

ALTERNATIVE REPORTING AND DISCLOSURE STATEMENT
FOR PENSION PLANS FOR CERTAIN SELECTED EMPLOYEES

In compliance with Section 110 of the Employee Retirement Income Security Act of 1974 ("ERISA") and the regulations thereunder, found in Section 2520.104-23, Hills Bank and Trust Company, Hills, Iowa is filing this Alternative Reporting and Disclosure Compliance Statement and in connection herewith, provides the following information:

EMPLOYER NAME
AND ADDRESS:

Hills Bank and Trust Company
131 Main Street
Hills, Iowa 52235

EMPLOYER IDENTIFICATION NUMBER:

42-0310580

PLAN NAMES:

Hills Bank and Trust Company Deferred
Compensation Plan

NUMBER OF PLANS (this submission):

One

NUMBER OF EMPLOYEES
PARTICIPATING IN EACH PLAN:

Hills Bank and Trust Company maintains the above-named unfunded Plans primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees.

Hills Bank and Trust Company will provide the Plan documents to the Secretary of Labor upon request, as required by Section 104(a)(1) of ERISA.

Plan Administrator

Dated: December 18, 2012

By: 
Chairperson, Compensation Committee

MAIL TO: Secretary of Labor
Top Hat Plan Exemption
Pension and Welfare Benefits Administration
Room N-5644
U.S. Department of Labor
200 Constitution Avenue NW
Washington, DC 20210

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**HILLS BANK AND TRUST COMPANY
ELECTION TO PARTICIPATE IN DEFERRED COMPENSATION
PLAN FOR KEY EMPLOYEES AND DESIGNATION OF BENEFICIARY**

Pursuant to the Hills Bank and Trust Company Deferred Compensation Plan for Key Employees (the "Plan"), I hereby elect to defer, as provided in the Plan, the receipt of 2 % of the compensation earned by me in connection with the performance of my services as a Hills Bank and Trust Company Key Employee, beginning January 1, 2013.

Shari DeMaris

Shari DeMaris, Participant

12/19/12

Date

Acknowledged By:

W. O. Seegle

Corporate Officer

12-19-12

Date

DESIGNATION OF DESIGNATION OF BENEFICIARY FORM

Pursuant to the terms of the Hills Bank and Trust Company Deferred Compensation Plan, effective December 18, 2012, the undersigned Participant designates the following beneficiaries to receive benefits under Article VIII.

Primary Beneficiary: Oliver Henry DeMaris Zirkelt
SSN: _____

Cordelia Medina Zirkelt
SSN: _____

Secondary Beneficiary(ies): Rachel Anne DeMaris
SSN: _____

The Primary Beneficiary(ies) identified above shall be the designated beneficiary(ies) if he/she is living when a death benefit becomes due and payable. The Secondary Beneficiary(ies) identified above shall only be the designated beneficiary(ies) if he/she is living at the time a death benefit becomes due and payable and the Primary Beneficiary(ies) is not then living.

The Participant hereby revokes any prior beneficiary designation which may have been in effect.

Shari DeMaris
Shari DeMaris, Participant

12/19/12
Date

Amanda Aker
Witness

12/19/12
Date

Kalpy
Witness

12/19/12
Date

Acknowledged By
[Signature]
Corporate Officer

12-19-12
Date

**HILLS BANK AND TRUST COMPANY
DEFERRED COMPENSATION PLAN AGREEMENT**

THIS AGREEMENT, entered into this 18th day of December, 2012, between **Hills Bank and Trust Company**, a Corporation organized under the laws of the State of Iowa (Employer) and **Shari DeMaris** (Employee).

In consideration of the Agreements hereinafter contained, the parties hereto agree as follows:

- I. The Employer agrees to provide the Employee with a deferred compensation arrangement in conjunction with her employment with the Employer.

- II.
 - (A) The Employee shall be given the opportunity to elect to reduce her salary by executing a Salary Reduction Agreement on a form provided by the Employer. Said Agreement shall be executed not later than the close of the calendar year preceding the calendar year in which said Agreement is to be effective, and shall specify the amount and method of reduction in the salary of the Employee. The Agreement shall limit the annual amount that can be deferred into the Plan by the Employee to no more than thirty percent (30%) of Employee's stated compensation.

 - (B) In addition to the amounts credited to this Plan pursuant to Paragraph II(A) above, the Employer may elect to credit an additional amount to the Plan. Said amount must be determined by the Employer prior to the end of the calendar year in which it is to be credited to the Plan. It is the intent of the Employer to credit an amount into this Plan equal to the benefit the Employee is not able to receive in the Employer's qualified Plans due to statutory and administrative limitations.

- III.
 - (A) The Employer shall credit to a book reserve ("Deferred Compensation Account") any such amounts that the Employee elects to defer pursuant to Paragraph II(A) above and any additional amounts which the Employer elects to credit to the Plan during the year pursuant to Paragraph II(B) above. Amounts to be credited pursuant to Paragraph II(A) shall be credited as of the last day of the month in which the salary reduction is made. Amounts to be credited pursuant to Paragraph II(B) shall be credited as of the date(s) designated by the Employer.

 - (B) Other than the establishment of the Deferred Compensation Account, the Employer shall not be required to set aside or in any way fund any amounts credited to the Deferred Compensation Account under this Agreement. Such book reserve shall constitute an obligation on the part of the Employer that shall be satisfied only from the general assets of the Employer.

- IV. The Employee's Deferred Compensation Account will be adjusted annually by a growth factor to be determined as follows:
 - (A) The Employee shall have the right to elect to have all or any part of her Deferred Compensation Account converted to units or a fraction thereof, with each unit being equivalent in value to the fair market value of a share of stock in Hills Bancorporation (hereinafter "stock units"). Said election may be made as of December 31 of any year commencing with the year ending December 31, 2012, and if made will be irrevocable (except as provided in paragraph IV(C)) and will be effective on the last day of the year in which the Employer is noted of the election. The conversion to stock units shall be made as of December 31st in the year in which the Employee's election is made. The Employee's election must be in writing and must be delivered to the Employer prior to December 31 of the year for which it is to be effective.

- (B) If the Employee irrevocably elects to have her Deferred Compensation Account converted to stock units as provided in Paragraph IV(A) above, the Employee will nevertheless have the option to convert the stock units in her Deferred Compensation Account to their cash equivalent at any time after: (i) the Employee reaches age 60, (ii) the Employee's employment with the Employer is terminated for any reason, or (iii) there is a change in the control of the ownership of Hills Bancorporation or a sale of a significant portion of the assets of Hills Bancorporation. The Employee's election to convert the stock units in her Deferred Compensation Account back to their cash equivalent may, at the option of the Employee, be effective upon the occurrence of any one of the three events which give rise to Employee's right to convert the stock units in her Deferred Compensation Account back to cash equivalent or December 31 of any year following the occurrence of any one of said three events, including December 31 of the year in which any one of said three events occurs. The Employee's election to convert the stock units in her Deferred Compensation Account back to their cash equivalent must be delivered in writing to the Employer and must specify the number of stock units to be converted and the date on which the Employee elects to have the conversion take place. The conversion of stock units back to their cash equivalent shall be at the value of the stock units as determined under Paragraph IV(E) hereof. If the Employee elects to convert stock units to their cash equivalent at any date other than December 31, the stock value for purposes of such conversion shall be based on the stock value as of December 31 of the year prior to the year in which such conversion is elected. Provided, however, if the conversion date the stock of Hills Bancorporation is traded on an established security exchange or in the event the stock in Hills Bancorporation is converted into stock or exchanged for stock in an acquiring corporation whose stock is traded on an established security exchange, and there has a readily established market value, then such conversion shall be based upon said market value as of the close of the trading day that it is converted.
- (C) If the Employee makes the election to convert her Deferred Compensation Account to stock units, said account will be credited and adjusted as follows:
- (i) The account shall be credited on each date in each year on which Hills Bancorporation pays a dividend with an amount that is equal to the dividend that would have been payable had the stock units in the Deferred Compensation Account been actual shares of stock in Hills Bancorporation.
 - (ii) The stock units credited to the account shall be adjusted to reflect modifications to the common stock of Hills Bancorporation resulting from a merger, stock dividend or split, recapitalization, consolidation, spin-off, combination or such other transaction that in the opinion of the Employer would affect the stock units allocated pursuant to this Plan.
- (D) Any of the Employee's Deferred Compensation Account which is held in cash equivalents as of January 1 of each year shall be adjusted as of December 31 of the same year, said adjustment to be based on one of the following formulas:
- (i) By multiplying said January 1 balance (less any payment made to the Employee during the year) by a fraction, the numerator of which is the S&P Index at December 31 and the denominator of which is the S&P Index as of the previous January 1. Such adjustment can be either positive or negative.
 - (ii) By adding to said January 1 balance an amount equal to interest on the average daily balance in said account during the year at the National Prime Rate as reported by the Wall Street Journal published prime rate as of December 31 of the previous year.

- (iii) By adding to said January 1 balance an amount equal to interest on the average daily balance in said account at a rate equal to the one year Treasury constant maturity date adjusted on each December 31 and June 30.

The formula used shall be selected in writing by the Employee prior to January 1 of each year and may not be changed until the following January 1.

- (E) For purposes of this Agreement, fair market value of Hills Bancorporation common stock shall be the average of the beginning and end of year values of such stock as determined by the appraisals required in connection with the Hills Bank and Trust Company Employee Stock Ownership Plan. The method of determining fair market value of Hills Bancorporation Common Stock hereunder may only be modified by written Agreement of the parties to this Agreement.
- V. The value of the Employee's Deferred Compensation Account at any given time shall be equal to the sum of (i) the cumulative stock units credited to this account times the per share value as determined by the latest appraisal described in Paragraph IV(E)(ii) any credits to the account pursuant to II(A), and IV(C)(i) which have not yet been converted to stock units and (iii) the value determined pursuant to IV(D) for an portion of the Deferred Compensation Account held in cash equivalents.
- VI. The value of the Deferred Compensation Account shall constitute the entire amount of deferred compensation due to the Employee pursuant to this Agreement.
- VII. The Employee's Deferred Compensation Account shall be payable to the Employee upon the occurrence of any one of the following events: (i) change of control of Hills Bancorporation resulting from either a change of ownership of Hills Bancorporation, a change of effective control of Hills Bancorporation, or a change in the ownership of a substantial portion of the assets of Hills Bancorporation, as such terms are defined in Treasury Regulation 1.409A-3(i)(5); (ii) termination of the Employee's employment with the Employer, or (iii) when the Employee reaches the age of sixty-five (65) years. The Employee's Deferred Compensation Account shall be paid to the Employee as follows:
- (A) If the balance in the Employee's Deferred Compensation Account is less than \$100,000 on December 31 of the year in which the account becomes payable, the balance in the account shall be paid to the Employee in full as soon as is administratively feasible after the end of the calendar year in which the account becomes payable. The amount payable to the Employee shall be the balance in the account on December 31 of the year in which the account becomes payable to the Employee as determined hereunder, (including the adjustment for the value of any declared but unpaid dividends on Hills Bancorporation stock as of December 31 of the year in which the account becomes payable).
 - (B) If the balance in the Employee's Deferred Compensation account is greater than \$100,000 on December 31 of the year in which the account becomes payable, the account will be paid to the Employee in five annual payments.

The annual payment due to the Employee under this paragraph will be paid commencing as soon as administratively feasible after the end of the year in which the Employee's account becomes payable and shall continue each year thereafter until the final installment has been paid. The amount of each installment payment due hereunder shall be determined by dividing the balance of the Employee's Deferred Compensation Account as of the end of each calendar year by the number of installment payments remaining to be paid. All installment payments will be made by the Employer as soon administratively feasible following the end of each calendar year.

- (C) If the Employee's Deferred Compensation Account is less than \$10,000 as of the end of any calendar year after installment payments under this paragraph have commenced, the Employer shall have the right to pay the entire balance to the Employee in a single lump sum payment.
 - (D) The Employee's Deferred Compensation Account shall be adjusted annually to reflect gains and losses as provided herein.
 - (E) Notwithstanding the foregoing, if at the time an amount becomes distributable to Employee, Employer or Hills Bancorporation is publicly traded on an established securities market or otherwise, and if the amount distributable to Employee results from Employee's separation from service with Employer, then the first payment due Employee under this Article VII shall be deferred for period extending not less than six months following the Employee's separation from service. This Paragraph is intended to comply with Internal Revenue Code Section 409A(a)(2)(B).
- VIII. In the event of the death of the Employee prior to the complete payment of benefits payable pursuant to this Plan, payments will commence, or continue in favor of the beneficiary designated by the Employee to receive such payments. The beneficiary may be designated or changed (without the consent of any prior beneficiaries) by the Employee on a form provided by the Employer. If no such beneficiary has been designated by the Employee, or if no designated beneficiary shall survive the Employee, payments due pursuant to this Plan shall be paid to the personal representative of the Employee's estate.
- IX. Any conversion elections available to the Employee during her lifetime shall be likewise available to the Employees designated beneficiary or the personal representative of the Employee's Estate, as the case may be, after the death of the Employee.
- X. If payments are to be made to a beneficiary due to the death of the Employee, hereinafter primary beneficiary, said primary beneficiary shall have the right to designate a beneficiary to receive such payments upon the death of the primary beneficiary.
- XI. Nothing contained in this Agreement and no action taken pursuant to the provisions of this Agreement shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Employer and the Employee, her designated beneficiary or any other person. In the event that the Employer elects to fund any obligation due under this Agreement, such funds shall continue for all purposes to be a part of the general funds of the Employer and no person other than the Employer shall by virtue of the provisions contained in this Agreement have any interest in such funds. To the extent that any person acquires a right to receive payments from the Employer pursuant to this Agreement, such right shall be no greater than the right of any unsecured general creditor of the Employer.
- XII. The rights of the Employee or any other person to the payment of deferred compensation or other benefits under this Agreement shall not be assigned, pledged or encumbered except by will or by the laws of descent and distribution.
- XIII. All distributions made under this Agreement shall be paid in cash, subject to any required federal or state tax withholding. The number of stock units in the Employee's Deferred Compensation Account shall be reduced as of the date of each cash distribution from said account by the number of stock units necessary to equal such cash distribution valued, as of December 31st of the year preceding the calendar year in which the cash distribution is made, at the appraised value of Hills Bancorporation Common Stock, pursuant to the appraisal required in connection with the Employer's Employee Stock Ownership Plan. The Employee shall not have the right to receive a distribution of shares of stock or any other property.
- XIV. Nothing contained herein shall be construed as conferring upon the Employee the right to continue in the employ of the Employer in any capacity.


- XV. The Employer shall have the full power and authority to interpret, construe and administer this Plan and the Employer's interpretation and construction thereof, and actions thereunder, including any valuation of the deferred compensation account, the amount of the payment to be made therefrom or the recipient of the payment to be made therefrom shall be binding and conclusive on all persons for all purposes.
- XVI. The Employer reserves the right to discontinue the Employee's option to elect a salary reduction amount at any time prior to the Employee's execution of a salary reduction Agreement.
- XVII. This Agreement shall be construed in accordance with and governed by the laws of the State of Iowa.

IN WITNESS WHEREOF, the Employer has caused this Agreement to be executed by its duly authorized officers and employees as of the 18th day of December, 2012.

HILLS BANK AND TRUST COMPANY

By: , Employer

By: , Employer

By: 
Shari DeMaris, Employee

**RESOLUTION TO BE ADOPTED BY THE SOLE SHAREHOLDER
OF HILLS BANK AND TRUST COMPANY**

WHEREAS, the Hills Bancorporation ("Company"), the sole shareholder of Hills Bank and Trust Company, (the "Bank") believes it is in the best interests of the Company to allow certain key employees of the Bank the opportunity to defer part or all of their compensation paid to them by the Bank;

WHEREAS, the Company has reviewed a draft of the Deferred Compensation Plan Agreement;

BE IT THEREFORE RESOLVED, that the Company, pursuant to Chapter 524.703 of the Iowa Banking Code hereby approves the Deferred Compensation Plan Agreement to be effective on the date hereof, subject to all requisite regulatory approvals.

BE IT FURTHER RESOLVED, that the following employee shall be eligible to participate in the Plan in addition to others previously approved for participation in the Plan:

Shari DeMaris

Hill Bancorporation

By:  _____

Date: 12/18/12

**RESOLUTION TO BE ADOPTED BY THE BOARD OF DIRECTORS
OF HILLS BANK AND TRUST COMPANY**

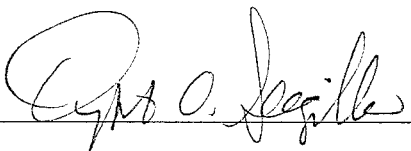
WHEREAS, the Board believes it is in the best interests of the corporation to allow certain key employees the opportunity to defer part or all of their compensation paid to them by the bank;

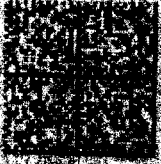
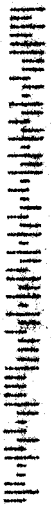
WHEREAS, the Board has now reviewed a draft of the Deferred Compensation Plan Agreement;

BE IT THEREFORE RESOLVED, that the President of the corporation is authorized and directed to execute and deliver the attached Deferred Compensation Plan, the Plan to be effective on the date hereof, subject to all requisite regulatory approvals. The President is further authorized and directed to instruct counsel to submit all necessary data required by the Department of Labor to exempt the Agreement from the requirements of Title I of the Employee Retirement Income Security Act of 1974, as amended, and all requisite applications for regulatory approval of the Agreement.

BE IT FURTHER RESOLVED, that the following employee shall be eligible to participate in the Plan in addition to others previously approved for participation in the Plan:

Shari DeMaris

By:  _____



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