cap transaction was recorded as an asset of $59 thousand.

For both the collar and cap transactions described above, the effective portion of changes in the fair values of the derivatives is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified to earnings (interest income on loans or interest expense on borrowings) when the hedged transactions affect earnings. Ineffectiveness resulting from the hedging relationship, if any, is recorded as a gain or loss in earnings as part of noninterest income. Heartland uses the "Hypothetical Derivative Method" described in SFAS 133 Implementation Issue No. G20, Cash Flow Hedges: Assessing and Measuring the Effectiveness of a Purchased Option Used in a Cash Flow Hedge, for its quarterly prospective and retrospective assessments of hedge effectiveness, as well as for measurements of hedge ineffectiveness. All components of the derivative instruments' change in the fair value were included in the assessment of hedge effectiveness. No ineffectiveness was recognized for the cash flow hedge transactions for the nine months ended September 30, 2008.

A portion of the September 19, 2005, collar transaction did not meet the retrospective hedge effectiveness test at March 31, 2008. The failure was on a portion of the $50.0 million notional amount. That portion, $14.3 million, was designated as a cash flow hedge of the overall changes in the cash flows above and below the collar strike rates associated with interest payments on certain of Dubuque Bank and Trust Company's prime-based loans. The failure of this hedge relationship was caused by paydowns which reduced the designated loan pool from $14.3 million to $9.6 million. This hedge failure resulted in the recognition of a gain of $198 thousand during the quarter ended March 31, 2008, which consists of the mark to market gain on the collar transaction of $212 thousand and a reclassification of unrealized losses out of other comprehensive income to earnings of $14 thousand. During the quarter ended June 30, 2008, the mark to market adjustment on this collar transaction was recorded as a loss of $173 thousand. During the quarter ended September 30, 2008, the mark to market adjustment on this collar transaction was recorded as a gain of $63 thousand.

For the nine months ended September 30, 2008, the change in net unrealized gains of $563 thousand for derivatives designated as cash flow hedges is separately disclosed in the statement of changes in stockholders' equity, before income taxes of $203 thousand. For the nine months ended September 30, 2007, the change in net unrealized losses of $235 thousand for derivatives designated as cash flow hedges is separately disclosed in the statement of changes in shareholders' equity, before income taxes of $87 thousand.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest income or expense as interest payments are received or made on Heartland's variable-rate assets and liabilities. For the nine months ended September 30, 2008, the change in net unrealized losses on cash flow hedges reflects a reclassification of $63 thousand of net unrealized losses from accumulated other comprehensive income to interest income or interest expense. For the next twelve months, Heartland estimates that an additional $84 thousand will be reclassified from accumulated other comprehensive income to interest income.

By using derivatives, Heartland is exposed to credit risk if counterparties to derivative instruments do not perform as expected. Heartland minimizes this risk by entering into derivative contracts with large, stable financial institutions and Heartland has not experienced any losses from counterparty nonperformance on derivative instruments. Furthermore, Heartland also periodically monitors counterparty credit risk in accordance with the provisions of SFAS 133.

NOTE 5: FAIR VALUE

Heartland utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available for sale, trading securities and derivatives are recorded at fair value on a recurring basis. Additionally, from time to time, Heartland may be required to record at fair value other assets on a non-recurring basis such as loans held for sale, loans held to maturity and certain other assets including, but not limited to, mortgage servicing rights. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Fair Value Hierarchy

Under FAS 157, assets and liabilities are grouped at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 - Valuation is based upon quoted prices for identical instruments in active markets.

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, or similar instruments in markets that are not active, and model-based valuation techniques for all significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The following is a description of valuation methodologies used for assets recorded at fair value and for estimation of fair value for financial instruments not recorded at fair value.

Assets

Securities Available for Sale

Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency securities that are traded by dealers or brokers in active over-the-counter markets. Level 2 securities include agency mortgage-backed securities and private collateralized mortgage obligations, municipal bonds and corporate debt securities. Level 3 securities consist primarily of auction rate securities. Heartland has utilized auction rate securities in previous periods as a higher-yielding alternative investment for fed funds. Heartland purchased $10.7 million of auction rate securities in February of 2008. This portfolio consisted of securities issued by various state governmental entities and includes securities backed by student loans that are guaranteed under the Federal Family Education Loan Program. Auction rate securities are primarily debt instruments with long-term maturities for which interest rates are reset periodically through an auction process, which typically occurs every 28 days. The auction process results in the interest rate being reset on the underlying securities until the next reset or auction date. A failed auction occurs when there are insufficient bids for the number of instruments being offered. Upon a failed auction, the then present holders of the instruments continue to hold them and the instrument carries an interest rate based upon certain predefined formulas. In February 2008, the market for these securities began to show signs of illiquidity as auctions for several securities failed on their scheduled auction dates. Shortly thereafter, liquidity left the market causing the traditional auction process to fail. As a result, Heartland was not able to access these funds until the securities were redeemed by the issuer. Due to the illiquidity in the market for auction rate securities, Heartland had classified these investments as Level 3 for purposes of reporting under FAS 157. In April 2008, $1.0 million of the $10.7 million was redeemed at par value and in September 2008, the remaining $9.7 million was redeemed at par value. All of the related auction rate securities paid interest as defined by the predetermined formula. The remaining $200 thousand of securities classified as Level 3 is related to an investment in a partnership.

Trading Assets

Trading assets are recorded at fair value and consist of securities held for trading purposes. The valuation method for trading securities is the same as the methodology used for securities classified as available for sale.

Loans Held for Sale

Loans held for sale are carried at the lower of cost or fair value. The fair value of loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, Heartland classifies loans held for sale subjected to nonrecurring fair value adjustments as Level 2.

Loans Held to Maturity

Heartland does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Under Heartland's credit policies, all nonaccrual loans are defined as impaired loans. Once a loan is identified as individually impaired, management measures impairment in accordance with FAS 114, *Accounting by Creditors for Impairment of a Loan*. 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. Heartland's allowance methodology requires specific reserves for all impaired loans. At September 30, 2008, substantially all of the total impaired loans were based on the fair value of the collateral. In accordance with FAS 157, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, Heartland records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, Heartland records the impaired loan as nonrecurring Level 3.

Derivative Financial Instruments

Currently, Heartland uses interest rate caps, floors and collars to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of interest rate options are determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates fell below (rise above) the strike rate of the floors (caps). The variable interest rates used in the calculation of projected receipts on the floor (cap) are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. To comply with the provisions of FAS No. 157, Heartland incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, Heartland has considered the impact of netting any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although Heartland has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of September 30, 2008, Heartland has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, Heartland has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Mortgage Servicing Rights

Mortgage servicing rights are subject to impairment testing. The carrying values of these rights are reviewed quarterly for impairment based upon the calculation of fair value as performed by an outside third party. For purposes of measuring impairment, the rights are stratified into certain risk characteristics including note type, note rate, prepayment trends and external market factors. If the valuation model reflects a value less than the carrying value, mortgage servicing rights are adjusted to fair value through a valuation allowance. As such, Heartland classifies mortgage servicing rights subjected to nonrecurring fair value adjustments as Level 2.

The table below presents, in thousands, Heartland's assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2008, aggregated by the level in the fair value hierarchy within which those measurements fall:

	Total Fair Value Sept. 30, 2008	Level 1	Level 2	Level 3
Trading securities	$ 1,962	$ 1,962	$ -	$ -
Available-for-sale securities	733,820	113,320	620,300	200
Derivative assets	1,244	-	1,244	-
Total assets at fair value	$ 737,026	$ 115,282	$ 621,544	$ 200

The changes in Level 3 assets that are measured at fair value on a recurring basis are summarized in the following table, in thousands:

	Fair Value
Balance at January 1, 2008	$ 200
Purchases	10,700
Redemptions	(10,700)
Balance at September 30, 2008	$ 200

The table below presents Heartland's assets measured at fair value on a nonrecurring basis, in thousands:

	Carrying Value at September 30, 2008				Nine Months Ended Sept. 30, 2008
	Total	Level 1	Level 2	Level 3	Total Losses
Impaired loans	$ 23,890	$ -	$ -	$ 23,890	$ 4,147

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SAFE HARBOR STATEMENT

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

Heartland's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. The factors which could have a material adverse effect on the operations and future prospects of Heartland and its subsidiaries are detailed in the "Risk Factors" section included under Item 1A. of Part I of Heartland's 2007 Form 10-K filed with the Securities and Exchange Commission on March 17, 2008. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

CRITICAL ACCOUNTING POLICIES

The process utilized by Heartland to estimate the adequacy of the allowance for loan and lease losses is considered a critical accounting policy for Heartland. The allowance for loan and lease losses represents management's estimate of identified and unidentified probable losses in the existing loan portfolio. Thus, the accuracy of this estimate could have a material impact on Heartland's earnings. The adequacy of the allowance for loan and lease losses is determined using factors that include the overall composition of the loan portfolio, general economic conditions, types of loans, loan collateral values, past loss experience, loan delinquencies, and potential losses from identified substandard and doubtful credits. Nonperforming loans and large non-homogeneous loans are specifically reviewed for impairment and the allowance is allocated on a loan by loan basis as deemed necessary. Homogeneous loans and loans not specifically evaluated are grouped into pools to which a loss percentage, based on historical experience, is allocated. The adequacy of the allowance for loan and lease losses is monitored on an ongoing basis by the loan review staff, senior management and the banks' boards of directors. Specific factors considered by management in establishing the allowance included the following:

* Heartland has continued to experience growth in more complex commercial loans as compared to relatively lower-risk residential real estate loans.

* During the last several years, Heartland has entered new geographical markets in which it had little or no previous lending experience.

* Heartland has experienced an increase in net charge-offs and nonperforming loans during the most recent quarters.

There can be no assurances that the allowance for loan and lease losses will be adequate to cover all loan losses, but management believes that the allowance for loan and lease losses was adequate at September 30, 2008. While management uses available information to provide for loan and lease losses, the ultimate collectibility of a substantial portion of the loan portfolio and the need for future additions to the allowance will be based on changes in economic conditions. Should the economic climate continue to 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.

GENERAL

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 and fees, trust income, brokerage and insurance commissions and gains on sale of loans, 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 and provision for loan and lease losses.

Net income was $3.0 million, or $0.18 per diluted share, for the quarter ended September 30, 2008, compared to $6.9 million, or $0.42 per diluted share, earned during the third quarter of 2007. Return on average equity was 5.26 percent and return on average assets was 0.35 percent for the third quarter of 2008, compared to 12.72 percent and 0.86 percent, respectively, for the same quarter in 2007.

Earnings for the third quarter of 2008 were significantly impacted by the provision for loan losses, which was $7.1 million for the third quarter of 2008 compared to $575 thousand for the third quarter of 2007. This increase in the loan loss provision was due, in large part, to the continued softening of the economy and reduced real estate values, particularly in the Phoenix market. Earnings in the third quarter of 2008 were also negatively impacted by a $4.6 million impairment loss on Fannie Mae preferred stock, which was offset by a $5.2 million gain on the sale of Heartland's merchant bankcard processing services.

Net interest margin was 3.96 percent during the third quarter of 2008, the third straight quarter that net interest margin improved. During the third quarter of 2008, net interest income on a tax-equivalent basis increased $2.7 million or 10 percent compared to the same quarter in 2007. Average earning assets increased $209.4 million or 7 percent during the comparable quarterly periods. Noninterest income remained at $7.9 million during both the third quarter of 2008 and 2007. In addition to the $5.2 million gain on the sale of the merchant bankcard processing services, the other category showing notable improvement during the third quarter of 2008 was service charges and fees. The additional income in these categories was partially offset by $4.7 million of impairment losses on securities, decreased gains on sale of loans and a loss on the cash surrender value of bank owned life insurance. For the third quarter of 2008, noninterest expense increased $1.9 million or 8 percent from the same period in 2007. The largest component of noninterest expense, salaries and employee benefits, increased $699 thousand or 5 percent during the third quarter of 2008 compared to the third quarter of 2007. Occupancy expense increased during the quarter, primarily as a result of the opening of six new banking offices during 2007 and the 2008 opening of Heartland's 10th bank subsidiary, Minnesota Bank & Trust. The other category of noninterest expense that increased significantly during the third quarter of 2008 was outside services, resulting primarily from additional legal fees related to collection efforts on nonperforming loans and additional Federal Deposit Insurance Corporation ("FDIC") assessments as a majority of the FDIC credits at Heartland's bank subsidiaries were utilized during 2007.

Net income recorded for the first nine months of 2008 was $14.0 million, or $0.85 per diluted share, compared to $18.9 million, or $1.14 per diluted share, recorded during the first nine months of 2007. Return on average equity was 8.04 percent and return on average assets was 0.56 percent for the first nine months of 2008, compared to 11.89 percent and 0.80 percent, respectively, for the same period in 2007.

The 2007 results were impacted by the sale of Rocky Mountain Bank's branch banking office in Broadus, Montana, which was completed on June 22, 2007. The results of operations of the branch are reflected on the income statement as discontinued operations for the nine-month period ended on September 30, 2007, which included a $2.4 million pre-tax gain recorded as a result of the sale. Income from continuing operations during the first nine months of 2008 was $14.0 million, or $0.85 per diluted share, a decrease of $3.2 million or 19 percent over the $17.2 million, or $1.04 per diluted share, earned during the same period in 2007. The provision for loan losses for the nine-month comparative period was $14.2 million during 2008 compared to $6.8 million during 2007. The provision for loan losses increased as a result of loan growth, an increase in nonperforming loans and the impact historical losses have on the calculation of the adequacy of Heartland's allowance for loan and lease losses. The nine-month performance during 2008 was positively affected by increased net interest income and growth in noninterest income.

For the nine-month period ended September 30, 2008, net interest income on a tax-equivalent basis increased $4.7 million or 6 percent when compared to the same period in 2007. During this same nine-month comparative period, Heartland's average earning assets increased $198.2 million or 7 percent. Noninterest income increased $1.1 million or 4 percent over the same nine-month period in 2007. In addition to the $5.2 million gain on the sale of merchant bankcard processing services, noninterest income during the first nine months of 2008 was positively affected by growth in service charges and fees, loan servicing income, brokerage and insurance commissions and securities gains. The improvements in these categories were partially offset by $4.8 million of impairment losses on securities and increased losses on trading account securities, reduced gains on sale of loans and a loss in the cash surrender value of bank owned life insurance. For the nine-month comparative period in 2008, noninterest expense increased $3.8 million or 5 percent when compared to the same nine-month period in 2007. Again, the largest component of noninterest expense, salaries and employee benefits, grew by $1.8 million or 4 percent during this nine-month comparative period. Occupancy expense increased during the nine-month comparative periods, primarily as a result of the aforementioned expansion activities. The other category of noninterest expense that increased significantly during the 2008 nine-month period was outside services, resulting primarily from the aforementioned additional legal fees and FDIC assessments.

At September 30, 2008, total assets had increased $181.9 million or 7 percent annualized since year-end 2007. For the same period, total loans and leases increased $84.1 million or 5 percent annualized. This growth was primarily distributed among the commercial, agricultural and consumer loan categories at $39.8 million, $19.7 million and $25.0 million, respectively. In order to provide the investing community with a perspective on how the growth in both loans and deposits during the first nine months of the year equates to performance on an annualized basis, the growth rates on these two categories have been reflected as an annualized percentage throughout this report. These annualized numbers were calculated by multiplying the growth percentage for the first nine months of the year by 1.33.

Total deposits had grown by $191.6 million or 11 percent annualized since year-end 2007. Growth in deposits was weighted more heavily in Heartland's Western markets. Demand deposits experienced a decrease of $8.3 million or 3 percent annualized since year-end 2007. Savings deposit balances experienced an increase of $187.3 million or 29 percent annualized since year-end 2007. Time deposits, exclusive of brokered deposits, remained at $1.1 billion. At September 30, 2008, brokered time deposits totaled $81.9 million or 3 percent of total deposits compared to $69.0 million or 3 percent of total deposits at year-end 2007. A large portion of the growth in savings deposits is attributable to the January 2008 introduction of a new retail interest-bearing checking account product, the third quarter 2008 introduction of a premium money market account that featured a teaser interest rate of 5 percent through year-end 2008 and the conversion of several retail repurchase agreement sweep accounts to a new money market sweep product initially rolled out to business depositors during the second quarter of 2008.

NET INTEREST INCOME

Net interest margin, expressed as a percentage of average earning assets, was 3.96 percent during the third quarter of 2008 compared to 3.87 percent for the third quarter of 2007. For the nine-month periods ended on September 30, net interest margin, expressed as a percentage of average earning assets, was 3.92 percent during 2008 and 3.98 percent during 2007. Affecting the net interest margin throughout the second half of 2007 and first nine months of 2008 was the impact of foregone interest on Heartland's nonperforming loans, which had balances of $43.9 million at September 30, 2008, compared to $31.8 million at year-end 2007 and $30.4 million at September 30, 2007. Additionally, early in the third quarter of 2007, a $20.5 million investment was made in bank owned life insurance upon which interest expense associated with the funding of this investment is reflected in net interest margin while the corresponding earnings on this investment are recorded as noninterest income.

Net interest income on a tax-equivalent basis totaled $30.9 million during the third quarter of 2008, an increase of $2.7 million or 10 percent from the $28.2 million recorded during the third quarter of 2007. For the nine-month period during 2008, net interest income on a tax-equivalent basis was $89.3 million, an increase of $4.7 million or 6 percent from the $84.6 million recorded during the first nine months of 2007. These increases occurred as Heartland's interest bearing liabilities repriced downward more quickly than its interest bearing assets. Also contributing to these increases was the $209.4 million or 7 percent growth in average earning assets during the third quarter of 2008 compared to the same quarter in 2007 and the $198.2 million or 7 percent growth in average earning assets during the first nine months of 2008 compared to the same nine months of 2007.

On a tax-equivalent basis, interest income in the third quarter of 2008 totaled $52.0 million compared to $55.6 million in the third quarter of 2007, a decrease of $3.6 million or 7 percent. For the first nine months of 2008, interest income on a tax-equivalent basis decreased $8.9 million or 5 percent over the same period in 2007. Nearly half of the loans in Heartland's commercial and agricultural loan portfolios are floating rate loans that reprice immediately upon a change in the national prime interest rate, thus changes in the national prime rate impact interest income more quickly than if there were more fixed rate loans. The national prime interest rate was 8.25 percent for the first eight months of 2007. During the first nine months of 2008, the national prime interest rate decreased 225 basis points, ranging from 7.25 percent on January 1, 2008, to 5.00 percent on September 30, 2008. A large portion of Heartland's floating rate loans that reprice immediately have a floor interest rate which they have now met. Additionally, Heartland has two $50.0 million derivative transactions on the loan portfolio that are at their floor interest rates. Accordingly, management believes the negative impact of further reductions in the national prime interest rate on Heartland's interest income in future periods should be softened.

Interest expense for the third quarter of 2008 was $21.1 million compared to $27.4 million in the third quarter of 2007, a decrease of $6.3 million or 23 percent. On a nine-month comparative basis, interest expense decreased $13.6 million or 17 percent. Interest rates paid on Heartland's deposits and borrowings were significantly lower during the first nine months of 2008 compared to the first nine months of 2007. Through the third quarter, Heartland experienced a reduction in funding costs as higher rate certificates of deposit rolled over at lower rates. Management believes deposit costs will begin to level off as competitor banks seeking to improve their liquidity positions push rates upward. Approximately 51 percent of Heartland's certificate of deposit accounts, at a weighted average rate of 3.39 percent, will mature within the next six months.

Heartland attempts to manage its balance sheet to minimize the effect that a change in interest rates has on its net interest margin. Heartland plans to continue to work toward improving both its earning asset and funding mix through targeted organic growth strategies, which management believes will result in additional net interest income. Heartland's net interest income simulations reflect a well-balanced and manageable interest rate posture. Management supports a pricing discipline in which the focus is less on price and more on the unique value provided to business and retail clients. Item 3 of this Form 10-Q contains additional information about the results of Heartland's most recent net interest income simulations.

In order to reduce the potentially negative impact a downward movement in interest rates would have on net interest income on the loan portfolio, Heartland has certain derivative transactions currently open: a five-year collar transaction on a notional $50.0 million entered into in September 2005 and a three-year collar transaction on a notional $50.0 million entered into in April 2006. Additionally, in August 2006, Heartland entered into a leverage structured wholesale repurchase agreement transaction. This wholesale repurchase agreement in the amount of $50.0 million initially had a variable interest rate that reset quarterly to the 3-month LIBOR rate plus 29.375 basis points. Within this contract was an interest floor option that resulted when the 3-month LIBOR rate fell to 4.40 percent or lower. If that situation occurred, the rate paid would have been decreased by two times the difference between the 3-month LIBOR rate and 4.40 percent. In order to effectuate this wholesale repurchase agreement, a $55.0 million government agency bond was acquired. On the date of the contract, the interest rate on the securities was nearly equivalent to the interest rate being paid on the repurchase agreement contract. As the general level of interest rates declined during 2007, this transaction was restructured to reduce the risk of rising rates in the future. The unrealized gains were utilized to reduce the maximum rate to 3.06 percent until August 28, 2009, when it is callable. If not called, the funding will remain in place until November 28, 2010. Within this contract is an interest rate cap option that will reduce the interest rate being paid when the 3-month LIBOR rate exceeds 5.15 percent.

On February 1, 2007, Heartland entered into two interest rate cap transactions on a total notional amount of $45.0 million to reduce the potentially negative impact an upward rate environment would have on net interest income. These two-year contracts were acquired with the counterparty as the payer on 3-month LIBOR at a cap strike rate of 5.50 percent and were designated as a cash flow hedge against the LIBOR based variable-rate interest payments on Heartland's subordinated debentures associated with two of its trust preferred capital securities. On January 15, 2008, Heartland entered into another interest rate cap transaction on a notional amount of $20.0 million to further reduce the potentially negative impact an upward rate environment would have on net interest income. This fifty-five month contract was acquired with the counterparty as the payer on 3-month LIBOR at a cap strike rate of 5.12 percent and was designated as a cash flow hedge against the LIBOR based variable-rate interest payments on Heartland's subordinated debentures associated with another of its trust preferred capital securities. Additionally, on March 28, 2008, Heartland entered into a twenty-eight month interest rate cap transaction on a notional amount of $20.0 million to extend the maturity date on a portion of the February 2007 transactions. This cap has an effective date of January 7, 2009, and a maturity date of April 7, 2011. Should 3-month LIBOR exceed 5.5 percent on a reset date, the counterparty will pay Heartland the amount of interest that exceeds the amount owed on the debt at the cap LIBOR rate of 5.5 percent. Note 4 to the consolidated financial statements contains additional information about Heartland's derivative transactions.

The table below 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 periods 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. Nonaccrual loans and loans held for sale are included in each respective loan category.

ANALYSIS OF AVERAGE BALANCES, TAX EQUIVALENT YIELDS AND RATES[1]
For the quarters ended September 30, 2008 and 2007
(Dollars in thousands)

	2008			2007		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate
EARNING ASSETS						
Securities:						
Taxable	$ 622,376	$ 8,228	5.26%	$ 474,366	$ 5,446	4.55%
Nontaxable[1]	153,996	2,441	6.31	136,834	2,271	6.58
Total securities	776,372	10,669	5.47	611,200	7,717	5.01
Interest bearing deposits	654	3	1.82	764	2	1.04
Federal funds sold	18,419	85	1.84	24,180	310	5.09
Loans and leases:						
Commercial and commercial real estate[1]	1,651,002	26,910	6.48	1,609,044	31,757	7.83
Residential mortgage	223,267	3,570	6.36	239,447	4,069	6.74
Agricultural and agricultural real estate[1]	241,541	4,191	6.90	227,630	4,650	8.10
Consumer	216,651	5,081	9.33	199,823	5,351	10.62
Direct financing leases, net	7,078	105	5.90	11,320	171	5.99
Fees on loans	-	1,356	-	-	1,589	-
Less: allowance for loan and lease losses	(34,776)	-	-	(32,647)	-	-
Net loans and leases	2,304,763	41,213	7.11	2,254,617	47,587	8.37
Total earning assets	3,100,208	$ 51,970	6.67%	2,890,761	$ 55,616	7.63%
NONEARNING ASSETS	298,991			285,954		
TOTAL ASSETS	$ 3,399,199			$ 3,176,715		
INTEREST BEARING LIABILITIES						
Interest bearing deposits						
Savings	$ 981,108	$ 4,777	1.94%	$ 850,988	$ 6,021	2.81%
Time, $100,000 and over	374,170	3,527	3.75	305,748	3,848	4.99
Other time deposits	759,999	7,318	3.83	888,706	10,608	4.74
Short-term borrowings	184,800	776	1.67	243,820	2,764	4.50
Other borrowings	449,927	4,692	4.15	269,198	4,199	6.19
Total interest bearing liabilities	2,750,004	21,090	3.05%	2,558,460	27,440	4.26%
NONINTEREST BEARING LIABILITIES						
Noninterest bearing deposits	384,711			369,716		
Accrued interest and other liabilities	37,373			32,501		
Total noninterest bearing liabilities	422,084			402,217		
STOCKHOLDERS' EQUITY	227,111			216,038		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 3,399,199			$ 3,176,715		
Net interest income[1]		$ 30,880			$ 28,176	
Net interest spread[1]			3.62%			3.38%
Net interest income to total earning assets[1]			3.96%			3.87%
Interest bearing liabilities to earning assets	88.70%			88.50%		

[1] Tax equivalent basis is calculated using an effective tax rate of 35%.

ANALYSIS OF AVERAGE BALANCES, TAX EQUIVALENT YIELDS AND RATES[1]
For the nine months ended September 30, 2008 and 2007
(Dollars in thousands)

	2008			2007		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate
EARNING ASSETS						
Securities:						
Taxable	$ 607,082	$ 22,728	5.00%	$ 468,616	$ 16,010	4.57%
Nontaxable[1]	150,803	7,330	6.49	132,831	6,677	6.72
Total securities	757,885	30,058	5.30	601,447	22,687	5.04
Interest bearing deposits	494	10	2.70	683	20	3.92
Federal funds sold	15,579	267	2.29	7,490	310	5.53
Loans and leases:						
Commercial and commercial real estate[1]	1,629,584	82,133	6.73	1,590,559	94,567	7.95
Residential mortgage	222,359	10,779	6.48	243,299	12,399	6.81
Agricultural and agricultural real estate[1]	236,537	12,855	7.26	225,606	13,728	8.14
Consumer	207,116	14,909	9.62	196,110	15,482	10.55
Direct financing leases, net	7,926	353	5.95	12,553	560	5.96
Fees on loans	-	3,966	-	-	4,500	-
Less: allowance for loan and lease losses	(33,504)	-	-	(32,012)	-	-
Net loans and leases	2,270,018	124,995	7.36	2,236,115	141,236	8.44
Total earning assets	3,043,976	$ 155,330	6.82%	2,845,735	$ 164,253	7.72%
NONEARNING ASSETS	297,229			290,299		
TOTAL ASSETS	$ 3,341,205			$ 3,136,034		
INTEREST BEARING LIABILITIES						
Interest bearing deposits						
Savings	$ 895,057	$ 12,575	1.88%	$ 825,967	$ 17,132	2.77%
Time, $100,000 and over	326,038	10,091	4.13	282,393	10,394	4.92
Other time deposits	821,894	25,709	4.18	878,808	30,799	4.69
Short-term borrowings	246,735	4,049	2.19	291,941	10,545	4.83
Other borrowings	410,427	13,562	4.41	234,186	10,762	6.14
Total interest bearing liabilities	2,700,151	65,986	3.26%	2,513,295	79,632	4.24%
NONINTEREST BEARING LIABILITIES						
Noninterest bearing deposits	368,873			357,679		
Accrued interest and other liabilities	40,094			52,721		
Total noninterest bearing liabilities	408,967			410,400		
STOCKHOLDERS' EQUITY	232,087			212,339		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 3,341,205			$ 3,136,034		
Net interest income[1]		$ 89,344			$ 84,621	
Net interest spread[1]			3.55%			3.48%
Net interest income to total earning assets[1]			3.92%			3.98%
Interest bearing liabilities to earning assets	88.70%			88.32%		

[1] Tax equivalent basis is calculated using an effective tax rate of 35%.

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. During the third quarter of 2008, the provision for loan losses was $7.1 million, a significant increase over the provision for loan losses of $575 thousand recorded during the same quarter in 2007. The provision for loan losses for the nine-month comparative period was $14.2 million during 2008 compared to $6.8 million during 2007. The provision for loan losses increased during 2008 as a result of an increase in nonperforming loans, the continuing softening of the economy and the impact historical losses have on the calculation of the adequacy of Heartland's allowance for loan and lease losses.

The adequacy of the allowance for loan and lease losses is determined by management using factors that include the overall composition of the loan portfolio, general economic conditions, types of loans, loan collateral values, past loss experience, loan delinquencies, substandard credits, and doubtful credits. For additional details on the specific factors considered, refer to the critical accounting policies and allowance for loan and lease losses sections of this report. Heartland believed the allowance for loan and lease losses as of September 30, 2008, was at a level commensurate with the overall risk exposure of the loan portfolio. However, if economic conditions should become more unfavorable, certain borrowers may experience difficulty and the level of nonperforming loans, charge-offs and delinquencies could rise and require further increases in the provision for loan and lease losses.

NONINTEREST INCOME
(Dollars in thousands)

	Three Months Ended			
	Sept. 30, 2008	Sept. 30, 2007	Change	% Change
NONINTEREST INCOME:				
Service charges and fees, net	$ 3,125	$ 2,861	$ 264	9%
Loan servicing income	1,094	1,068	26	2
Trust fees	2,070	2,089	(19)	(1)
Brokerage and insurance commissions	942	820	122	15
Securities gains, net	5	31	(26)	(84)
Gain (loss) on trading account securities, net	(33)	(7)	(26)	(371)
Impairment loss on securities	(4,688)	-	(4,688)	(100)
Gains on sale of loans	295	604	(309)	(51)
Income (loss) on bank owned life insurance	(247)	595	(842)	(142)
Gain on sale of merchant credit card services	5,200	-	5,200	100
Other noninterest income	117	(145)	262	181
TOTAL NONINTEREST INCOME	$ 7,880	$ 7,916	$ (36)	-%

	Nine Months Ended			
	Sept. 30, 2008	Sept. 30, 2007	Change	% Change
NONINTEREST INCOME:				
Service charges and fees, net	$ 8,620	$ 8,287	$ 333	4%
Loan servicing income	3,585	3,103	482	16
Trust fees	6,159	6,265	(106)	(2)
Brokerage and insurance commissions	2,717	2,158	559	26
Securities gains, net	1,015	303	712	235
Gain (loss) on trading account securities, net	(467)	80	(547)	(684)
Impairment loss on securities	(4,804)	-	(4,804)	(100)
Gains on sale of loans	1,279	2,051	(772)	(38)
Income (loss) on bank owned life insurance	596	1,212	(616)	(51)
Gain on sale of merchant credit card services	5,200	-	5,200	100
Other noninterest income	772	161	611	380
TOTAL NONINTEREST INCOME	$ 24,672	$ 23,620	$ 1,052	4%

Noninterest income remained at $7.9 million during the third quarters of both 2008 and 2007. A $5.2 million gain on the sale of Heartland's merchant bankcard processing services to TransFirst LLC was included in the third quarter 2008 noninterest income. Also included in third quarter 2008 noninterest income was a $4.6 million impairment loss recorded on Heartland's investment in perpetual preferred securities issued by Fannie Mae. For the first nine months of 2008, noninterest income increased $1.1 million or 4 percent over the same period in 2007. In addition to the $5.2 million gain on the sale of merchant bankcard processing services, noninterest income during the first nine months of 2008 was positively affected by increased service charges and fees, loan servicing income, brokerage and insurance commissions and securities gains. For both comparative periods, the improvements in the aforementioned categories were partially offset by $4.8 million of impairment losses on securities and increased losses on trading account securities, reduced gains on sale of loans and a reduction in the cash surrender value on bank owned life insurance.

Service charges and fees increased $264 thousand or 9 percent during the quarters under comparison. On a nine-month comparative basis, service charges and fees increased $333 thousand or 4 percent. Overdraft fees recorded during the third quarter of 2008 were $1.6 million compared to $1.4 million during the third quarter of 2007, an increase of $265 thousand or 19 percent. For the first nine months of 2008, overdraft fees were $4.4 million compared to $4.0 million during the same first nine months of 2007, an increase of $485 thousand or 12 percent. Growth in the number of checking accounts resulted in the increased overdraft fees. Interchange revenue from activity on bank debit cards, along with surcharges on ATM activity, resulted in service charges and fees of $798 thousand during the third quarter of 2008 compared to $516 thousand during the third quarter of 2007, an increase of $282 thousand or 55 percent. For the nine-month comparative periods, these same revenues totaled $2.1 million during 2008 and $1.5 million during 2007, an increase of $640 thousand or 44 percent. Included in service charges and fees are the fees generated from the issuance of bank credit cards. During the fourth quarter of 2007, Heartland sold its credit card portfolio. As a result of this sale, revenue resulting from activity on these credit cards decreased by $169 thousand or 83 percent during the third quarter of 2008 compared to the third quarter of 2007. On a nine-month comparative basis, the fees recorded as a result of activity on the bank-issued credit cards had decreased $526 thousand or 83 percent.

Loan servicing income increased $26 thousand or 2 percent during the quarters under comparison. On a nine-month comparative basis, loan servicing income increased $482 thousand or 16 percent. These increases were largely due to an increase in service fees collected on the mortgage loans Heartland sold into the secondary market while retaining servicing. Heartland's portfolio of mortgage loans serviced for others totaled $703.3 million at September 30, 2008, compared to $617.9 million at September 30, 2007.

Brokerage and insurance commissions increased $122 thousand or 15 percent during the third quarter of 2008 and $559 thousand or 26 percent during the first nine months of 2008 compared to the same periods of 2007. The larger increase for the nine month comparative period was primarily a result of the March 2007 acquisition of brokerage personnel and a book of business by Summit Bank & Trust and the receipt by Dubuque Bank and Trust Company's insurance agency of its annual insurance contingency that exceeded the prior year's payment.

Impairment losses on securities deemed to be other than temporary totaled $4.7 million during the third quarter of 2008. Nearly all of this loss was attributable to Heartland's investment in perpetual preferred securities issued by Fannie Mae, which was included in securities available for sale at a cost of $5.1 million. At September 30, 2008, these securities were written down to their trading value of $541 thousand and transferred to the trading portfolio. Heartland does not hold any common or any other equity securities issued by Fannie Mae or Freddie Mac.

For the nine-month period ended on September 30, securities gains totaled $1.0 million during 2008 and $303 thousand during 2007. As the yield curve steepened and the spreads on mortgage-backed securities in comparison to government agency securities widened during the first six months of 2008, management elected to sell a portion of its agency securities at gains and replace them with mortgage-backed securities that provided enhanced yields.

Gains on sale of loans decreased $309 thousand or 51 percent during the third quarter of 2008 compared to the third quarter of 2007. For the first nine months of 2008, gains on sale of loans decreased $772 thousand or 38 percent compared to the same nine months of 2007. Heartland's gains on sale of loans generally results from the sale of fifteen- and thirty-year, fixed-rate mortgage loans into the secondary market. Customer demand for these types of loans has decreased during 2008 as economic conditions softened.

The change in cash surrender value on bank owned life insurance resulted in a loss of $247 thousand for the third quarter of 2008 compared to income of $595 thousand during the same quarter of 2007. On a nine-month comparative basis, income on bank owned life insurance was $596 thousand in 2008 compared to $1.2 million in 2007. A large portion of Heartland's bank owned life insurance is held in a separate account product that experienced significant market value declines during the third quarter of 2008.

Other noninterest income increased $262 thousand or 181 percent during the third quarter of 2008 compared to the third quarter of 2007. For the first nine months of 2008, other noninterest income increased $611 thousand or 380 percent over the same period in 2007. The initial public offering of Visa Inc., completed on March 18, 2008, provided Heartland with a $246 thousand pre-tax gain, which was recorded as other noninterest income during the first quarter of 2008. This gain was attributable to restricted shares of Visa, Inc. held by Dubuque Bank and Trust Company and Galena State Bank & Trust Co. that were redeemed in connection with the initial public offering. Recorded in other noninterest income during the first quarter of 2007 was a $250 thousand payment received in the settlement of a dispute with two former employees at one of our bank subsidiaries.

NONINTEREST EXPENSES
(Dollars in thousands)

	Three Months Ended			
	Sept. 30, 2008	Sept. 30, 2007	Change	% Change
NONINTEREST EXPENSES:				
Salaries and employee benefits	$ 15,000	$ 14,301	$ 699	5%
Occupancy	2,262	2,004	258	13
Furniture and equipment	1,662	1,669	(7)	-
Outside services	3,096	2,374	722	30
Advertising	1,012	886	126	14
Intangible assets amortization	236	241	(5)	(2)
Other noninterest expenses	3,392	3,272	120	4
TOTAL NONINTEREST EXPENSES	$ 26,660	$ 24,747	$ 1,913	8%

	Nine Months Ended			
	Sept. 30, 2008	Sept. 30, 2007	Change	% Change
NONINTEREST EXPENSES:				
Salaries and employee benefits	$ 44,459	$ 42,680	$ 1,779	4%
Occupancy	6,799	5,941	858	14
Furniture and equipment	5,201	5,124	77	2
Outside services	8,254	7,011	1,243	18
Advertising	2,853	2,694	159	6
Intangible assets amortization	708	652	56	9
Other noninterest expenses	9,588	9,970	(382)	(4)
TOTAL NONINTEREST EXPENSES	$ 77,862	$ 74,072	$ 3,790	5%

For the third quarter of 2008, noninterest expense increased $1.9 million or 8 percent from the same period in 2007. For the nine-month period ended September 30, 2008, noninterest expense increased $3.8 million or 5 percent when compared to the same nine-month period in 2007. The noninterest expense categories experiencing the largest increases were salaries and employee benefits, occupancy and outside services.

The largest component of noninterest expense, salaries and employee benefits, increased $699 thousand or 5 percent during the third quarter of 2008 compared to the third quarter of 2007 and $1.8 million or 4 percent during the nine-month comparative period. Total full-time equivalent employees were 1,011 at September 30, 2008, compared to 975 at September 30, 2007. A majority of the growth in employees was attributable to Heartland’s newest *de novo* banks, Summit Bank & Trust and Minnesota Bank & Trust.

Occupancy expense increased $258 thousand or 13 percent and $858 thousand or 14 percent during the quarter and nine-month comparative periods, respectively. These increases were primarily a result of the opening of six new banking offices during 2007 and the opening of Heartland’s 10th bank subsidiary, Minnesota Bank & Trust, during 2008. In addition to the opening of Minnesota Bank & Trust, Heartland’s plan for expansion during 2008 has been much slower, with the addition of only one new location at New Mexico Bank & Trust. Of Heartland’s 60 banking offices, fifteen offices, or 25 percent, have been open less than three years. Of these, six have been open for two-to-three years, an additional three have been open for one-to-two years and six more have been open for one year or less. Management believes that it generally takes approximately three years for new branch offices to become profitable.

The other category of noninterest expense that increased significantly during the 2008 quarter and nine-month period was outside services, which increased $722 thousand or 30 percent and $1.2 million or 18 percent, respectively. These increases resulted primarily from additional legal fees related to collection efforts on nonperforming loans and additional FDIC assessments as a majority of the FDIC credits at Heartland’s bank subsidiaries were utilized during 2007.

For the first quarter of 2007, other noninterest expenses included $202 thousand of remaining unamortized issuance costs expensed due to the redemption of $8.0 million of floating rate trust preferred securities. Exclusive of this nonrecurring item, other noninterest expenses decreased $180 thousand or 2 percent during the first nine months of 2008 compared to the same period in 2007. The following types of expenses are classified in the other noninterest expenses category: supplies, telephone, software maintenance, software amortization, seminars and other staff expense.

INCOME TAX EXPENSE

Heartland’s effective tax rate was 25.30 percent for the third quarter of 2008 compared to 29.56 percent for the third quarter of 2007. On a nine-month comparative basis, Heartland’s effective tax rate was 26.66 percent for 2008 compared to 31.01 percent for 2007. Tax-exempt interest income as a percentage of income before taxes was 45.89 percent during the third quarter of 2008 compared to 17.74 percent during the same quarter of 2007. For the nine-month periods ended September 30, 2008 and 2007, tax-exempt interest income as a percentage of income before taxes was 28.12 percent and 18.91 percent, respectively. The tax-equivalent adjustment for this tax-exempt interest income was $994 thousand during the third quarter of 2008 compared to $939 thousand during the same quarter in 2007. For the nine-month comparative period, the tax-equivalent adjustment for tax-exempt interest income was $2.9 million for 2008 and $2.8 million for 2007. Another factor contributing to the decrease in Heartland’s effective tax rate during the first nine months of 2008 was $170 thousand in federal rehabilitation tax credits associated with Dubuque Bank and Trust Company’s ownership interest in a limited liability company that owns a certified historic structure. Additionally, low-income housing tax credits were projected to total $218 thousand for 2008 and $163 thousand for 2007.

FINANCIAL CONDITION

At September 30, 2008, total assets had increased $181.9 million or 7 percent annualized since year-end 2007.
Contributing to this growth was the $82.2 million growth in total loans and leases and the $70.2 million growth in the securities portfolio since year-end 2007.

LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

Total loans and leases were $2.36 billion at September 30, 2008, compared to $2.28 billion at year-end 2007, an increase of $84.1 million or 5 percent annualized. This growth was primarily distributed among the commercial, agricultural and consumer loan categories at $39.8 million, $19.7 million and $25.0 million, respectively. Most of the loan growth in the commercial and commercial real estate category occurred at Dubuque Bank and Trust Company, Riverside Community Bank and Summit Bank & Trust. A majority of the increase in agricultural and agricultural real estate loans occurred at Dubuque Bank and Trust Company. New Mexico Bank & Trust, Rocky Mountain Bank, Summit Bank & Trust and Citizens Finance Co. were responsible for most of the growth in the consumer loan portfolio.

The table below presents the composition of the loan portfolio as of September 30, 2008, and December 31, 2007.

LOAN PORTFOLIO
(Dollars in thousands)

	September 30, 2008		December 31, 2007	
	Amount	Percent	Amount	Percent
Commercial and commercial real estate	$ 1,672,372	70.61%	$ 1,632,597	71.48%
Residential mortgage	219,662	9.27	217,044	9.50
Agricultural and agricultural real estate	245,355	10.36	225,663	9.88
Consumer	224,474	9.48	199,518	8.74
Lease financing, net	6,689	0.28	9,158	0.40
Gross loans and leases	2,368,552	100.00%	2,283,980	100.00%
Unearned discount	(2,402)		(2,107)	
Deferred loan fees	(1,891)		(1,706)	
Total loans and leases	2,364,259		2,280,167	
Allowance for loan and lease losses	(34,845)		(32,993)	
Loans and leases, net	$ 2,329,414		$ 2,247,174	

Total loans and leases secured by real estate were $1.8 billion at September 30, 2008, with $1.4 billion in the commercial category. Of these commercial real estate loans, $389.8 million were secured by industrial manufacturing property. Commercial loans to contractors of residential real estate totaled $69.4 million, with $46.7 million of this amount representing presold homes. The amount extended in land development and lot loans to commercial borrowers totaled $34.9 million. Loans to individuals for residential construction and for the purchase of residential lots were $91.1 million.

Flooding in Iowa and other Midwestern states in the second quarter of 2008 had a limited impact on the performance of Heartland's loan portfolio as Heartland does not have banking establishments in the communities most heavily impacted by the floods. Of the $245.4 million in agricultural loans, nearly 70 percent were originated at Heartland's Midwestern banks. The agricultural loan portfolio is well diversified between grains, dairy, hogs and cattle, with approximately 30 percent being in grain production. Both flooding and delays in planting the crops will impact this year's profits to be realized by the agricultural customers this year. Agricultural profits, as a result of the flood, are expected to be less than those realized in 2007, but are not expected to have any significant negative impact on the industry or Heartland's portfolio.

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

The allowance for loan and lease losses at September 30, 2008, was 1.47 percent of loans and leases and 79.43 percent of nonperforming loans, compared to 1.45 percent of loans and leases and 103.66 percent of nonperforming loans at December 31, 2007. Additions to the allowance for loan and lease losses were primarily driven by the continued softening of the economy and reduced real estate values, particularly in the Phoenix market. Nonperforming loans were $43.9 million or 1.86 percent of total loans and leases at September 30, 2008, compared to $31.8 million or 1.40 percent of total loans and leases at December 31, 2007. The majority of the $12.1 million increase in nonperforming loans from December 31, 2007, resulted from two large credits originated by Arizona Bank & Trust and Rocky Mountain Bank. Approximately 64 percent, or $28.1 million, of Heartland's nonperforming loans are to eight borrowers, with $12.5 million originated by Arizona Bank & Trust, $8.1 million originated by Wisconsin Community Bank, $4.8 million originated by Rocky Mountain Bank, $1.6 million originated by Summit Bank & Trust and $1.1 million originated by Dubuque Bank and Trust Company. The portion of Heartland's nonperforming loans covered by government guarantees was $3.4 million at September 30, 2008. Management monitors the loan portfolio of each bank subsidiary and, at this point, believes that the increase in nonperforming loans is most likely a result of the continuing shift in the economy in some of Heartland's markets.
During the fourth quarter of 2008, management is hopeful that $16.0 million in existing nonperforming loans will come to resolution, a large portion of which will likely be transferred to other real estate owned. That being said, improvement in nonperforming loans by year-end 2008 could be hindered by a $15.0 million real estate development loan originated at Rocky Mountain Bank that management continues to monitor closely.

Other real estate owned increased to $9.4 million at September 30, 2008, compared to $2.2 million at year-end 2007. As a result of continued collection activities, it is likely that other real estate owned will rise by approximately $12.0 million by year-end 2008.

Net charge-offs during the first nine months of 2008 were $12.4 million compared to $5.2 million during the first nine months of 2007. Net charge-offs at Arizona Bank & Trust comprised $6.4 million or 52 percent of the total net charge-offs for the first nine months of 2008. Due to the untimely death of the sole owner of a business in June of 2008 and the filing of Chapter 11 bankruptcy shortly thereafter by the business, the $2.0 million outstanding on a line of credit for working capital was charged-off. The remaining $4.4 million of net charge-offs at Arizona Bank & Trust was primarily related to commercial real estate development loans and residential lot loans. Heartland has generally recognized the charge-off on a loan when the loan was resolved, sold or transferred to other real estate owned. However, in the third quarter of 2008, Heartland recognized charge-offs on certain collateral dependent loans by writing down the loan balance to an estimated net realizable value based on the anticipated disposition value.

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

Slightly over half of the consumer loans originated by the Heartland banks, $97.1 million, are in home equity lines of credit ("HELOC's"). Under

Heartland's policy guidelines for the underwriting of these lines of credit, the customer may receive advances of up to 90 percent of the value of the property securing the line, provided the customer qualifies for Tier I classification, Heartland's internal ranking for customers considered to possess a high credit quality profile. Additionally, to qualify for advances up to 90 percent of the value of the property securing the line, the first mortgage must be held by Heartland and the customer must escrow for both taxes and insurance. Otherwise, HELOC's are established at an 80 percent loan to value.

The table below presents the changes in the allowance for loan and lease losses during the periods indicated:

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

	Nine Months Ended September 30,	
	2008	2007
Balance at beginning of period	$ 32,993	$ 29,981
Provision for loan and lease losses from continuing operations	14,213	6,769
Recoveries on loans and leases previously charged off	974	1,362
Loans and leases charged off	(13,335)	(6,536)
Reduction related to discontinued operations	-	(138)
Balance at end of period	$ 34,845	$ 31,438
Net charge offs to average loans and leases	0.54%	0.23%

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

NONPERFORMING ASSETS
(Dollars in thousands)

	As of September 30, 2008	As of September 30, 2007	As of December 31, 2007	As of December 31, 2006
Nonaccrual loans and leases	$ 43,523	$ 30,286	$ 30,694	$ 8,104
Loan and leases contractually past due 90 days or more	347	69	1,134	315
Total nonperforming loans and leases	43,870	30,355	31,828	8,419
Other real estate	9,387	2,129	2,195	1,575
Other repossessed assets, net	520	392	438	349
Total nonperforming assets	$ 53,777	$ 32,876	$ 34,461	$ 10,343
Nonperforming loans and leases to total loans and leases	1.86%	1.33%	1.40%	0.39%

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 percent of total assets at September 30, 2008, and 21 percent at December 31, 2007. Total available for sale securities as of September 30, 2008, were $733.8 million, an increase of $51.4 million or 8 percent from December 31, 2007.

The composition of the securities portfolio shifted from an emphasis in U.S. government corporations and agencies to mortgage-backed securities during the first nine months of 2008 as the spread on mortgage-backed securities widened in comparison to government agency securities. Additionally, during the second quarter of 2008, management implemented a leverage transaction which included the purchase of $50.0 million in mortgage-backed securities. This purchase was funded with $35.0 million in long-term structured wholesale repurchase agreement transactions and the remainder in short-term borrowings. The percentage of U.S. government corporations and agencies securities was 37 percent at year-end 2007 compared to 15 percent at September 30, 2008. The table below presents the composition of the securities portfolio by major category as of September 30, 2008, and December 31, 2007. All of Heartland's U.S. government corporations and agencies securities and more than 79 percent of its mortgage-backed securities are issuances of government-sponsored enterprises.

SECURITIES PORTFOLIO COMPOSITION
(Dollars in thousands)

	September 30, 2008		December 31, 2007	
	Amount	Percent	Amount	Percent
U.S. government corporations and agencies	$ 113,319	14.91%	$ 255,257	37.00%
Mortgage-backed securities	457,456	60.18	244,934	35.50
Obligation of states and political subdivisions	153,419	20.18	147,398	21.36
Other securities	35,949	4.73	42,360	6.14
Total securities	$ 760,143	100.00%	$ 689,949	100.00%

Periodically, Heartland has utilized auction rate securities as a higher-yielding alternative investment for fed funds. As of September 30, 2008, and December 31, 2007, Heartland's securities portfolio held no auction rate securities. For a further description of these securities refer to Note 5 to Heartland's consolidated financial statements.

DEPOSITS AND BORROWED FUNDS

Total deposits grew to $2.57 billion at September 30, 2008, an increase of $191.6 million or 11 percent annualized since year-end 2007. Growth in deposits was weighted more heavily in Heartland's Western markets. Demand deposits experienced a decrease of $8.3 million or 3 percent annualized since year-end 2007. Savings deposit balances experienced an increase of $187.3 million or 29 percent annualized since year-end 2007. Time deposits, exclusive of brokered deposits, remained at $1.1 billion. At September 30, 2008, brokered time deposits totaled $81.9 million or 3 percent of total deposits compared to $69.0 million or 3 percent of total deposits at year-end 2007. A large portion of the growth in savings deposits is attributable to the January 2008 introduction of a new retail interest-bearing checking account product, the third quarter 2008 introduction of a premium money market account that featured a teaser interest rate of 5 percent through year-end 2008 and the conversion of several retail repurchase agreement sweep accounts to a new money market sweep product initially rolled out to business depositors during the second quarter of 2008.

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. As of September 30, 2008, the amount of short-term borrowings was $176.5 million compared to $354.1 million at year-end 2007, a decrease of $177.6 million or 50 percent. Management elected to utilize some additional long-term FHLB borrowings in the first nine months of 2008 as the interest rates on these borrowings were at lower levels than other funding alternatives, particularly brokered deposits.

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 these retail repurchase agreements is subject to variation, the account relationships represented by these balances are principally local. These balances were $132.9 million at September 30, 2008, compared to $237.9 million at year-end 2007.

Also included in short-term borrowings is the revolving credit line Heartland has with third-party banks. At September 30, 2008, this unsecured revolving credit line allowed Heartland to borrow up to $60.0 million at any one time. A total of $32.0 million was outstanding on this credit line at September 30, 2008, compared to $15.0 million at December 31, 2007.

Other borrowings include all debt arrangements Heartland and its subsidiaries have entered into with original maturities that extend beyond one year. As of September 30, 2008, the amount of other borrowings was $440.0 million, an increase of $176.6 million or 67 percent since year-end 2007. Other borrowings include structured wholesale repurchase agreements which totaled $120.0 million at September 30, 2008, and $50.0 million at year-end 2007. The balances outstanding on trust preferred capital securities issued by Heartland are also included in other borrowings. A schedule of Heartland's trust preferred offerings outstanding as of September 30, 2008, is as follows:

(Dollars in thousands)

Amount Issued	Issuance Date	Interest Rate	Interest Rate as of 9/30/08	Maturity Date	Callable Date
$ 5,000	08/07/00	10.60%	10.60%	09/07/2030	09/07/2010
20,000	10/10/03	8.25%	8.25%	10/10/2033	10/10/2008
25,000	03/17/04	2.75% over Libor	5.57%	03/17/2034	03/18/2009
20,000	01/31/06	1.33% over Libor	4.12%	04/07/2036	04/07/2011
20,000	06/21/07	6.75%	6.75%	09/15/2037	06/15/2012
20,000	06/26/07	1.48% over Libor	4.29%	09/01/2037	09/01/2012
$ 110,000					

Also in other borrowings are the bank subsidiaries' borrowings from the FHLB. All of the bank subsidiaries, except for Heartland's most recent *de novo* bank, Minnesota Bank & Trust, own FHLB stock in either Chicago, Dallas, Des Moines, Seattle, San Francisco or Topeka, enabling them to borrow funds from their respective FHLB for short- or long-term purposes under a variety of programs. FHLB borrowings at September 30, 2008, totaled $201.7 million, an increase of $108.2 million or 116 percent from the December 31, 2007, FHLB borrowings of $93.5 million. Included in the FHLB borrowings at December 31, 2007, was $2.0 million classified as short-term borrowings on Heartland's consolidated balance sheet. Total FHLB borrowings at September 30, 2008, had an average rate of 3.74 percent and an average maturity of 3.96 years. When considering the earliest possible call date on these advances, the average maturity is shortened to 2.28 years.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The 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 September 30, 2008, and December 31, 2007, commitments to extend credit aggregated $591.2 million and $588.7 million, and standby letters of credit aggregated $33.5 million and $36.0 million, respectively.

Contractual obligations and other commitments were presented in Heartland's 2007 Annual Report on Form 10-K. There have been no material changes in Heartland's contractual obligations and other commitments since that report was filed.

CAPITAL RESOURCES

Bank regulatory agencies have adopted capital standards by which all bank holding companies will be evaluated. Under the risk-based method of measurement, the resulting ratio is dependent upon not only the level of capital and assets, but also the composition of assets and capital and the amount of off-balance sheet commitments. 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.

Heartland's capital ratios were as follows for the dates indicated:

CAPITAL RATIOS
(Dollars in thousands)

	September 30, 2008		December 31, 2007	
	Amount	Ratio	Amount	Ratio
Risk-Based Capital Ratios[1]				
Tier 1 capital	$ 264,474	9.71%	$ 253,675	9.74%

Tier 1 capital minimum requirement	108,931	4.00%	104,191	4.00%
Excess	$ 155,543	5.71%	$ 149,484	5.74%
Total capital	$ 335,484	12.32%	$ 325,016	12.48%
Total capital minimum requirement	217,863	8.00%	208,382	8.00%
Excess	$ 117,621	4.32%	$ 116,634	4.48%
Total risk-adjusted assets	$ 2,723,286		$ 2,604,771	
Leverage Capital Ratios[2]				
Tier 1 capital	$ 264,474	7.88%	$ 253,675	8.01%
Tier 1 capital minimum requirement[3]	134,191	4.00%	126,644	4.00%
Excess	$ 130,283	3.88%	$ 127,031	4.01%
Average adjusted assets (less goodwill and other intangible assets)	$ 3,354,785		$ 3,166,102	

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

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

(3) 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 additional capital of at least 100 basis points.

Commitments for capital expenditures are an important factor in evaluating capital adequacy. 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, as Arizona Bank & Trust. Heartland's initial investment in Arizona Bank & Trust was $12.0 million, which reflected an ownership percentage of 86 percent. After completion of the Bank of the Southwest acquisition in 2006, Heartland's ownership percentage had increased to 90 percent. All minority stockholders had entered into a stock transfer agreement that imposed certain restrictions on the sale, transfer or other disposition of their shares and required Heartland to repurchase the shares from the investors five years from the date of opening with a minimum return of 6 percent on the original investment amount. In August of 2008, Heartland paid $3.7 million in cash to repurchase the shares held by these minority stockholders.

Summit Bank & Trust began operations on November 1, 2006, in the Denver, Colorado collar community of Broomfield. The capital structure of this new bank is very similar to that used when New Mexico Bank & Trust and Arizona Bank & Trust were formed. Heartland's initial investment was $12.0 million, or 80 percent, of the $15.0 million initial capital. All minority stockholders entered into a stock transfer agreement that imposes certain restrictions on the sale, transfer or other disposition of their shares in Summit Bank & Trust and requires Heartland to repurchase the shares from investors five years from the date of opening. The stock will be valued by an independent third party appraiser with the required purchase by Heartland at the appraised value, not to exceed 18x earnings, or a minimum return of 6 percent on the original investment amount, whichever is greater. Through September 30, 2008, Heartland accrued the amount due to the minority shareholders at 6 percent. The obligation to repay the original investment is payable in cash or Heartland stock or a combination of cash and stock at the option of the minority shareholder. The remainder of the obligation to the minority shareholders is payable in cash or Heartland stock or a combination of cash and stock at the option of Heartland.

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

Heartland continues to explore opportunities to expand its footprint of independent community banks. Given the current issues in the banking industry, Heartland has changed its strategic growth initiatives from *de novo* banks and branching to acquisitions. Attention will be focused on markets Heartland currently serves, where there would be an opportunity to grow market share, achieve efficiencies and provide greater convenience for current customers.
Additionally, management has asked regulators to notify them when troubled institutions surface in Heartland's existing markets. Future expenditures relating to expansion efforts, in addition to those identified above, are not estimable at this time.

The Emergency Economic Stabilization Act of 2008 authorizes the United States Treasury Department ("Treasury Department") to use appropriated funds to restore liquidity and stability to the U.S. financial system. As part of this authority, the Treasury Department announced on October 14, 2008, a capital purchase program designed to encourage U.S. financial institutions to build capital to increase the flow of financing to U.S. businesses and consumers and to support the U.S. economy. Under this program, eligible financial institutions, including Heartland, may sell shares of their fixed rate cumulative perpetual preferred stock, with accompanying warrants, to the Treasury Department for cash proceeds of between one percent and three percent of the institution's risk-weighted assets, all of which may be included as Tier 1 capital for the institution. The preferred stock issued under this program pays cumulative dividends at a rate of 5 percent per year for the first five years and 9 percent per year after five years. The preferred stock may not be redeemed by the institution during the first three years except with proceeds from a "qualifying equity offering", and is redeemable thereafter at its purchase price plus accumulated dividends. The preferred stock is non-voting, except for rights to approve authorization for securities that are on par with, or senior to, the preferred stock, changes in the rights of the preferred stock and certain acquisitions that affect the preferred stock. The Treasury Department also receives ten-year warrants to purchase a number of shares of common stock of the issuing institution having a market value equal to 15 percent of its investment. In order to facilitate transfer, the issuing institution is required to file a registration statement covering the Treasury Department's resale of the preferred stock, warrants and common stock issuable thereunder.

To participate in this program, Heartland will be required to apply prior to November 14, 2008, and is currently considering making application. Based on current asset levels, Heartland estimates that it could, if approved, obtain between $27 million and $81 million of additional capital under this program. If it does participate, Heartland will be required to obtain the consent of the Treasury Department to increase its common stock dividend or repurchase its common stock or other equity or capital securities during the first three years after the sale to the Treasury Department. Further, and although Heartland does not believe these restrictions would have any significant impact on it based on the level of current executive compensation, Heartland would be required to agree to restrictions on executive compensation in order to participate. Although this program is intended to support and enhance the capital position of participating institutions, there are no restrictions on the use of capital obtained through the program.

The FDIC has also announced a program under which it will guarantee until June 2012 some senior unsecured debt issued by qualifying institutions between October 14, 2008, and June 30, 2009, in amounts up to 125 percent of the qualifying debt for each entity under the terms of the plan. The FDIC charges a 75 basis point fee for any new qualifying debt issued with the FDIC guarantee. Heartland is currently considering participation in this program.

LIQUIDITY

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

Investing activities from continuing operations used cash of $188.7 million during the first nine months of 2008 compared to $187.1 million during the first nine months of 2007. The proceeds from securities sales, paydowns and maturities was $265.5 million during the first nine months of 2008 compared to $155.7 million during the first nine months of 2007. Purchases of securities used cash of $356.3 million during the first nine months of 2008 while $184.2 million was used for securities purchases during the first nine months of 2007. A larger portion of the proceeds from securities sales, paydowns and maturities was used to fund loan growth during the first nine months of 2007. Net loans and leases experienced an increase of $92.6 million during the first nine months of 2008 compared to an increase of $121.5 million during the first nine months of 2007.

Financing activities from continuing operations provided cash of $181.6 million during the first nine months of 2008 compared to $158.6 million during the first nine months of 2007. There was a net increase in deposit accounts of $191.6 million during the first nine months of 2008 compared to $140.3 million during the same nine months of 2007. Activity in short-term borrowings used cash of $177.6 million during the first nine months of 2008 compared to $17.1 million during the first nine months of 2007. Cash proceeds from other borrowings were $222.0 million during the first nine months of 2008 compared to $62.1 million during the first nine months of 2007. Repayment of other borrowings used cash of $45.4 million during the first nine months of 2008 compared to $17.9 million during the first nine months of 2007.

Total cash provided by operating activities from continuing operations was $27.4 million during the first nine months of 2008 compared to $20.8 million during the first nine months of 2007. Cash used for the payment of income taxes was $7.6 million during the first nine months of 2008 compared to $16.7 million during the first nine months of 2007. The larger payment in 2007 resulted from the sale of Heartland's fleet leasing subsidiary, ULTEA, Inc., during the fourth quarter of 2006.

The totals previously discussed did not include the cash flows related to the discontinued operations at the Broadus branch. Net cash provided from investing activities of discontinued operations of the Broadus branch was $22.6 million during the first nine months of 2007. Financing activities from the discontinued operations of the Broadus branch used cash of $32.5 million during the first nine months of 2007. Relative to operating activities, cash provided from the discontinued operations of the Broadus branch was $10 thousand during the first nine months of 2007.

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.

At September 30, 2008, Heartland's revolving credit agreement with third-party banks provided a maximum borrowing capacity of $60.0 million, of which $32.0 million had been borrowed. The revolving credit agreement contains specific covenants which, among other things, limit dividend payments and restrict the sale of assets by Heartland under certain circumstances. Also contained within the agreement 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 September 30, 2008, Heartland was in compliance with the covenants contained in the credit agreement.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Management continually develops and applies strategies to mitigate market risk. Exposure to market risk is reviewed on a regular basis by the asset/liability committees at the banks and, on a consolidated basis, by the Heartland 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 its 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. Although management has entered into derivative financial instruments to mitigate the exposure Heartland's net interest margin has in a downward rate environment, it does not believe that Heartland's primary market risk exposures and how those exposures have been managed to-date in 2008 changed significantly when compared to 2007.

The core interest rate risk analysis utilized by Heartland examines the balance sheet under rates up/down scenarios that are neither too modest nor too extreme. All rate changes are ramped over a 12-month horizon based upon a parallel yield curve shift and then maintained at those levels over the remainder of the simulation horizon. Using this approach, management is able to see the effect that both a gradual change of rates (year 1) and a rate shock (year 2 and beyond) could have on Heartland's net interest margin. Starting balances in the model reflect actual balances on the "as of" date, adjusted for material and significant transactions. Pro-forma balances remain static. This enables interest rate risk embedded within the existing balance sheet structure to be isolated as growth assumptions can make interest rate risk. The most recent reviews at September 30, 2008 and 2007, provided the following results:

	2008		2007	
	Net Interest Margin (in thousands)	% Change From Base	Net Interest Margin (in thousands)	% Change From Base
Year 1				
Down 100 Basis Points	$ 113,869	(1.24) %	$ 100,545	(3.35) %
Base	$ 115,297		$ 104,032	
Up 200 Basis Points	$ 114,851	(0.39) %	$ 103,814	(0.21) %
Year 2				
Down 100 Basis Points	$ 106,549	(7.59) %	$ 97,775	(6.01) %
Base	$ 113,445	(1.61) %	$ 106,693	2.56 %
Up 200 Basis Points	$ 116,011	0.62 %	$ 106,101	1.99 %

Heartland's use of derivative financial instruments relates to the management of the risk that changes in interest rates will affect its future interest income or interest expense. Heartland is exposed to credit-related losses in the event of nonperformance by the counterparties to its derivative instruments, which has been minimized by entering into the contracts with large, stable financial institutions. The estimated fair market values of these derivative instruments are presented in Note 4 to the consolidated financial statements.

ITEM 4. CONTROLS AND PROCEDURES

As required by Rules 13a-15(b) under the Securities Exchange Act of 1934, Heartland's management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Heartland's disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Heartland's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) were effective as of September 30, 2008, in ensuring that information required to be disclosed by Heartland in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms, and that such information is accumulated and communicated to its management, including its Chief Executive Officer and Chief Financial Officer, in a manner that allows for timely decisions regarding required disclosure.

There were no changes in Heartland's internal control over financial reporting that occurred during the quarter ended September 30, 2008, that have materially affected, or are reasonably likely to materially affect, Heartland's internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no material changes in the risk factors applicable to Heartland from those disclosed in Part I, Item 1A. “Risk Factors”, in Heartland’s 2007 Annual Report on Form 10-K. Please refer to that section of Heartland’s Form 10-K for disclosures regarding the risks and uncertainties related to Heartland’s business.

ITEM 2. UNREGISTERED SALES OF ISSUER SECURITIES AND USE OF PROCEEDS

The following table provides information about purchases by Heartland and its affiliated purchasers during the quarter ended September 30, 2008, of its common stock:

	(a)	(b)	(c)	(d)
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1)
07/01/08-07/31/08	21,474	$18.79	21,474	$2,858,330
08/01/08-08/31/08	13,020	$21.62	13,020	$2,905,624
09/01/08-09/30/08	3,014	$22.01	3,014	$3,538,973
Total:	37,508	$20.03	37,508	N/A

(1) Effective April 17, 2007, Heartland’s board of directors authorized management to acquire and hold up to 250,000 shares of common stock as treasury shares at any one time. Effective January 24, 2008, Heartland’s board of directors authorized an expansion of the number of treasury shares at any one time to 500,000. Effective September 30, 2008, until its expiration date on April 28, 2009, Heartland’s credit agreement provides for a limit of no more than an aggregate of 100,000 shares of common stock to be purchased as treasury shares with no purchases to be made on the open market.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibits

3.1 Certificate of Incorporation of Heartland Financial USA, Inc., as amended May 19, 2004, and the Certificate of Designation of Junior Participating Preferred Stock of Heartland Financial USA, Inc.

10.1 Fourth Amendment to Amended and Restated Credit Agreement among Heartland Financial USA, Inc. and The Northern Trust

Company, U.S. Bank National Association and JPMorgan Chase Bank, N.A., dated as of September 30, 2008.

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.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned there unto duly authorized.

HEARTLAND FINANCIAL USA, INC.
(Registrant)

Principal Executive Officer

By: Lynn B. Fuller
President and Chief Executive Officer

Principal Financial and
Accounting Officer

By: John K. Schmidt
Executive Vice President
and Chief Financial Officer

Dated: November 7, 2008

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Section 2: EX-3.1 (EX3.1)

CERTIFICATE OF INCORPORATION

OF

HEARTLAND FINANCIAL USA, INC.

(As Amended May 19, 2004)

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 20,000,000 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:

Name	Mailing Address
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.

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 revesting 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

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Section 3: EX-10.1 (EX10.5)

FOURTH AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT

THIS FOURTH AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT (this "Amendment") dated as of September 30, 2008 is among HEARTLAND FINANCIAL USA, INC., a corporation formed under the laws of the State of Delaware (the "Borrower"), each of the banks party hereto (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").

WHEREAS, the Borrower, the Agent and the Banks have entered into an Amended and Restated Credit Agreement dated as of June 8, 2007 (as hereto amended, the "Credit Agreement"); and

WHEREAS, the Borrower, the Agent and the Banks wish to make certain amendments to the Credit Agreement.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Return on Average Assets – Borrower. Section 7.4(e) of the Credit Agreement is hereby amended to state in its entirety as follows:

"(e) Return on Average Assets – Borrower. The Borrower's consolidated income shall be at least 0.55% of its average assets, calculated as at the last day of each fiscal quarter for the four fiscal quarter period ending on that date."

2. Section 7.4(h) of the Credit Agreement is hereby amended to state in its entirety as follows:

"(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", any portion of non-performing loans guaranteed by a governmental entity of the United States of America (including the United States Department of Agriculture and the United States Small Business Administration) and other repossessed assets) of not less than eighty percent (80%) at any time."

3. Capital Structure. The first sentence of Section 7.7 of the Credit Agreement is hereby amended to state in its entirety as follows:

> "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, except purchases and redemptions (other than open market purchases) of up to 100,000 shares in the aggregate after September 30, 2008, so long as if at the time of such purchase or redemption no Default has occurred and is continuing or would result therefrom."

4. Conditions to Effective Date. The Amendment shall be effective as of the date hereof and shall be subject to the satisfaction of the following conditions precedent:

(a) The Borrower, the Agent and the Banks shall have executed and delivered this Amendment.

(b) No Default shall have occurred and be continuing under the Credit Agreement, and the representations and warranties of the Borrower in Section 6 of the Credit Agreement and in Section 6 hereof shall be true and correct on and as of the Effective Date and the Borrower shall have provided to the Agent a certificate of a senior officer of the Borrower to that effect.

(c) The Guarantor shall acknowledge and consent to this Amendment for purposes of its Guaranty Agreement as evidenced by its signed acknowledgment of this Amendment on the signature page hereof.

(d) The Borrower shall have delivered to the Agent, on behalf of the Banks, such other documents as the Agent may reasonably request.

(e) The Borrower shall have paid to the Agent for the pro rata benefit of the Lenders an amendment fee equal to 0.03% of the Commitments.

5. Effectiveness Notice. The Agent shall promptly give notice to the parties of the effectiveness hereof, which notice shall be conclusive, and the parties may rely thereon; provided, that such notice shall not waive or otherwise limit any right or remedy of the Agent or the Banks arising out of any failure of any condition precedent set forth in Section 3 to be satisfied.

6. Ratification. The parties agree that the Credit Agreement, as amended hereby, and the Notes have not lapsed or terminated, are in full force and effect, and are and shall remain binding in accordance with their terms.

7. Representations and Warranties. The Borrower represents and warrants to the Agent and the Banks that:

(a) No Breach. The execution, delivery and performance of this Amendment will not conflict with or result in a breach of, or cause the creation of a Lien or require any consent under, the articles of incorporation or bylaws of the Borrower, or any applicable law or regulation, or any order, injunction or decree of any court or governmental authority or agency, or any agreement or instrument to which the Borrower is a party or by which it or its property is bound.

(b) Power and Action, Binding Effect. The Borrower has been duly incorporated and is validly existing as a corporation under the laws of the State of Delaware and has all necessary power and authority to execute, deliver and perform its obligations under this Amendment and the Credit Agreement, as amended by this Amendment; the execution, delivery and performance by the Borrower of this Amendment and the Credit Agreement, as amended by this Amendment, have been duly authorized by all necessary action on its part; and this Amendment and the Credit Agreement, as amended by this Amendment, have been duly and validly executed and delivered by the Borrower and constitute legal, valid and binding obligations, enforceable in accordance with their respective terms.

(c) Approvals. No authorizations, approvals or consents of, and no filings or registrations with, any governmental or regulatory authority or agency or any other person are necessary for the execution, delivery or performance by the Borrower of this Amendment or the Credit Agreement, as amended by this Amendment, or for the validity or enforceability thereof.

8. Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of the Borrower, the Agent and the Banks and their respective successors and assigns, except that the Borrower may not transfer or assign any of its rights or interest hereunder.

9. Governing Law. This Amendment shall be governed by, and construed and interpreted in accordance with, the internal laws of the State of Illinois.

10. Counterparts. This Amendment may be executed in any number of counterparts and each party hereto may execute any one or more of such counterparts, all of which shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by telecopy shall be as effective as delivery of a manually executed counterpart of this amendment.

11. Expenses. Whether or not the effective date shall occur, without limiting the obligations of the Borrower under the Credit Agreement, the Borrower agrees to pay, or to reimburse on demand, all reasonable costs and expenses incurred by the Agent in connection with the negotiation, preparation, execution, delivery, modification, amendment or enforcement of this Amendment, the Credit Agreement and the other agreements, documents and instruments referred to herein, including the reasonable fees and expenses of Mayer Brown LLP, special counsel to the Agent, and any other counsel engaged by the Agent.

[Signature Page Follows]

IN WITNESS WHEREOF, this Amendment has been executed as of the date first above written.

HEARTLAND FINANCIAL USA, INC.

By: /s/ John K. Schmidt
Name: John K. Schmidt
Title: EVP, COO & CFO

THE NORTHERN TRUST COMPANY,
as Agent

By: /s/ Lisa McDermott
Name: Lisa McDermott
Title: VP

BANKS:

THE NORTHERN TRUST COMPANY

By: /s/ Lisa McDermott
Name: Lisa McDermott
Title: VP

U.S. BANK NATIONAL ASSOCIATION

By: /s/ David VanHove
Name: David VanHove
Title: Vice President

JPMORGAN CHASE BANK, N.A.

By: /s/ Jennifer M. Collier
Name: Jennifer M. Collier
Title: Senior Vice President

GUARANTOR ACKNOWLEDGMENT

The undersigned Guarantor hereby acknowledges and consents to the Borrower's execution of this Amendment and reaffirms its obligations under its Guaranty Agreement.

CITIZENS FINANCE CO.

By: /s/ John K. Schmidt

Title: Treasurer

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Section 4: EX-31.1 (EX31.1)

Exhibit 31.1

I, Lynn B. Fuller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Heartland Financial USA, Inc.;

2. Based on my knowledge, this 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 this 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   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 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 function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal controls 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.

Date: November 7, 2008

_/s/ Lynn B. Fuller
Lynn B. Fuller
Chief Executive Officer

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Section 5: EX-31.2 (EX31.2)

Exhibit 31.2

I, John K. Schmidt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Heartland Financial USA, Inc.;

2. Based on my knowledge, this 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 this 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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 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 function):

a) All significant deficiencies and material weaknesses in the design or operation of internal controls 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.

Date: November 7, 2008

/s/ John K. Schmidt
John K. Schmidt
Chief Financial Officer

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Section 6: EX-32.1 (EX32.1)

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 Quarterly Report of Heartland Financial USA, Inc. (the "Company") on Form 10-Q for the quarter ending September 30, 2008, 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 results of operations of the Company.

/s/ Lynn B. Fuller
Lynn B. Fuller
Chief Executive Officer
November 7, 2008

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Section 7: EX-32.2 (EX32,2)

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 Quarterly Report of Heartland Financial USA, Inc. (the “Company”) on Form 10-Q for the quarter ending September 30, 2008, 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 results of operations of the Company.

/s/ John K. Schmidt
John K. Schmidt
Chief Financial Officer
November 7, 2008

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