

# 2026 Community Bank Case Study Competition Report

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**Heartland Bank and Trust Company, FDIC Cert 20369**



## **Executive Summary**

Heartland Bank and Trust Company (HBT) is a \$5 billion community bank headquartered in Central Illinois, built on a hard-to-replicate deposit franchise and conservative lending strategy. It went public in 2019 to facilitate an acquisition-driven growth strategy. HBT entered 2026 as one of the most consistently profitable community banks of its size, and this report examines the institutional decisions that explain why.

**Financial Performance:** From 2021 through 2025, HBT maintained a return on assets above the peer average in every year, expanding from 1.55% to 1.67% while peers declined from 1.47% to 1.30%. Its efficiency ratio improved from 53.15% to 50.13% over the same period. This performance was rooted in a structural funding advantage built on sticky, low-cost core deposits and disciplined expense management, not fee income or aggressive loan growth. Total assets grew from \$4.3 billion to \$5.1 billion, driven primarily by the 2023 acquisition of Town and Country Financial. The 2026 acquisition of CNB Bank will push assets toward \$6.9 billion.

**Interest Rate Environment:** HBT's asset-sensitive balance sheet was well positioned for the rate cycle that began in 2022. A cumulative deposit beta of just 23.6% allowed asset yields to outpace funding costs, widening net interest margins while peers struggled with repricing pressure. Net interest margin reached 4.17% on a tax-equivalent basis in 2025, roughly 50 basis points above the peer average. The clearest cost of this rate environment appears in the securities portfolio, where Covid-era purchases of low-coupon bonds produced an AOCI balance of negative \$23M at year-end 2025, down from negative \$71.8M in 2022.

**Loan Strategy and Decisioning:** HBT's loan portfolio reflects concentration in commercial real estate, multifamily, and agricultural lending; categories where the bank holds genuine competitive advantages through relationship depth and local knowledge. Credit quality has been

exceptional: net charge-offs averaged in the 28<sup>th</sup> percentile among peers from 2021 through 2025, touching as low as the 2<sup>nd</sup> percentile in 2022. Loan authority is deliberately decentralized, delegated to lenders closest to the borrower, with escalation thresholds that reflect increasing exposure. The CNB acquisition will increase agricultural concentration from approximately 8% to 13% of the loan portfolio.

**Bank Capital:** HBT's capital position is both strong and strategically purposeful. CET1 reached 15.42% in 2025, roughly double the well-capitalized minimum and 150 basis points above the peer average. The bank targets capital above regulatory floors to maintain a buffer against stress, while remaining acquisition ready. Tangible book value per share surpassed the pre-Town and Country baseline by year-end 2024 and the CNB acquisition was priced at 120% of tangible book value with an anticipated crossover earn-back period of under one year. HBT's 70% retail deposit base and low uninsured deposit exposure of approximately 14% after collateralization provide structural resilience that distinguishes the bank from institutions that failed under rate pressure in 2023.

Taken together, HBT's performance across this period reflects a compounding institutional logic: low-cost deposits fuel above-peer margins, which build capital that finances acquisitions, further expanding the deposit franchise. The Drake family began executing that strategy in Cornland in 1920. More than a century later, it still works.

## **Introduction**

More than 170 years after the Drake family arrived in Central Illinois, their impact is felt in every branch of Heartland Bank and Trust Company. In 1920, M.B. Drake founded a small community bank in Cornland, Illinois. He and his descendants carried that institution through the Great Depression, multiple agricultural cycles, and consolidation pressures that have claimed so many community banks since. One constant has been the philosophy Fred Drake, the current Executive Chairman, recognizes as the same one his grandfather practiced: banking is a relationship before it is a transaction.

At the end of 2025, Heartland Bank and Trust Company (HBT) was a \$5 billion institution with 66 full-service branches spanning central Illinois, the Chicagoland area, and eastern Iowa. In the first quarter of 2026, HBT finalized an acquisition of a \$1.9 billion CNB Bank Shares (CNB). We use pre-acquisition figures for our analyses covering years 2021–2025. The bank is the primary subsidiary of HBT Financial, Inc., a holding company publicly traded since 2019. By the numbers, HBT operates at a scale most community banks never reach. By disposition, however, it remains something closer to what the industry used to call a neighborhood bank. It is the kind of place where the loan officer knows which fields you farm and which ball team your kid plays on. The institution’s motto captures the balance well, “Small enough to know you, big enough to serve you.”

That balance between scale and intimacy, sophistication and community is what makes HBT worth studying. The bank does not grow by chasing loan volume or competing on rates. It grows by acquiring smaller community banks whose customers they will take care of. It deploys low-cost deposits into markets where lending opportunities exceed funding capacity. The result

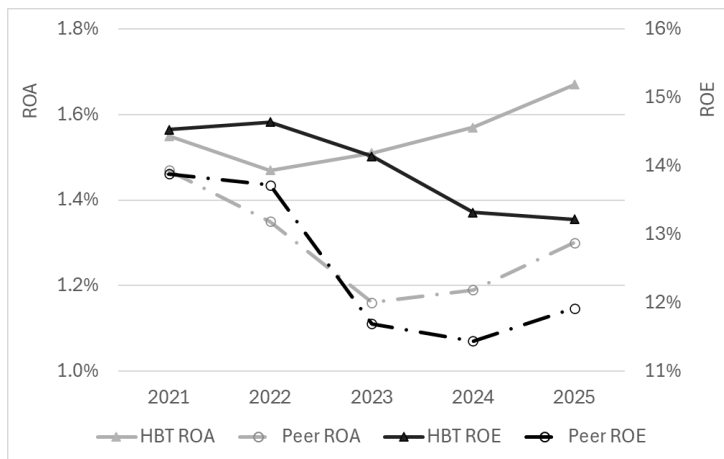
is a bank that is approaching regional bank status on the balance sheet but feels like a neighborhood institution at the branch level.

This report examines HBT across four dimensions: financial performance; the interest rate environment and inflation and their effects on the bank; loan strategy and credit decisioning; and bank capital structure. Public data are drawn from the FDIC Uniform Bank Performance Reports (UBPR) for HBT and a static peer group of 306 banks nationwide with assets between \$2.5 and \$10 billion as of the end of 2025—between one-half and twice Heartland’s size. We also draw from HBT annual reports (10-Ks). While UBPR provides mean values for peer groups, the team downloaded annual income statements and statements of condition for all 306 peer banks from 2021 through 2025 to compute medians and percentile ranks for some of the analyses. Unless otherwise noted, figures are in percent of total assets. The most valuable part of our experience and a key source of information for much of the report are personal interviews conducted with HBT’s Chief Financial Officer Peter Chapman, Chief Credit Officer Mark Scheirer, and Director of Corporate Treasury Paul Berley.

## **1. Financial Analysis**

### ***1.1 Earnings Performance***

Heartland exhibited superior profitability over the past five years. As Figure 1 shows, HBT maintained ROA above the peer average in every year, improving from 1.55% to 1.67% between 2021 and 2025, while the peer average ROA declined from 1.47% to 1.30%. HBT’s ROA rankings improved from the 66<sup>th</sup> to 85<sup>th</sup> percentile over this period. ROE declined from 14.53% to 13.22%, reflecting equity growing faster than net income; it remained well above average.



**Figure 1** ROA and ROE, 2021–2025

The primary source of earnings growth over the period was spread income expansion. Total interest income increased from 3.25% in 2021 to 5.06% in 2025 compared to peers 3.47% to 5.66%, showing the repricing of earning assets and new loan origination at higher market rates.

HBT is an asset-sensitive institution benefiting from rising yields. Despite competitive deposit pricing and industry-wide funding pressure, Heartland’s interest expense rose from only 0.06% to 1.03%, while peers recorded a much greater increase—from 0.25% to 1.98%. Management repeatedly emphasized strong core deposit relationships and a disciplined pricing strategy, which lowers the impact of rising deposit costs.

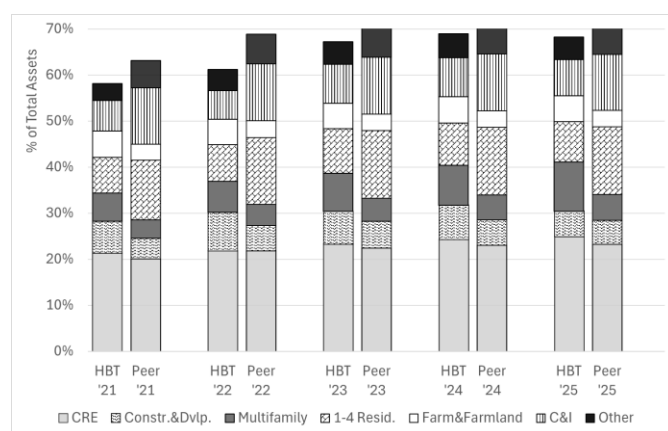
Another defining component to HBT's earnings advantage is its embedded structural cost discipline. The efficiency ratio improved from 53.2% in 2021 to 50.1% in 2025, while peers remained in the mid-to-high 50s. One prominent factor is HBT's ability to control noninterest expenses, with the 2025 total of 2.46%, compared to the peer average of 2.78%. This is achieved despite much lower assets per employee (\$6.14 vs. \$9.46 million), emphasizing a sustainable operating advantage HBT has over its peers.

Noninterest income declined from 0.94% to 0.76% from 2021 to 2025, showing variability in fee-based revenue as refinancing demand dropped. One cause of this decline was net mortgage servicing fees falling from 0.11% to 0.04% as rising rates reduced refinancing activity. Although peers earned a somewhat higher noninterest income on average (1.10% to

1.23%), HBT fell between the 58<sup>th</sup> and 67<sup>th</sup> percentile across the study period. Heartland's model for earnings is driven by spread and focuses on efficiency rather than fees, as margin expansion and cost control more than cover the difference in fee revenue streams.

## 1.2 Loan Portfolio Composition

Heartland Bank and Trust Co. does not attempt to grow by lending aggressively, reflected in its below-average loans-to-assets ratio. Figure 2 presents the loan portfolio composition for the bank and its peers. HBT puts relative emphasis on real estate loans outside of 1–4 family residential—commercial real estate (CRE), multifamily, construction and development—as well as agricultural lending. Despite emphasis on riskier categories such as CRE, HBT has below-

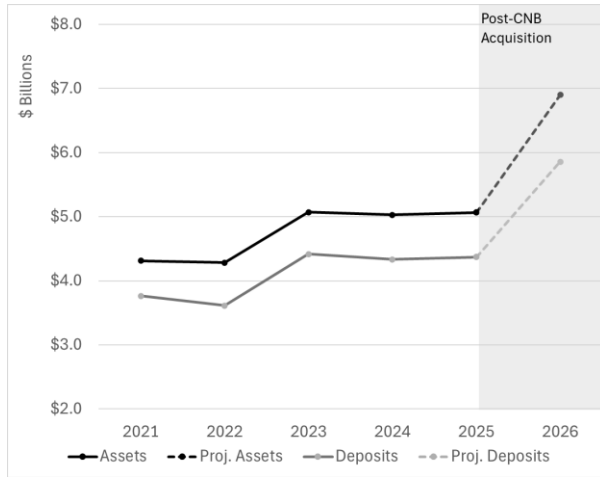


**Figure 2** Loan Portfolio Composition

average delinquent loans due to its conservative lending culture. The bank holds less C&I loans and residential mortgages, emphasizing the originate-to-sell approach. This strategy benefits from collateral backing and potentially higher yields, but it also exposes the bank to risks

that come with commercial property and agricultural conditions in the region. Many CRE, agricultural, and construction loans carry floating rates tied to benchmarks such as Prime or SOFR, which protected the bank's net interest margin as rates rose, while the bank's limited residential mortgage holdings reduce exposure to prepayment and extension risk.

### 1.3 Asset Growth

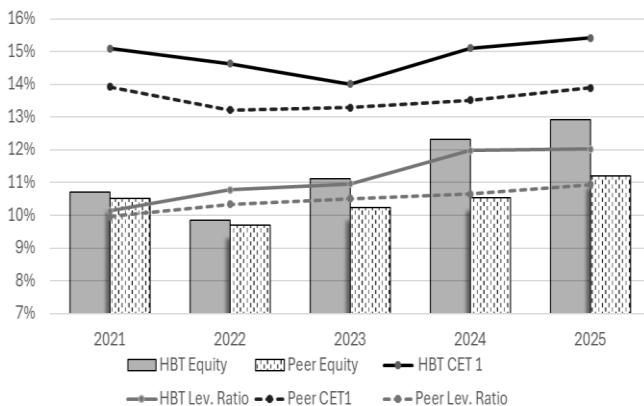


**Figure 3** HBT Assets and Deposits, 2021–2025, with a 2026 Projection

HBT’s asset growth is acquisition-driven rather than organic. Total assets grew from \$4.3 to \$5.1 billion over the study period, with the 2023 Town and Country acquisition accounting for the majority of that increase; assets were essentially flat from 2023 to 2025 as the banks integrated. As Figure 3 projects, the CNB acquisition will push assets to approximately \$6.9 billion.

### 1.4 Capital levels

HBT maintains strong capital levels relative to its peers, as shown in both its CET1 ratio and Tier 1 leverage ratio. Figure 4 shows that CET1 ranged from 15.09% in 2021 to a low of 14.01% in



**Figure 4** HBT and Peer Capital Ratios, 2021–2025

2023 before rebounding to 15.42% in 2025, consistently above the peer range of 13.22% to 13.92%. Tier 1 leverage ratio rose from 10.13% to 12.02% over the same period, above the peer range of 9.96–10.94%. The regulatory framework behind these ratios, including Basel III minimums, risk-weighted

asset calculations, and HBT's Board-approved internal targets, is examined in detail in Section IV, Bank Capital. In brief, HBT holds capital well above regulatory floors, partly to support its growth strategy, targeting one acquisition every two to three years.

## ***1.5 Liquidity***

HBT maintains a strong liquidity position supported by its cash, securities, stable deposit funding, and access to nondeposit borrowing. Between 2021 and 2025, cash and securities declined from 9.49% to 2.41% and from 29.72% to 25.15% of assets, respectively, reflecting a post-Covid recovery in lending activity. HBT's loans-to-deposits ratio increased from 65.9% in 2021 to 78.1% in 2025, showing that a greater portion of deposits fund lending. However, it remains below the peer average of roughly 84%, suggesting HBT has more liquidity and greater flexibility to meet deposit withdrawals or support additional lending opportunities. Core deposits accounted for over 95% of total deposits in 2024 and 2025, reducing dependence on more volatile wholesale funding.

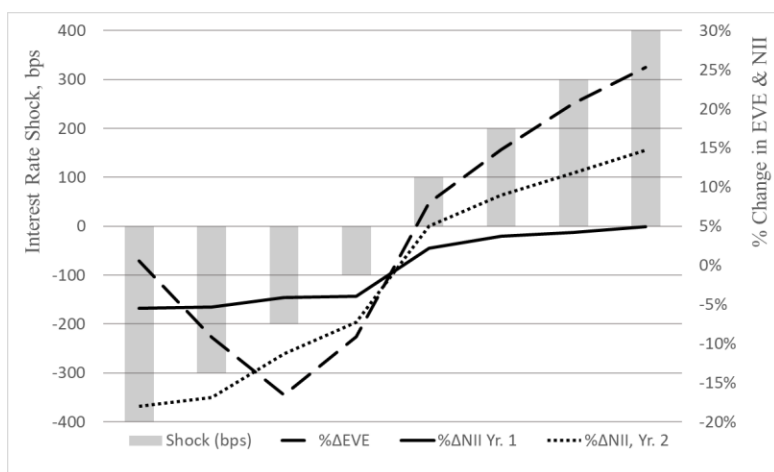
In addition to on-balance sheet liquidity, HBT maintains excess borrowing capacity. Its unused loan commitments sat near 17% across the study period, while the peer average fluctuated in the low 20s. If borrowers draw on their commitments or depositors pull cash out, it drains liquidity. HBT can draw on its lines of credit with the Federal Home Loan Bank (FHLB) and other sources to supplement liquidity. At the end of 2025, HBT had \$1.25 billion available borrowing capacity through the FHLB, Federal Reserve Discount Window, and federal funds lines of credit (HBT, 2026). In sum, HBT has diverse sources of liquidity and manages liquidity risk conservatively. The funding stability that underpins HBT's liquidity position proved central to its performance through one of the most volatile interest rate environments in recent history.

## 2. Interest Rate Environment and Inflation

### 2.1 Asset-Liability Management and Interest Rate Risk

From 2021 through 2025, HBT navigated one of the most volatile interest rate environments in recent history. Asset-liability management (ALM) helps a bank manage the balance sheet in a way that protects earnings, liquidity, and capital as interest rates and funding conditions change. Executives emphasized net interest income’s importance, saying, “We look at net interest income every day” (Berley, 2026). In 2025, HBT reported \$201.1M of tax-equivalent net interest income, a 4.17% tax-equivalent net interest margin, and a 1.19% cost of total deposits in 2025.

HBT measures interest rate risk by simulating changes to net interest income (NII) and economic value of equity (EVE) under different interest rate shock scenarios. The analysis assumes a static balance sheet, reinvestment at current market rates, and assumptions for deposit beta and asset prepayments (HBT, 2026). The standard parallel shock is a starting point rather than a precise forecast, so the bank uses the model as a directional guide and then layers in balance-sheet changes, loan growth, and forward-rate expectations.



**Figure 5** Effect of Interest Rate Shocks on HBT’s NII and EVE

HBT's asset-sensitive nature means its earnings profile is generally more favorable in a higher-rate environment. Figure 5 visualizes the rate shock analyses for the bank as of December 31, 2025. An instantaneous 100-basis-

point increase in rates would increase EVE by 8.0% and first-year net interest income by 2.2%, while a 400-basis-point increase would show increases of 25.3% and 4.9%, respectively. In the opposite direction, a 100-basis-point decline would reduce EVE by 9.1% and first-year net interest income by 4.0%, while a 400-basis-point decline would reduce NII by 5.5% in the first year and 18% in the second year.

Deposit behavior is a major reason asset sensitivity has worked in HBT's favor. The 2025 10-K reports a cumulative deposit beta of 23.6% through the last rising-rate cycle, meaning deposit costs rose by only 24 basis points for each 100-basis-point rate increase. The bank did not resort to brokered deposits, and 24.1% of total deposits were noninterest-bearing in 2025.

## 2.2 The Rate Cycle: Impact on Earnings and the Securities Portfolio

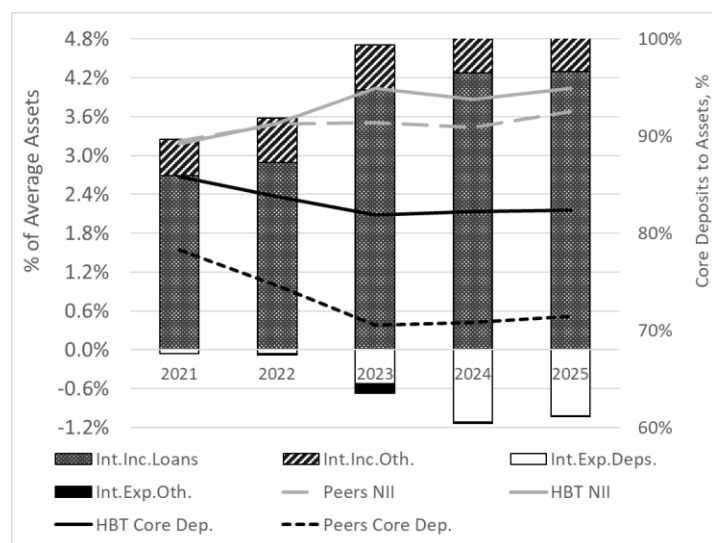


Figure 6 HBT's NIM and Core Deposits

The recent rate environment supported HBT's earnings, but through several offsetting channels rather than a single tailwind. In 2025, net interest income increased to \$198.9M from \$188.9M in 2024, and net interest margin rose to 4.13% from 3.96%, as shown in Figure 6. That improvement was driven

primarily by lower funding costs, higher yields on debt securities, and higher average loan balances relative to 2024 (HBT, 2026). More specifically, 2025 rate cuts lowered deposit costs, while maturing fixed-rate securities with low coupons were replaced with new, higher-coupon securities. At the same time, falling short-term

rates reduced yields on variable-rate loans. Lower funding costs and reinvestment in higher-coupons assets more than offset the pressure from lower variable-rate loan rates.

The clearest negative effect of the rate cycle shows up in the securities portfolio. At year-end 2025, HBT held \$813.1 million in AFS securities and \$458.7 million in HTM securities, with AOCI of -\$23.2 million, recovering from a 2022 trough of -\$71.8 million. Covid-era deposit surges pushed excess liquidity into low-coupon bonds, which lost value as interest rates rose sharply in 2022. HBT was not immune to that dynamic. The details behind AOCI are examined in full in Section IV, Bank Capital. The key takeaway is that the unrealized losses did not impair HBT's earnings or liquidity capacity, and AOCI has mostly recovered since 2022.

HBT's securities portfolio is concentrated in high-quality instruments, including Treasuries, agency RMBS and CMBS, municipals, and a smaller amount of corporate debt. At year-end 2025, the largest AFS category was agency RMBS at \$360.8 million fair value, and the largest HTM category was agency CMBS at \$241.6 million. Management's emphasis, however, is structure over headline yield. HBT avoids plain pass-through MBS because falling rates can accelerate prepayments and shorten cash flows at the wrong time for an asset-sensitive bank, preferring instead seasoned pools and agency CMBS structures with more stable cash-flow behavior and less reinvestment risk in a rates-down scenario.

### ***2.3 Inflation: Operating Costs and Credit Quality***

Inflation affected HBT's operating costs, but the broader expense base remained relatively controlled compared with peers. HBT's noninterest expense equaled 2.22% in 2021 and 2.46% in 2025, compared with peer levels of 2.58% and 2.78%, respectively. In 2025, HBT employee benefits rose from \$11.3 million to \$13.5 million, driven primarily by an increase in

the medical benefits expense from \$7.8 to \$9.4 million (Year 2025 10-K). This is consistent with management's comment that salaries and the cost of medical insurance have become harder to control. Taken together, the pattern suggests that HBT managed its overall noninterest expense base well, while employee benefits remained the clearest area of inflation-related pressure.

Inflation also affected HBT through borrower repayment capacity, although credit quality remained solid at year-end 2025. Nonperforming assets were 0.17% of total assets, the allowance for loan losses was 1.21% of loans, and net charge-offs were 0.07% of average loans. At the same time, loans rated pass-watch or worse increased by \$12.5 million, or 0.25% of assets, driven primarily by downgrades in multifamily and non-owner occupied CRE loans (Scheirer, 2026). That combination suggests inflation and higher rates have not yet produced broad credit deterioration, but pressure is becoming more visible in specific segments.

### **3. Loan Strategy and Decisioning**

HBT's loan portfolio reflects deliberate strategic positioning built on three features: a conservative credit culture that prioritizes relationship depth over volume, a concentrated exposure to real estate, excluding 1–4 family, and agricultural lending where HBT holds genuine competitive advantages, and a decisioning structure that delegates authority to the lenders closest to the borrower. Each feature reinforces the others, and together they produce a portfolio that looks different from most institutions in HBT's peer group by design.

#### ***3.1 Portfolio Composition***

HBT's portfolio emphasizes agricultural and real estate lending outside of 1–4 family residential mortgages, such as CRE, multifamily, and construction and development. Figure 2

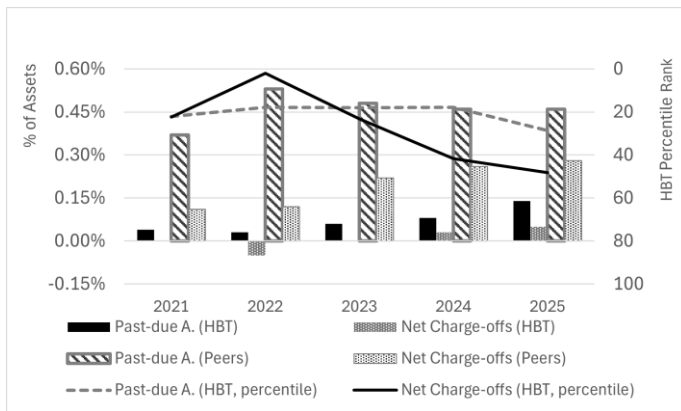
shows that HBT held 24.8% of assets in CRE and 10.8% in multifamily property loans, compared to peer averages of 23.3% and 5.7%, respectively, at the end of 2025. The multifamily gap is particularly striking and has widened consistently since 2021. Agricultural exposure tells the same story in sharper terms. HBT held 3.4% of assets in farmland loans and approximately 2.0% in farm loans against the peer median near zero. More than 23% of peers carry no farmland loans whatsoever, and more than 35% carry no farm loans. HBT's position between the 83<sup>rd</sup> to 92<sup>nd</sup> percentile in this sector is a story of operating in a lending category that many comparable institutions have not entered.

HBT originates a large number of residential mortgages, mostly for sale into the secondary market, servicing the resulting Fannie Mae and Freddie Mac loans for fee income without carrying duration risk on its balance sheet. The bank also makes loans to municipalities. While they represent only 2% of total loans, these relationships connect HBT with the communities they serve and contribute to its low-cost deposits base—the bank often requires borrowers to maintain a deposit account. Heartland chooses not to chase consumer lending, due to stiff competition from credit unions in auto and personal loans, as well as large banks in credit card lending.

### ***3.2 Credit Quality***

A concentrated portfolio is only sound if the institution knows how to underwrite the exposures it carries. HBT's credit quality record over the study period suggests it does. Figure 7 plots past-due assets and net charge-offs for HBT (the first two columns for each year) and its peer group (the last two columns). In addition, it reports HBT percentile rankings among its peers for these two metrics (line plots, right scale). Net charge-offs have tracked well below the

peer average from 2021 through 2025, with 2022 representing the strongest year. Post-Covid recoveries resulted in negative net charge-offs, placing HBT in the 2<sup>nd</sup> percentile among the 306 peer institutions, meaning 98% of peers charged off more. Despite high loan quality, Heartland keeps ample allowance for loan losses, with an NPL coverage ratio between 5.5 and 11 over the study period; in comparison, the peer average ranged between 1.5 and 2.4. This proven credit quality, in tandem with low-cost deposits, drove an impressive net interest income, ranking in the top quartile in most years and reaching the 88<sup>th</sup> percentile in 2025, 90 basis points above the peer median.



**Figure 7** Past-due Assets and Net Charge-offs

Combined past due and nonaccrual assets tell an encouraging trend story. HBT carries fewer nonaccrual assets than the majority of its peers across most of the study period, and the trajectory has been improving. The agricultural book, which warrants specific attention given its size,

reflects the depth of lending relationships. Seventy percent of agricultural borrowers have maintained relationships with HBT for more than ten years, and fifty percent for more than twenty (Scheirer, 2026). That tenure provides underwriting information no credit model replicates: lenders know their borrowers' operations, management, and conduct under stress from direct experience.

### ***3.3 Decisioning Structure***

HBT's credit quality is produced by a decisioning structure that places authority close to the borrower while maintaining meaningful oversight. HBT operated across 66 locations spanning a radius of more than 100 miles, and loan authority is delegated at the community level, meaning individual lenders within each market carry approval authority up to defined dollar thresholds rather than routing decisions through a central committee. Escalation thresholds vary by market and relationship complexity. HBT's structure is more decentralized than peer institutions, a deliberate choice premised on the belief that experienced lenders with direct borrower relationships make better credit decisions than centralized committees reviewing files at a distance (Scheirer, 2026).

The geographic differentiation within that structure reflects the nature of each market. Chicago-based lenders focus on CRE and a growing C&I book, with some specialized expertise in each. Competition in the Chicago C&I market is particularly steep, with Wintrust, Old National, and Wells Fargo competing at tight margins. Central and southern Illinois lenders manage a broader mix that includes the bulk of HBT's agricultural exposure, where formal specialization is less common, but relationship tenure runs deepest. HBT encourages deposit relationships alongside commercial lending across all markets.

The institution invests in developing lenders who understand both the borrower relationship and the underwriting discipline. Parallel career tracks move credit analysts toward either portfolio management or credit approval, with the explicit goal of keeping lenders and credit approvers aligned rather than adversarial. Loan pricing in the commercial arena follows a risk-reward framework, with higher risk commanding higher rates, and spreads determined loan

by loan. Variable-rate commercial lines are typically tied to SOFR or Prime, while credits with three, five, or seven-year terms are generally priced against Treasury yields.

When a borrower shows signs of stress, HBT's preference is early intervention. Available tools range from rate increases and covenant implementation to declared default, in order from least to most adversarial, and the bank's posture is oriented toward helping a borrower correct course before formal remediation becomes necessary (Scheirer, 2026). A borrower's unwillingness to invest further in their own business at the first sign of trouble is treated as a meaningful signal about the credit. Foreclosure is the last resort. The bank often requires personal guarantees at origination, to ensure the borrower has a vested interest in loan repayment.

The mechanisms behind HBT's credit quality record are visible in its day-to-day portfolio management. The bank actively manages loan commitments, reviewing 58% within a 24-month period to mitigate risks. Loans above \$750,000 in exposure receive annual reviews, and any agricultural credit above \$500,000 requires a site visit, with many relationships visited monthly. An external loan review firm examines the portfolio annually, which is viewed favorably by regulators (Scheirer, 2026). Risk ratings follow a nine-point scale running from grade one, reserved for near-riskless exposures such as loans secured by certificates of deposit, through grade nine, which represents charge-off. Seventy-five percent of the portfolio clusters at grades three and four, reflecting a deliberate avoidance of marginal credits. HBT also stress tests some individual loans, modeling against hypothetical rate changes.

HBT's loan records are maintained through Jack Henry & Associates, its core service provider (CSP). The relationship with Jack Henry extends beyond day-to-day processing: acquisition timing is a function of core system coordination. When HBT acquires an institution,

as it has ten times since 2007, the two banks' core systems must be integrated, a process that depends on CSP scheduling capacity as much as HBT's own readiness. The pace of integration can be constrained by CSP availability rather than the bank's internal timeline (Scheirer, 2026).

### ***3.4 Forward Look***

HBT looks to apply its conservative credit culture to the opportunities and challenges of the future. Between the closing of the CNB acquisition, the increasing prominence of artificial intelligence, and trade policy uncertainties, HBT's position stands firm.

The CNB acquisition carries integration risk that warrants monitoring even as management has taken steps to bound it. HBT conducted due diligence on 71% of CNB's loan portfolio by balance, cited cultural alignment and shared credit standards as a basis for confidence in portfolio quality, and priced the transaction at 120% of tangible book value with an anticipated earnback period of less than one year using the crossover method. CNB's most recently reported NPA ratio of 0.31% and net interest margin of 3.49% are consistent with a well-managed institution. The combined entity carries approximately \$6.9 billion in assets, and a deepened agricultural concentration from 8% to 13% of the loan portfolio is the clearest statement of strategic intent in the transaction. HBT is using the CNB acquisition to do more of what it already does well.

Heartland approaches new opportunities with healthy caution. Management is skeptical that artificial intelligence will meaningfully transform community bank lending in the near term but sees potential upside in back-office operations. Scheirer (2026) noted that when he entered the industry thirty years ago, the prevailing fear was that technology would displace credit professionals and automated analysis tools would make underwriters obsolete. In his view, that

displacement never materialized because the tools that existed then, and the AI tools that exist now, can replicate some analytical tasks, but not relationship judgment. Relationship banking requires soft skills that AI cannot replicate (Scheirer, 2026). For an institution where seventy percent of agricultural borrowers have banked with HBT for more than a decade, that assessment reflects the source of HBT's credit quality advantage.

HBT's care and caution apply to broader economic factors, too. Trade policy uncertainty has created anxiety among some of HBT's borrowers, Scheirer acknowledged, but as of the interview date, no borrowers had reported material impacts on their operations, and HBT had not observed any increase in delinquencies attributable to tariff exposure. Given HBT's concentration in Central Illinois corn and soybean production, crops with export dependence, this is a situation worth monitoring as policies change.

The bank enters this period of uncertainty from a position of credit quality strength. Heartland's credit quality stems from proven relationships and a conservative culture. It serves a prominent role in the bank's operations and helps HBT carry capital ratios well above regulatory minimums, as discussed in the following section.

#### **4. Bank Capital**

Bank capital is the equity cushion separating a bank's assets from its liabilities and the first to absorb losses before any other claim is impaired. For HBT Financial, capital serves a dual strategic role: satisfying regulatory requirements and financing acquisition-driven growth.

Having gone public in 2019, HBT uses stock as acquisition currency, allowing target shareholders to defer capital gains taxes under Section 368 of the Internal Revenue Code. Total equity has grown from \$461.3M in 2021 to \$654.3M in 2025, representing 12.91% of assets

against a peer average of 11.20%. The analyses below draw on the FDIC Uniform Bank Performance Report (FDIC, 2025), HBT annual reports, and an interview with the CFO Peter Chapman.

#### ***4.1 Regulatory Capital Framework***

Basel III requires the Common Equity Tier 1 ratio (CET1) of at least 4.5% of risk-weighted assets, Tier 1 capital of 6%, total risk-based capital of 8% of risk-weighted assets, and a conservation buffer 2.5% on each, plus a Tier 1 Leverage Ratio of 4% (5% to be well-capitalized). These are floors, not targets. HBT maintains a Board-approved internal policy set well above these minimums, and management acts proactively before ratios approach regulatory limits. The primary rationale is acquisition readiness: HBT targets one acquisition every two to three years and holds surplus capital to execute acquisitions (Chapman, 2026). HBT had CET1 of 15.42% and total Risk-Based Capital of 16.52% in 2025, roughly double the well-capitalized minimums and 150–160 basis points above the peer averages throughout the period. Tier 1 is the strong, permanent form of capital: common equity, retained earnings, and paid-in capital net of goodwill and intangibles. Tier 2 is supplementary and includes items such as subordinated debt and loan loss reserves. HBT's Tier 2 consisted solely of loan loss reserves with no subordinated debt; it stood at 1.10% of RWA at year-end 2025. Retained earnings alone have been sufficient to build capital without issuing sub-debt (Chapman, 2026).

HBT qualifies for the Community Bank Leverage Ratio framework, introduced in 2020, which allows banks under \$10B in assets with Tier 1 leverage above 9% to bypass the full RWA calculation entirely. Of 306 peer banks, 29 to 38 have elected it annually; HBT has not done so. Heartland already calculates risk-weighted assets internally, and a public company reporting a

strong CET1 ratio (which is based on risk-weighted assets) is a more informative signal to investors.

#### ***4.2 Risk-Weighted Assets and Credit Quality***

Capital adequacy ratios are calculated against risk-weighted assets (RWA) rather than gross assets. The framework assigns weights by type: 0% for cash and government securities, 20% for GSE-backed assets, as well as interbank and municipal loans, 50% for 1–4 family residential mortgages, and 100% for commercial loans. HBT's loan portfolio is concentrated in categories with the 100% weight, while peers hold more residential mortgages at the lower 50% rate. This produces a higher RWA-to-assets ratio for HBT despite a lower loans-to-assets ratio. It does not reflect higher actual credit risk. Basel weights are assigned mechanically by category, not by underwriting quality. HBT requires personal guarantees from CRE borrowers, concentrates agricultural lending in Central Illinois corn and soybean markets where management has decades of local knowledge, and enforces strict loan-to-value standards throughout the portfolio. The high loan quality is reflected in net charge-off and noncurrent loan ratios to assets several times below the peer averages over 2021–2025. The elevated RWA is a loan mix artifact, not an indicator of elevated credit risk, a distinction HBT's loss history makes clear. Conservative lending strategy allows HBT to carry capital ratios well above regulatory minimums while enjoying low loan losses.

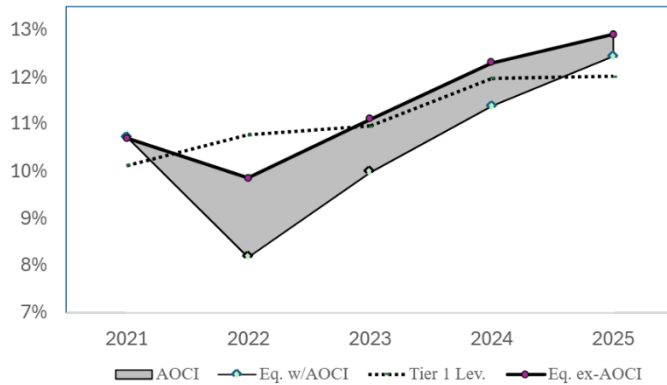
#### ***4.3 AOCI, Securities Classification, and the 2022 Rate Shock***

Accumulated Other Comprehensive Income (AOCI) captures unrealized gains and losses on available-for-sale securities along with certain hedge adjustments. It appears in the equity section of the balance sheet as a separate line after retained earnings and before total

stockholders' equity. When AFS prices fall, AOCI turns negative and reduces equity; when they recover, equity grows back. Most community banks, including HBT, elect to exclude AOCI from regulatory capital under the Basel III opt-out, so unrealized losses affect tangible book value but not CET1 or Tier 1 ratios.

This distinction proved critical in 2022. The Federal Reserve raised rates 425 basis points, collapsing HBT's AOCI from \$1.5 million to -\$71.8 million. Because HBT had elected the regulatory opt-out, reported CET1 fell only modestly from 15.09% to 14.63%. On a hypothetical AOCI-included basis, adjusted CET1 would have been approximately 12.35%, a 228-basis-point gap invisible in the headline ratios. HBT remained well above all well-capitalized thresholds even on this adjusted basis, in contrast to Silicon Valley Bank, where the scale of realized and unrealized losses relative to its capital base proved fatal given the dominance of uninsured deposits in SVB's funding structure.

To limit further damage, HBT shifted securities toward held-to-maturity classification in 2022, with HTM rising from 7.80% to 12.65% of assets. Since then, the bank has reversed course: HTM declined to 9.05% of assets by the end of 2025, running off naturally with no new HTM additions, while AFS increased to 16.04%. AFS is the current preference for liquidity flexibility, reinforced by the SVB lesson that HTM classification masks losses without eliminating them (Chapman, 2026). From 2023 onward, annual OCI turned positive: \$14.7, \$10.6 and \$23.3 million in 2023, 2024, and 2025, respectively. The accumulated OCI balance has recovered to -\$23.2 million by year-end 2025. Figure 8 illustrates the divergence: the Tier 1 leverage ratio (dotted line) remains stable throughout, unaffected by the AOCI opt-out, while the gap between equity ex-AOCI and equity including AOCI widens sharply in 2022 before narrowing steadily as securities values recover.



**Figure 8** HBT Equity / Assets and Tier 1 Leverage Ratio

#### 4.4 Capital Movements: 2021 to 2025

Equity grew from \$422.1M in 2022 to \$563.7M in 2023, driven by both stock issuance in the Town and Country acquisition and organic earnings. The acquisition-related stock issuance caused surplus to rise by \$124M in a single year

while goodwill increased from \$29.3M to approximately \$59.8M. From 2023 through 2025, assets were essentially flat, while ROA was in the 1.5%–1.7 range, 35–37 basis points above the peer average. Recovering OCI contributed further. Together these factors drove the equity-to-assets ratio up from 11.12% in 2023 to 12.91% in 2025, widening HBT's lead over peers from near parity to 171 basis points.

#### 4.5 Tangible Equity, Earn-Back, and the CNB Acquisition

Book value per share measures total book value of equity divided by shares outstanding. Tangible book value per share (TBVPS) excludes goodwill and core deposit intangibles, representing economic equity without any franchise premium. The gap between the two widens after each acquisition as purchase premiums create goodwill. HBT targets a TBVPS recovery to its pre-acquisition level within three years through earnings accumulation. The 10-K confirms BVPS of \$14.21 and TBVPS of \$13.13 at year-end 2021, both declining in 2022 due to the AOCI collapse rather than operational deterioration. The Town and Country deal in 2023 widened the BVPS-to-TBVPS gap through additional goodwill, but also added \$923M in earning assets and a low-cost deposit franchise. On an estimated basis TBVPS recovers to \$12.73 in

2023, \$14.97 in 2024, and \$17.07 in 2025, surpassing the pre-deal 2021 baseline of \$13.13 within two years and achieving the target of \$17 to \$18 ahead of the three-year benchmark.

The CNB Bank Shares acquisition, closing in early 2026, restarts the earn-back clock. CNB had been constrained by a large negative AOCI from its bond portfolio and a high loans-to-deposits ratio that limited balance sheet capacity and organic growth. HBT's acquisition strategy targets precisely this profile: deploying its low-cost central Illinois deposit base, capital surplus, and conservative credit culture to absorb an institution whose growth was capital-constrained. The same earnings engine that drove TBVPS recovery after the Town & Country acquisition positions HBT to repeat the cycle with CNB.

#### ***4.6 Capital Deployment, Loss Absorption, and Hedging***

HBT builds capital primarily through retained earnings, compounding book value at above-peer ROA. For acquisitions, the preferred method is issuing HBT shares directly to target shareholders as deal consideration, rather than conducting a public equity raise to fund cash acquisitions. HBT used stock as the primary consideration in both the Town & Country and CNB deals, allowing target shareholders to defer capital gains taxes while expanding HBT's franchise.

When banks fail, losses are absorbed from the bottom of the capital stack: common equity shareholders take losses first and in full before any other claim is impaired, followed by Additional Tier 1 holders, subordinated debt holders, and finally uninsured depositors. The FDIC insures deposits up to \$250,000. HBT's deposit base is structurally resistant to runs: approximately 70% of deposits are retail, only 20 to 24% are uninsured, and a substantial portion of those uninsured balances are municipal deposits required under Illinois law to be collateralized with pledged securities, bringing effective uncollateralized uninsured exposure to

approximately 14%. This contrasts sharply with Silicon Valley Bank, where over 90% of deposits were uninsured and concentrated in an interconnected industry with real-time communication channels.

Beyond interest rate risk management, HBT actively manages operational risk despite it carrying no formal Basel capital charge for community banks. Operational risk covers losses from fraud, system failures, and process errors. For community banks like HBT it carries no formal Basel capital charge but is actively managed. Check and wire fraud are top loss categories; the bank covers more losses than legally required to protect customer relationships (Chapman, 2026). As to balance sheet hedging, HBT has historically used interest rate swaps as cash flow hedges on its variable-rate junior subordinated debentures, converting floating-rate interest expense on those liabilities into fixed payments and therefore stabilizing a portion of its funding costs. The latest designated hedge matured in April 2025, leaving HBT with no formal balance sheet hedges at year-end 2025. Interest rate risk on the asset and liability sides is managed primarily through balance sheet structure, specifically the sticky, low-beta retail deposit base on the liability side and the mix of fixed and floating rate loans on the asset side, rather than through derivatives

## **Conclusion**

Heartland Bank and Trust Company entered 2026 as an institution whose competitive advantages compound rather than erode. The record examined in this report is the product of structural decisions made long before 2021. A low deposit beta reflects decades of investments in relationships. Superior credit quality reflects a conservative culture built on direct borrower knowledge. Strong capital ratios reflect a strategy designed to give shareholders peace of mind,

make regulators happy, and keep HBT at the table when acquisition targets become available. Each element reinforces the others. More than a century after M.B. Drake opened a community bank in Cornland, Illinois, the strategy still wins.

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