HEARTLAND FINANCIAL USA INC
Form DEF 14A
April 06, 2018

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o
Check the appropriate box:
o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Section 240.14a-12

HEARTLAND FINANCIAL USA, INC.
(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

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x No fee required
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3. Filing Party:
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April 6, 2018

Dear Fellow Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of Heartland Financial USA, Inc. to be held at the Hotel Julien Dubuque, 200 Main Street, Dubuque, Iowa, on Wednesday, May 16, 2018, at 6:00 p.m. Central Daylight Time

At our Annual Meeting, we will discuss and vote on the matters described in the proxy materials. Your vote is important, regardless of the number of shares you own.

If you are sent a Notice of Internet Availability of Proxy Materials (the "Notice") but would prefer to receive the traditional printed proxy materials free of charge, please follow the instructions on the Notice to request the printed materials via U.S. mail. If you received the traditional printed proxy materials in lieu of the Notice, you may vote your shares online, by telephone, or by mail by following the instructions on the proxy card.

We ask you to join the directors and other fellow stockholders for cocktails and hors d'oeuvres at a reception following the Annual Meeting. In order to comfortably accommodate all stockholders, we ask that you please RSVP by following the reception instructions included with your proxy materials. The reception will be held at the Hotel Julien Dubuque, 200 Main Street, Dubuque, Iowa, beginning at approximately 7:00 p.m. You need not attend the Annual Meeting in order to attend the reception.

Sincerely,

Lynn B. Fuller
Chairman of the Board

1398 Central Avenue · Dubuque, Iowa 52001 · (563) 589-2100

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO THE STOCKHOLDERS OF HEARTLAND FINANCIAL:

DATE AND TIME	Wednesday, May 16, 2018 at 6:00 p.m.
PLACE	Hotel Julien Dubuque, 200 Main Street, Dubuque, Iowa
ITEMS OF BUSINESS	(1) Elect three individuals to serve as Class I directors for a three-year term expiring in 2021. (2) Approve amendments to the Company's Certificate of Incorporation to: (a) increase the maximum Board size from 9 members to 11 members, and (b) increase the maximum age at which a director may be elected from age 70 to age 72. (3) Ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2018. (4) Take a non-binding, advisory vote on executive compensation. (5) Transact such other business as may properly be presented at the Annual Meeting.
RECORD DATE	Stockholders of record at the close of business on March 19, 2018, are the stockholders entitled to vote at the Annual Meeting and any adjournments or postponements of the meeting.
VOTING BY PROXY	Whether or not you plan to attend the Annual Meeting, please vote your shares promptly to ensure they are represented. In the event there are an insufficient number of votes for a quorum, or to approve or ratify any of the foregoing proposals, the Annual Meeting may be adjourned or postponed in order to permit further solicitation of proxies.

þ The Board of Directors recommends a vote "FOR" the three Class I nominees for election as directors for three-year terms ending 2021, as listed in the proxy statement, and a vote "FOR" Proposals 2(a), 2(b), 3 and 4.

By Order of the Board of Directors:

Michael J. Coyle, Corporate Secretary
Dubuque, Iowa
April 6, 2018

The prompt return of proxies will save us the expense of further requests for proxies to ensure a quorum at the Annual Meeting. You may access our proxy materials and vote your shares online by following the instructions on the Notice. If you receive a proxy card, you may vote your shares online, by telephone, or by mail by following the instructions on your proxy card. If you hold shares through a broker or other nominee, please follow the voting instructions provided to you by that broker or other nominee.

Important notice regarding the availability of proxy materials for the Annual Meeting of Stockholders to be held on Wednesday, May 16, 2018. The proxy statement and Annual Report to Stockholders are available through the Investor Relations section of Heartland's website at www.htlf.com

TABLE OF CONTENTS

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation by the Board of Directors of Heartland Financial USA, Inc. ("Heartland," the "Company" or "we") of proxies to be voted at the Annual Meeting of Stockholders to be held at the Hotel Julien Dubuque, 200 Main Street, Dubuque, Iowa, on Wednesday, May 16, 2018, at 6:00 p.m. Central Daylight Time, or at any adjournments or postponements of the meeting. We first mailed this proxy statement and proxy card on or about April 6, 2018.

Please read this proxy statement carefully. You should consider the information contained in this proxy statement when deciding how to vote your shares at the Annual Meeting. The following information regarding the meeting and the voting process is presented in a question and answer format.

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING

WHY AM I RECEIVING THIS NOTICE OR PROXY STATEMENT AND PROXY CARD?

You are receiving proxy materials from us because on March 19, 2018, which is the record date for the Annual Meeting, you owned shares of our common stock or Series D preferred stock. This proxy statement describes the matters that will be presented for a vote by the stockholders at the Annual Meeting.

When you submit a proxy, you appoint the designated proxy holder as your representative at the Annual Meeting. The proxy holder will vote your shares as you have instructed whether or not you attend the Annual Meeting. Even if you plan to attend, you should vote your shares in advance of the Annual Meeting in case your plans change.

WHAT MATTERS WILL BE VOTED ON AT THE ANNUAL MEETING?

You are being asked to vote on the following matters proposed by our Board of Directors:

(1) Elect three individuals to serve as Class I directors for a three-year term expiring in 2021.

(2) Approve amendments to the Company's Certificate of Incorporation to: (a) increase the maximum Board size from 9 members to 11 members, and (b) increase the maximum age at which a director may be elected from age 70 to age 72.

(3) Ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2018.

(4) Take a non-binding, advisory vote on executive compensation.

(5) Transact such other business as may properly be presented at the Annual Meeting.

þ The Board of Directors recommends a vote "FOR" the three Class I nominees for election as directors for three-year terms ending 2021, as listed in the proxy statement, and a vote "FOR" Proposals 2(a), 2(b), 3 and 4.

These matters are more fully described in this proxy statement. We are not aware of any other matters that will be voted on at the Annual Meeting. However, if you have voted your shares and a proposal is properly presented at the Annual Meeting that is not identified in the proxy materials, the proxy holder will vote your shares, pursuant to your proxy, in accordance with his or her judgment.

1

HOW MANY VOTES DO OUR STOCKHOLDERS HAVE?

Holders of common stock have one vote for each share of common stock owned at the close of business on March 19, 2018, the record date for the Annual Meeting. Pursuant to the terms of the Certificate of Designation for our Series D preferred stock, holders of our Series D preferred stock vote as a single class on an as-converted basis with the holders of common stock. Holders of our Series D preferred stock have 39.8883 votes per share based on the current conversion ratio.

HOW DO I VOTE?

STOCKHOLDERS OF RECORD

In addition to voting your shares in person at the Annual Meeting, you can also vote your shares of common stock or Series D preferred stock in advance of the Annual Meeting by submitting a proxy using one of the following options:

* online using the instructions for Internet voting shown on the Notice or proxy card;
* by telephone using the instructions for telephone voting shown on the proxy card;
* by mail by marking the proxy card with your instructions and then signing, dating and returning the proxy card in the enclosed return addressed envelope.

“STREET NAME” HOLDERS

You must follow the voting instructions provided by your broker or other nominee. Under Nasdaq listing standards, brokers who hold your shares in “street name” have the authority to vote shares for which they do not receive instructions on all routine matters submitted for approval at the Annual Meeting. In the absence of your specific instructions as to how to vote, your broker will not have authority to vote on the matters considered non-routine, which includes all actions other than Proposal 3, the ratification of the appointment of KPMG LLP as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2018.

WHAT IF I CHANGE MY MIND AFTER I RETURN MY PROXY?

If you hold your shares in your own name, you may revoke your proxy and change your vote at any time before the polls close at the Annual Meeting. You may do this by:

* signing another proxy with a later date and returning that proxy to Mr. Michael J. Coyle, Secretary, Heartland Financial USA, Inc., 1398 Central Avenue, Dubuque, Iowa 52001;
* sending notice to us that you are revoking your proxy; or
* voting in person at the Annual Meeting.

If you hold your shares in the name of your broker and desire to revoke your proxy, you will need to contact your broker.

HOW MANY VOTES DO WE NEED TO HOLD THE ANNUAL MEETING?

A majority of the shares of common stock and Series D preferred stock, on an as-converted basis, that are outstanding as of the record date must be present in person or by proxy at the Annual Meeting in order to hold the Meeting and conduct business.

Shares are counted as present at the Annual Meeting if the stockholder either:

* is present and votes in person at the Annual Meeting; or
* has properly voted via Internet, phone, or proxy card.

On March 19, 2018, there were 31,068,239 shares of common stock outstanding, and 745 shares of Series D preferred stock outstanding, convertible into 29,717 shares of common stock. Therefore, shares of common stock and Series D preferred stock with at least 15,548,979 votes need to be present to constitute a quorum to hold the Annual Meeting and conduct business.

WHERE CAN STOCKHOLDERS GET COPIES OF OUR ANNUAL REPORT?

Stockholders may receive a free copy of our 2017 Annual Report on Form 10-K, including financial statements, by sending a written request to Mr. Michael J. Coyle, Secretary, Heartland Financial USA, Inc., 1398 Central Avenue, Dubuque, Iowa 52001.

WHAT HAPPENS IF A NOMINEE FOR DIRECTOR IS UNABLE TO STAND FOR ELECTION?

The Board may, by resolution, provide for a lesser number of directors or designate a substitute nominee. In the latter case, shares represented by proxy may be voted for a substitute nominee. You cannot vote for more than three nominees. The Board has no reason to believe any nominee will be unable to stand for election.

WHAT OPTIONS DO I HAVE IN VOTING ON EACH OF THE PROPOSALS?

You may vote “FOR” or “WITHHOLD” authority to vote for each nominee for director. You may vote “FOR,” “AGAINST” or “ABSTAIN” on any other proposal that may properly be brought before the meeting.

HOW MANY VOTES ARE NEEDED FOR EACH PROPOSAL?

The directors are elected by a plurality and the three individuals receiving the highest number of votes cast “FOR” their election will be elected as directors of Heartland.

The affirmative vote of a majority of the issued and outstanding shares of our common stock and Series D preferred stock, voting together on an as-converted basis, is required to approve the amendments to our Certificate of Incorporation.

The affirmative vote of a majority of the outstanding shares of our common stock and Series D preferred stock, voting together on an as-converted basis, present in person or by proxy at the Annual Meeting and entitled to vote is required to approve the other proposals.

The vote on executive compensation is advisory and will not be binding upon Heartland or the Board of Directors. However, the Compensation/Nominating Committee of the Board will consider the voting results in establishing our executive compensation plan for subsequent years.

Broker non-votes will not be counted as entitled to vote, but will count for purposes of determining whether or not a quorum is present. So long as a quorum is present, broker non-votes will have no effect on the outcome of the matters to be taken up at the meeting. Abstentions and withhold votes will have the same effect as negative votes.

WHERE DO I FIND THE VOTING RESULTS OF THE MEETING?

We will announce preliminary voting results at the Annual Meeting. The voting results will also be disclosed in a Current Report on Form 8-K that we will file with the Securities and Exchange Commission (the “SEC”) by the close of business on the fourth business day after the Annual Meeting.

WHO BEARS THE COST OF SOLICITING PROXIES?

We bear the cost of soliciting proxies. In addition to solicitations by mail, officers, directors and employees of Heartland, or its subsidiaries, may solicit proxies in person or by telephone. These persons will not receive any special or additional compensation for soliciting proxies. We will reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to stockholders.

PROPOSAL 1 ELECTION OF DIRECTORS

Elect three individuals to serve as Class I directors for a three-year term expiring in 2021.	þThe Board of Directors recommends that you vote your shares FOR each of the nominees.

At the Annual Meeting on Wednesday, May 16, 2018, you will be entitled to vote for three Class I Directors to serve for terms expiring in 2021. The Board of Directors is divided into three classes of directors having staggered terms of three years. One of the three nominees for election as a Class I director has been a director for more than ten years: Mr. Lynn B. Fuller. Mr. R. Michael McCoy was first named a director in 2014, was elected as a Class I director in May 2015, and is being nominated for re-election as a Class I director. Mr. Martin J. Schmitz is being nominated as a director for the first time to fill a vacancy created by the retirement of Mr. John W. Cox, Jr., pursuant to Heartland's maximum age limitation for directors contained in its Certificate of Incorporation. Each of the nominees has agreed to serve as a director, if elected. If for any reason any of the nominees becomes unable to serve before the election, the holders of proxies reserve the right to substitute another person of their choice as a nominee when voting at the meeting.

Set forth below is information concerning the nominees for election and concerning the other directors whose terms of office will continue after the meeting. Included in the information is each director's age, year first elected and business experience during the previous five years.

DIRECTOR NOMINEES

CLASS I (Term Expires 2021)

Lynn B. Fuller Director Since 1987 Age 68

Professional Experience:

Mr. Fuller has been Chief Executive Officer of Heartland since 1999, Chairman of the Board of Heartland since 2000 and was President of Heartland from 1990 until January 2015. He began his banking career with Dubuque Bank and Trust Company in 1971. He then worked as an officer at First National Bank of St. Paul from 1976 until returning to Dubuque Bank and Trust Company in 1978. Mr. Fuller has the deepest knowledge and understanding of Heartland and has extensive experience in the banking business, with hands-on operational experience and decades of experience in all aspects of commercial banking.

Other Boards and Appointments:

Director of Heartland subsidiaries Dubuque Bank and Trust Company, Wisconsin Bank & Trust, New Mexico Bank & Trust, Arizona Bank & Trust, Rocky Mountain Bank, Minnesota Bank & Trust and Citizens Finance Co. for more than five years;
Director of Heartland subsidiaries Citizens Finance

of Illinois Co. and Citizens Finance Parent Co. since 2013; Director of Heartland subsidiary Morrill & Janes Bank and Trust Company since its acquisition by Heartland in 2013; Director of Premier Valley Bank since its acquisition by Heartland in 2015; and Director of Citywide Banks since its acquisition by Heartland in 2017.

R. Michael McCoy Director Since 2014 Age 69

Professional Experience:

Mr. McCoy was the President and CEO of the McCoy Group, Inc., a full-service commercial truck leasing, rental and contract maintenance company, from 1998 to 2012. Mr. McCoy brings Heartland not only significant experience in the operation of a business headquartered in Dubuque, Iowa, but significant business contacts in the central Iowa and Wisconsin markets from which a significant portion of small business loans we originate are sourced.

Other Boards and Appointments:

Director of Heartland subsidiary Dubuque Bank and Trust Company for more than five years.

Martin J. Schmitz Age 60

Professional Experience:

Mr. Schmitz is past Chairman of Citywide Banks, Heartland’s subsidiary bank in Colorado, where he oversaw business development and commercial banking. In addition, he was involved in the administration of credit management, and audit and regulatory functions. He was with the organization for 21 years. Prior to his time at Citywide, Mr. Schmitz spent 18 years in the Denver commercial real estate business as Vice President with a commercial real estate group specializing in investment, economics and business administration. Mr. Schmitz brings to our Board community bank leadership experience and knowledge of the Denver metropolitan area.

Other Boards and Appointments:

Director of Citywide Banks, which became a Heartland subsidiary in 2017, for more than five years; Trustee of Regis University, Denver, Colorado, since 2004; and Director of Boys and Girls Clubs of Metro Denver since 2008.

CONTINUING DIRECTORS

CLASS II (Term Expires 2019)

Mark C. Falb Director Since 1995 Age 70

Professional Experience:

Mr. Falb has served as Vice Chairman of the Board of Heartland and Chairman of the Audit/Corporate Governance Committee of Heartland since 2001, and served as Chairman of the Compensation/Nominating Committee of Heartland from 2001 to 2015. He has been Chairman of the Board and Chief Executive Officer of Kendall/Hunt Publishing Company, a publisher of textbooks for the Pre-Kindergarten through 12th grade market and the higher education market, since 1992. He has been Chairman of the Board and Chief Executive Officer of Westmark Enterprises, Inc., a real estate development company, since 1993. A CPA (inactive), Mr. Falb brings to our Board considerable experience in executive management of nationally-based organizations and experience in finance and financial accounting. Mr. Falb has significant community contacts and is considered a leader in one of our principal markets in Dubuque, Iowa and the Tri-State area of Iowa, Illinois and Wisconsin.

Other Boards and Appointments:

Director and Chairman of the Board of Heartland subsidiary Dubuque Bank and Trust Company and Director of Heartland subsidiary Citizens Finance Co. for more than five years; and Director of Heartland subsidiaries Citizens Finance of Illinois Co. and Citizens Finance Parent Co. since 2013.

John K. Schmidt Director Since 2001 Age 58

Professional Experience:

Mr. Schmidt has been the Chief Financial Officer of A.Y. McDonald Industries since 2013 and was named Corporate Secretary in 2014. Mr. Schmidt was the Chief Operating Officer (from 2004) and Chief Financial Officer (from 1991) of Heartland until joining A.Y. McDonald Industries. Mr. Schmidt was also an officer of Dubuque Bank and Trust Company from 1984 to 2004 and President from 1999 to 2004. Prior to joining Dubuque Bank and Trust Company in 1984, Mr. Schmidt was employed by the Office of the Comptroller of the Currency (the "OCC") and Peat Marwick Mitchell, currently known as KPMG LLP. A CPA (inactive), Mr. Schmidt brings to our Board extensive knowledge in operational bank management and accounting.

Other Boards and Appointments:

Director of Heartland subsidiaries Dubuque Bank and Trust Company and Citizens Finance Co. for more than five years; Director of Heartland subsidiaries Citizens Finance of Illinois Co. and Citizens Finance Parent Co. since 2013; Member of the Loras College Board of Regents, Dubuque, Iowa, since 2011, currently serving as Immediate Past Chairman; Vice President of Steeple Square, Dubuque, Iowa; and Director of A.Y. McDonald Industries since 2013.

Duane E. White Director Since 2013 Age 62

Professional Experience:

Mr. White has been a partner at Aveus, a management consulting firm in St. Paul, Minnesota since 2013. Prior to joining Aveus, Mr. White was an independent consultant for six years. Mr. White also has over nine years of banking experience with U.S. Bancorp, including as President of the mortgage division for three years, Senior Vice President of Mergers and Acquisitions for two years, Senior Vice President of Marketing Support and Product Management, and Senior Vice President of Corporate Development. He began his career as an examiner for the OCC and was also involved with the regulatory supervision of problem banks in his role as the Assistant to the Regional Director of Special Projects. Mr. White brings considerable expertise in financial services to our Board, including merger and acquisition activity, as well as knowledge and perspective with respect to the Minneapolis and St. Paul, Minnesota markets.

Other Boards and Appointments:
Director of Heartland subsidiary Minnesota Bank & Trust for more than five years; and Director of Fair Isaac Corporation from 2009 to 2016.

CONTINUING DIRECTORS
CLASS III (Term Expires 2020)

Thomas L. Flynn Director Since 2002 Age 62

Professional Experience:
Mr. Flynn, who has served as Vice Chairman of the Board of Heartland since 2005 and Chairman of the Compensation/Nominating Committee of Heartland since 2015, was President of Aggregate Materials Company located in East Dubuque, Illinois from 1999 until his retirement in 2014. Mr. Flynn was President and Chief Executive Officer of Flynn Ready-Mix Concrete Co. from 1999 until his retirement in 2012. He was Chief Financial Officer of Flynn Ready-Mix from 1977 until 1999. He is a past Chairman of the Board of Directors of the National Ready-Mix Concrete Association. Mr. Flynn is a former member of the Iowa Legislature, having served for eight years as a State Senator. He also served for ten years as an adjunct faculty member in the Business Department of a local liberal arts college teaching courses in finance and business research methods. Mr. Flynn brings to our Board considerable small business expertise, business contacts in one of our principal markets and skill in governance.

Other Boards and Appointments:
Director and Vice Chairman of the Board of Heartland subsidiary Dubuque Bank and Trust Company and Director of Heartland subsidiary Citizens Finance Co. for more than five years; and Director of Heartland subsidiaries Citizens Finance of Illinois Co. and Citizens Finance Parent Co. since 2013.

Bruce K. Lee Director Since 2017 Age 57

Professional Experience:

Mr. Lee has served as President of Heartland since January 2015 and has over 30 years of experience in the banking industry. Prior to joining Heartland, Lee spent twelve years at Fifth Third, a $130 billion regional bank holding company headquartered in Cincinnati, Ohio. At Fifth Third, he held numerous leadership positions, including the following: Executive Vice President and Chief Credit Officer; Executive Vice President and Director of the company’s special assets group; and Executive Vice President, Commercial Banking Division Head and Affiliate Senior Commercial Banker. Prior to that, he served as President and CEO of a Fifth Third affiliate bank in northwestern Ohio, where he managed sales and service functions for retail, commercial, residential mortgage and investments, along with the staff functions of finance, human resources and marketing. Mr. Lee has wide-ranging banking experience and perspective as Heartland expands its size and geographic reach.

Other Boards and Appointments:

Director of Heartland subsidiary Rocky Mountain Bank since 2016.

Kurt M. Saylor Director Since 2013 Age 65

Professional Experience:

Mr. Saylor retired in December 2016 from his role as President and Chief Executive Officer of Morrill & Janes Bank and Trust Company, a Heartland subsidiary bank. He had served in that role since 2002. He began his banking career as an examiner with the Office of State Bank Commissioner in Kansas after graduating from college. He joined Morrill & Janes Bank and Trust Company in 1975. During his tenure with Morrill & Janes Bank and Trust Company, he served as Chairman and Chief Executive Officer of Century Capital Financial (City National Bank) in Kilgore, Texas, from 1997 to 2008 and as Chairman and Chief Executive Officer of FBC Financial Corp (1st Bank Oklahoma) in Claremore, Oklahoma, from 1998 to 2011. Mr. Saylor brings to our Board community bank leadership experience and familiarity with operating under a multi-bank holding company structure. In addition, he has community knowledge and perspective with respect to the Kansas City metropolitan area.

Other Boards and Appointments:
Director of Heartland subsidiary Morrill & Janes
Bank and Trust Company for more than five years.

All of our directors will hold office for the terms indicated, and until their respective successors are duly elected and qualified. Other than Mr. Saylor, who was first elected a director in accordance with the Merger Agreement with Morrill Bancshares, Inc. on October 18, 2013, and Mr. Schmitz, who is being nominated as a director in accordance with the Merger Agreement with Citywide Banks of Colorado, Inc., no director has been nominated or is serving pursuant to any arrangement that requires that they be selected as a director.

CORPORATE GOVERNANCE AND THE BOARD OF DIRECTORS

Our Board of Directors

There are currently nine members on the Board of Directors of Heartland. Although it is the responsibility of Heartland's officers to manage day-to-day operations, the Board oversees our business and monitors the performance of our management.

Director Independence. Our Board has determined that each of Messrs. Falb, Flynn, McCoy, Schmidt and White are “independent” directors as defined in the listing standards of the Nasdaq Stock Market (“Nasdaq”) and the rules and regulations of the SEC. Retiring director Mr. Cox is not considered independent because of an immediate family member’s significant business relationship with Heartland’s subsidiary banks. The Board has also determined that Messrs. Fuller and Lee, as the Chief Executive Officer and President, respectively, of Heartland, are not independent. Mr. Saylor is not an independent director, because he served through December 2016 as President and Chief Executive Officer of Morrill & Janes Bank and Trust Company, a Heartland subsidiary bank. Mr. Schmitz, a nominee for director, is a former executive of Citywide Banks, a Heartland subsidiary bank, and will not be an independent director, if elected. In considering the independence of the directors, our Board reviewed questionnaires prepared by each director, reviewed its own records of transactions with directors and their family members, and inquired of directors whether they, or any member of their immediate families, had engaged in any transaction with us, other than transactions made in the ordinary course of business.

Meetings. Our directors meet on at least a quarterly basis, or as needed at special meetings held periodically throughout the year. During 2017, the Board of Directors held four regular meetings and five special meetings. All directors attended at least 75% of the meetings of the Board of Directors and its Committees on which they served.

The independent directors are offered the opportunity at each meeting of the Board of Directors to meet separately in executive session. During 2017, the independent directors met in such capacity six times. Each of our Audit/Corporate Governance Committee and our Compensation/Nominating Committee consists solely of independent directors, and these committees meet in conjunction with most regular board meetings.

It is Heartland's practice that all directors be in attendance at the Annual Meeting unless excused by the Chairman of the Board. In 2017, all directors attended the Annual Meeting in person.

Board Leadership. Under our Bylaws, the Chairman of the Board presides at meetings of the Board at which he is in attendance. Mr. Fuller, our Chief Executive Officer, has been Chairman of our Board of Directors since 2000. As the director with the most knowledge of Heartland’s business, the Board has determined that Mr. Fuller is the director most capable of leading discussions on important matters affecting Heartland, including formulation and implementation of corporate strategy. In addition, our Board believes that Mr. Fuller’s role as Chairman creates a firm link with management, a clear indication of management authority, and causes the Board to function more effectively and efficiently. Our Board believes that our performance during Mr. Fuller’s tenure reflects the effectiveness of his leadership and his goal of advancing Heartland’s interests over personal gain.

Mr. Falb and Mr. Flynn, in their capacities as Vice Chairmen of the Board, assist in setting the agendas for Board meetings and executive sessions of the Board, as well as regularly interacting with Mr. Fuller to convey concerns of the independent directors. While they provide critical independent leadership on the Board, Mr. Falb and Mr. Flynn are not formally designated as Lead Directors.

Risk Management - Background. Heartland applies three lines of defense to risk management. Under this structure, the first line of defense is management at Heartland's subsidiaries, together with managers of centralized operations units at Heartland assigned to support them. Collectively, they are responsible for managing the risks appurtenant to their areas of responsibility. This responsibility includes developing policies, procedures and controls, and executing them. At the second line of defense, Heartland applies enterprise risk management concepts, under the leadership of the Chief Risk Officer, to coordinate, monitor and report on the adequacy and effectiveness of risk management processes. Within the centralized risk management function at Heartland are enterprise risk, consumer compliance, loan review and Bank Secrecy Act functions. Finally, Heartland maintains at the holding company level an internal audit function, providing third line of defense oversight of the entire risk management framework.

Risk Management - The Board. The Board of Directors is involved in overseeing all risks across the enterprise and actively participates by establishing risk policies, limits and tolerances, and reviewing reports provided by management and the Chief Risk Officer for monitoring those activities. The Audit/Corporate Governance Committee oversees risks associated with financial reporting, including internal control over financial reporting, and identifies and oversees compliance with changing laws and regulations. The Compensation/Nominating Committee identifies, reviews and oversees risks created by Heartland’s executive benefit programs and employee compensation plans. The Compensation/Nominating Committee also consults with the Chief Risk Officer for risk input pertaining to compensation.

Risk Management - Senior Management. Senior management of Heartland has direct oversight and involvement in risk management via reporting and regular cross-functional communications. Senior management personnel are assigned responsibility to monitor and manage risk within their functional areas of responsibility, aided by the input and support of other managers. Typically, the senior manager will work with Heartland and subsidiary bank staff to develop, implement and monitor standardized policies, procedures, products, risk limits and tolerances. Additional oversight, monitoring and feedback is provided through the Risk Management System administered by the Chief Risk Officer. The Board believes that this structure enables Heartland to proactively manage material risks as close as reasonably possible to the level where functional decisions are made.

Committees of the Board

Audit/Corporate Governance Committee. The members of the Audit/Corporate Governance Committee are Messrs. Falb, Flynn, McCoy, Schmidt and White. Each of Messrs. Falb, Flynn, McCoy, Schmidt and White is an “independent” director under the listing standards of Nasdaq and the rules and regulations of the SEC. The Board of Directors has determined that each of Messrs. Falb, Flynn and Schmidt qualify as, and should be named as, an “audit committee financial expert” as set forth in the rules and regulations of the SEC. Each member of the Audit/Corporate Governance Committee also meets the independence requirements for audit committee membership under the rules of the SEC.

The primary duties and functions of the Audit/Corporate Governance Committee are to :

* monitor the integrity of the Company’s financial reporting process and systems of internal controls regarding finance, accounting and legal compliance;
* retain, oversee, review and terminate, if necessary, the Company’s independent registered public accounting firm, pre-approve all services greater than $25,000 and ratify all services less than $25,000 performed by such firm (tax-related services must be pre-approved, regardless of dollar amount);
* provide an avenue of communication among the Company’s independent registered public accounting firm, management, the risk management function (i.e., Chief Risk Officer, Loan Review and Compliance), the internal audit function and the Board of Directors;
* encourage adherence to, and continuous improvement of, the Company’s policies, procedures and practices at all levels;
* review areas of potential significant financial risk to the Company;
* monitor compliance with legal and regulatory requirements and establish appropriate corporate governance policies for the company.

The Audit/Corporate Governance Committee's duties and functions are set forth in more detail in its Charter. In addition, the Board of Directors adopted Corporate Governance Guidelines to codify its governance practices. The Charter and the Corporate Governance Guidelines can be found under the Investor Relations section of our website, www.htlf.com.

Mr. Falb has served as Chairman of the Audit/Corporate Governance Committee since 2001. During 2017, the Audit/Corporate Governance Committee met five times. To promote independence of the audit function, the Audit/Corporate Governance Committee consults both separately and jointly with our independent registered public accounting firm, internal auditors and management.

The Report of the Audit/Corporate Governance Committee is contained later in this proxy statement, and the processes used by the Audit/Corporate Governance Committee to approve audit and non-audit services are described later in this proxy statement under the caption, "Relationship With Independent Registered Public Accounting Firm-Audit/Corporate Governance Committee Pre-Approval Policy."

Compensation/Nominating Committee. The Compensation/Nominating Committee is comprised of Messrs. Falb, Flynn, McCoy, Schmidt and White. Each of Messrs. Falb, Flynn, McCoy, Schmidt and White is an “independent” director as defined by listing requirements of the Nasdaq, an “outside” director pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended, and a “non-employee” director under Section 16 of the Securities Exchange Act of 1934. Mr. Flynn has served as Chairman of the Compensation/Nominating Committee since May 2015.

The primary duties and functions of the Compensation/Nominating Committee are to:

* discharge the responsibilities of the Board relating to the compensation of the Company’s executive officers, including the Chief Executive Officer;
* evaluate and make recommendations to the Board relating to the compensation of individuals serving as directors of the Company;
* direct the preparation of and approve an Annual Report on Executive Compensation for inclusion in the Company’s proxy statement in accordance with all applicable rules and regulations; and
* identify individuals qualified to become members of the Board of Directors and select such individuals as director nominees for the next Annual Meeting of Stockholders.

The Compensation/Nominating Committee duties and functions are set forth in more detail in its Charter, which can be found under the Investor Relations section of our website, www.htlf.com. The Compensation/Nominating Committee held six meetings in 2017.

The process used by the Compensation/Nominating Committee to evaluate and determine executive compensation is described in this proxy statement under the caption “Executive Officers Compensation - Compensation Discussion and Analysis - Administration of Our Compensation Program.” The Report of the Compensation/Nominating Committee is also contained later in this proxy statement.

Director Nominations and Qualifications

In carrying out its nominating function, the Compensation/Nominating Committee evaluates all potential nominees for election, including incumbent directors, Board nominees and stockholder nominees, in the same manner. We did not receive any stockholder recommendations for nominees for the 2018 Annual Meeting. The Compensation/Nominating Committee believes that, at a minimum, potential directors should have the highest personal and professional ethics, integrity and values, a sufficient educational and professional background that enables them to understand our business, exemplary management and communications skills, demonstrated leadership skills, sound judgment in his or her professional and personal life, a strong sense of service to the communities which we serve and an ability to meet the standards and duties set forth in our Code of Conduct. The Committee also believes that directors should share the Company’s philosophy, including the same sense of mission, vision and values. Additionally, the Committee would prefer experience with publicly held companies, growth businesses or sales.

No nominee is eligible for election or re-election as a director if, at the time of such election, such person is 70 or more years of age. Each nominee must also be willing to devote sufficient time to carrying out his or her Board duties and responsibilities effectively. Although our Compensation/Nominating Committee considers diversity, including diversity of experience, gender and ethnicity in nominations, it does not have a formal diversity policy.

The Compensation/Nominating Committee also evaluates potential nominees to determine if they have any conflicts of interest that may interfere with their ability to serve as effective Board members and whether they are “independent” in accordance with Nasdaq listing standards (to ensure that at least a majority of the directors will, at all times, be independent). In the past, the Compensation/Nominating Committee has not retained any third party to assist it in identifying candidates, but it has the authority to retain a third-party firm or professional for purposes of identifying candidates.

Stockholder Communications with the Board, Nomination and Proposal Procedures

General Communications with the Board. As set forth on our website, www.htlf.com, our Board of Directors can be contacted at our corporate headquarters at 1398 Central Avenue, P.O. Box 778, Dubuque, Iowa 52004-0778, Attn: Michael J. Coyle, Corporate Secretary, or by telephone at our administrative offices at (563) 589-2100 or toll free at (888) 739-2100. Each communication will be forwarded to the Board or the specific directors identified in the communication as soon as reasonably possible.

Nominations of Directors. In order for a stockholder nominee to be considered by the Compensation/Nominating Committee as a nominee and be included in our proxy statement, the nominating stockholder must file a written notice of the proposed director nomination with our Corporate Secretary, at the above address, at least 120 days prior to the anniversary of the date the previous year's proxy statement was mailed to stockholders. For our 2019 Annual Meeting, such notice would need to be received on or before December 7, 2018. Nominations must include the full name and address of the proposed nominee and a brief description of the proposed nominee's business experience for at least the previous five years. All submissions must be accompanied by the written consent of the proposed nominee to be named as a nominee and to serve as a director if elected. The Compensation/Nominating Committee may request additional information in order to make a determination as to whether to nominate the person for director.

In accordance with our Bylaws, a stockholder may nominate a director from the floor for election at an Annual Meeting of Stockholders only if such stockholder delivers written notice of the nomination to our Corporate Secretary, at the above address, not less than 30 days nor more than 75 days prior to the date of the Annual Meeting. The stockholder's notice of intention to nominate a director must include (i) the name and address of record of the stockholder who intends to make the nomination; (ii) a representation that the stockholder is a holder of record of shares of the corporation entitled to vote at such meeting, and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (iii) the name, age, business and residence address and principal occupation or employment of each nominee; (iv) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (v) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the SEC, as then in effect; and (vi) the consent of each nominee to serve as a director of the corporation if so elected. We may request additional information after receiving the notification for the purpose of determining the proposed nominee's eligibility to serve as a director. Persons nominated for election to the Board, in accordance with the above requirements, will not be included in our proxy statement.

Other Stockholder Proposals. To be considered for inclusion in our proxy statement for the 2019 Annual Meeting of Stockholders, stockholder proposals must be received by our Corporate Secretary, at the above address, no later than December 7, 2018, and must otherwise comply with the notice and other provisions of our Bylaws, as well as SEC rules and regulations.

For proposals to be made by a stockholder from the floor and voted upon at an Annual Meeting, the stockholder must file written notice of the proposal with our Corporate Secretary not less than 30 nor more than 75 days prior to the scheduled date of the Annual Meeting.

The stockholder proposal must include a brief description of the proposal and the reasons for making the proposal; the name and address, as they appear with our Transfer Agent, of the stockholder proposing such business; the number of shares of common stock held by the stockholder; and any other financial or other interests of such stockholder in the proposal.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics that applies to all directors and employees. The Code sets forth the standard of ethics we expect all of our directors and employees to follow, including our Chief Executive Officer and Chief Financial Officer. All directors have received, and acknowledged in writing, the Code of Business Conduct and Ethics Policy, along with the Code of Business Conduct and Ethics Violation Reporting Procedure. The Code of Business Conduct is posted on our website, www.htlf.com. We intend to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding any amendment to, or waiver of, the Code of Business Conduct with respect to our Chief Executive Officer and Chief Financial Officer and persons performing similar functions, by posting such information on our website.

Director Compensation

Our Board of Directors believes that any compensation received by a non-employee director should be tied directly to the success of Heartland and, by extension, the success of all Heartland stockholders. Non-employee directors are compensated for service on the Heartland Board of Directors by issuance of restricted stock units ("RSUs") granted under the Amended and Restated 2012 Long-Term Incentive Plan in an amount determined by the Compensation/Nominating Committee at its Annual Meeting. The RSUs are awarded as of the date of the Annual Meeting and vest on June 5th of the following year. In the event a director leaves the Board for any reason prior to any vesting date (other than due to death or change of control), the director forfeits all right to the respective RSUs. In the event of the death of the non-employee director or a change in control, the RSUs vest immediately and completely. Directors serving as committee members of the Compensation/Nominating Committee or Audit/Corporate Governance Committee are also paid $1,000 per committee meeting.

To further reinforce the tie between directors and stockholders, our directors are subject to stock ownership guidelines that require total ownership between 30,000 and 100,000 shares, depending on their tenure with the Company.

Each of Messrs. Cox, McCoy, Saylor, Schmidt and White were granted 910 RSUs on May 17, 2017, as their sole compensation for service on the Board of Directors of Heartland for the period from the 2017 Annual Meeting to the 2018 Annual Meeting. Mr. Falb and Mr. Flynn who chair the Audit/Corporate Governance and Compensation/Nominating Committees, respectively, were each granted 1,095 RSUs. All RSUs granted to directors in 2017 will vest and be issued on June 5, 2018. Mr. Fuller and Mr. Lee, who were Heartland or bank subsidiary officers in 2017, did not receive any compensation for serving on the Board of Heartland or any of its subsidiary banks.

Messrs. Cox, Falb, Flynn, McCoy, Saylor, Schmidt and White also serve on the Board of one of our subsidiary banks and receive cash compensation and/or Heartland common stock for such service. Our subsidiary banks compensate directors by granting RSUs for Heartland common stock, though the directors are paid in cash for committee work on the Boards of our subsidiary banks. Heartland directors who served as directors of subsidiary banks received 125 RSUs during 2017 for their services on the Boards of subsidiary banks.

The following table shows non-employee director compensation during 2017 for service on the Heartland Board of Directors and the Boards of our subsidiary banks:

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash[(1)]	Stock Awards[(2)]	Total
John W. Cox, Jr.	$—	$ 46,788	$46,788
Mark C. Falb	$14,850	$ 55,407	$70,257
Thomas L. Flynn	$17,450	$ 55,407	$72,857
R. Michael McCoy	$12,500	$ 47,045	$59,545
Kurt M. Saylor	$3,025	$ 46,726	$49,751
John K. Schmidt	$12,500	$ 47,045	$59,545
Duane E. White	$11,850	$ 47,057	$58,907

(1) The amounts in this column include fees paid in cash for service on a committee at Heartland or one of Heartland's subsidiaries.

(2) The amounts in this column represent the fair value, determined based upon the market price of our common stock on the date of grant in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, of RSUs granted for service as directors of Heartland, as indicated above, as well as RSUs granted for service as directors of subsidiary banks. Messrs. Falb, Flynn, McCoy and Schmidt each received 125 RSUs for service as directors of Dubuque Bank and Trust Company on May 16, 2017, Mr. Cox received 125 RSUs for service as director of

Illinois Bank & Trust on May 22, 2017, Mr. Saylor received 125 RSUs for service as director of Morrill & Janes Bank on May 30, 2017, and Mr. White received 125 RSUs for service as director of Minnesota Bank & Trust on May 11, 2017.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table lists the beneficial ownership of our common stock as of January 31, 2018, by each person we know to beneficially own more than 5% of our outstanding common stock, by each director or each executive officer named in the summary compensation table and by all directors and executive officers of Heartland as a group.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership[1]		Percent of Class[2]
5% Stockholders, Directors and Nominees			
BlackRock, Inc., 55 East 52nd Street, New York, NY 10022	1,593,107	(3)	5.3%
Directors			
John W. Cox, Jr.	28,059	(4)	*
Mark C. Falb	179,654	(5)	*
Thomas L. Flynn	78,677	(6)	*
Lynn B. Fuller	1,042,169	(7)	3.5%
Bruce K. Lee	10,231		*
R. Michael McCoy	44,429	(8)	*
Kurt M. Saylor	301,596	(9)	1.0%
John K. Schmidt	148,929	(10)	*
Duane E. White	18,889		*
Other Named Executive Officers			
Brian Fox	14,158	(11)	*
Bryan R. McKeag	12,749	(12)	*
Andrew E. Townsend	27,441	(13)	*
All Directors and Executive Officers as a Group (20 persons)	1,968,461		6.6%

* Less than one percent

(1) The above beneficial owners have sole voting and investment power with respect to shares of common stock owned, except as set forth in the footnotes below. Share totals include restricted stock units that will vest within 60 days of January 31, 2018.

(2) Based upon 30,051,860 shares of common stock outstanding on January 31, 2018, plus any restricted stock units that will vest within 60 days of January 31, 2018 for that person.

(3) Based upon a Schedule 13G filed on February 1, 2018. BlackRock, Inc. has sole voting power with respect to 1,548,157 shares and sole dispositive power with respect to 1,593,107 shares.

(4) Includes 21,086 shares held by John W. Cox, Jr., Inc. Mr. Cox controls voting and disposition of these shares.

(5) Includes 68,856 shares held in a trust for which Mr. Falb's spouse serves as trustee, 38,798 shares held in a trust for which Mr. Falb serves as trustee, and 72,000 shares held in a charitable foundation in which Mr. Falb has no pecuniary interest.

(6) Includes 2,987 shares held by Mr. Flynn's spouse in an individual retirement account (IRA) and 36,170 shares held by Mr. Flynn jointly with his spouse.

(7) Includes 5,000 shares held in a trust for which Mr. Fuller's spouse serves as trustee, 598,554 shares held in a trust for which Mr. Fuller serves as sole trustee, 123,078 shares held in a trust for which Mr. Fuller serves as co-trustee, and 301,616 shares held in a limited liability limited partnership, for which Mr. Fuller acts as a general partner and for which his spouse and two sons are limited partners. Of the shares of common stock disclosed in the table, Mr. Fuller has pledged 205,887 shares as collateral for a personal loan.
(8) Includes 33,635 shares held by Mr. McCoy jointly with his spouse.
(9) Includes 85,763 shares held in a trust for which Mr. Saylor's spouse serves as trustee, and 215,833 shares held in a trust for which Mr. Saylor serves as trustee.
(10) Includes an aggregate of 18,483 shares held by Mr. Schmidt's spouse and minor child and 3,506 shares held by Mr. Schmidt jointly with his spouse. Of the shares of common stock disclosed in the table, 25,000 shares held in Mr. Schmidt's name are subject to a pledge as collateral for a personal loan.
(11) Shares are held in a revocable trust for which Mr. Fox serves as trustee.
(12) Includes 9,117 shares held in a living trust for which Mr. McKeag serves as trustee.
(13) Includes 26,278 shares held by Mr. Townsend jointly with his spouse.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires that our directors, executive officers and 10% stockholders file reports of ownership and changes in ownership with the SEC. Such persons are also required to furnish us with copies of all Section 16(a) forms they file. The following directors and executive officers filed late reports on Form 4 during the year ended December 31, 2017: Mr. Saylor (one report for one transaction) and Mr. Douglas Horstmann, former President and CEO of Dubuque Bank and Trust Company, a Heartland subsidiary (two reports for two transactions). Based upon information provided by officers and directors, except with respect to these late reports, we believe all our officers, directors and 10% stockholders filed all reports on a timely basis in 2017.

EXECUTIVE OFFICER COMPENSATION

Compensation Discussion and Analysis

Overview

This Compensation Discussion and Analysis (“CD&A”) addresses our total compensation philosophy and objectives with respect to our named executive officers. The CD&A also covers compensation factors, elements of compensation and the basis for compensation decisions for 2017.

We design our executive compensation program to be both competitive in the marketplace and to align the interests of our executive officers with the long-term interests of our stockholders. Our goal is to pay total direct compensation (base salary plus annual and long-term incentive compensation) that is competitive in our markets, and that attracts and retains talented executives. This generally means that we pay total direct compensation near the median of our peer group for comparable positions for target performance. Base salaries of our executives are typically near the peer group median, and in conjunction with annual and long-term incentive compensation, are targeted at the median. Incentives can be earned at above-median rates, but generally only for outstanding performance relative to the performance standards established by the Compensation/Nominating Committee.

2017 was a year of solid performance for our Company, including the following highlights:

* Annual net income of $75.3 million;
* Net interest margin of 4.04%, compared to 3.95% during 2016;
* Total assets increased to $9.81 billion, an increase of 19% from year end 2016;
* Diversified our market area and asset base with acquisition of Citywide Banks of Denver, Colorado (3rd Quarter 2017) and Signature Bank of Minnetonka, Minnesota (1st Quarter 2018); and
* Announced agreement to acquire FirstBank & Trust of Lubbock, Texas.

HIGHLIGHTS

* Total Assets Ý19%
* Largest Acquisition to Date
* 4.04% Net Interest Margin

Our executive compensation program includes a mix of base salary, annual incentive, and equity awards. Variable compensation based on performance is a significant component of total compensation. Our performance standards for annual incentive cash awards link to return on equity, efficiency ratio, loan growth and deposit growth. In 2017, we amended the performance standards to separately factor organic growth versus acquired growth in loans and deposits. We believe this change allows our executives to be rewarded for accretive acquisitions in addition to traditional organic growth. Payout continues to range from 0% to 150% for all incentive opportunities to enhance the sensitivity of awards to performance. Targets for our performance standards are determined with reference to median peer performance, Heartland's historical performance and Heartland's 2017 financial plan targets.

For long-term incentives, we continue to use a balanced portfolio approach, whereby we granted a blend of time-based RSUs and one-year and three-year performance-based RSUs. Time-based RSUs vest ratably over three years, while the one-year performance-based RSUs vest two years after measurement of performance and the three-year performance-based RSUs vest immediately upon measurement of performance. One-year performance-based RSUs were awarded based on 2017 earnings per share and both organic and acquired loan growth. Three-year performance-based RSUs were based on three-year earnings per share growth in comparison to peers and three-year return on tangible common equity in comparison to peers. Return on tangible common equity is defined as the amount equal to (a) net income available to common shareholders, divided by (b) average common equity less goodwill and core deposit intangibles and customer relationship intangibles, net. This measure is not determined in accordance with generally accepted accounting principles (“GAAP”).

Because of the uncertainties related to the Tax Cuts and Jobs Act and how it would impact results as measured against previously-set compensation standards, the Compensation/Nominating Committee voted on December 12, 2017, that all 2017 return on equity results used to calculate annual incentive and long-term incentive awards be adjusted to exclude the effects of any tax reform. The Act subsequently was signed into law on December 22, 2017.

We believe that this compensation program has, over the past five years, very closely aligned the value we have generated for stockholders with the compensation of our executives. The table below, which graphs CEO pay against total stockholder return (“TSR”), illustrates the alignment of CEO pay with company performance:
(1) Indexed TSR assumes an initial investment of $100 at the start of year one (2013) and reflects the annual increase/(decrease) in such investment as a result of annual TSR.
(2) Mr. Fuller's total compensation as disclosed in Heartland's proxy statements.
(3) Reflects the 50th percentile of Heartland's 2017 primary peer group, which is described later in this Compensation Discussion and Analysis section.
(4) Reflects the 50th percentile of Heartland’s 2017 secondary peer group, a broader group of banks with total assets ranging from $5 billion to $20 billion.
Administration of Our Executive Compensation Program

Role of the Compensation/Nominating Committee. The Compensation/Nominating Committee, which consists solely of independent directors, is primarily responsible for setting executive compensation for Heartland and then reporting its decisions to our Board of Directors. Each year, at its January and March meetings, the Compensation/Nominating

Committee makes decisions on base salary adjustments, annual and long-term incentive awards based on prior performance, and performance standards and targets for the coming year.

In making compensation decisions, the Compensation/Nominating Committee reviews and evaluates a broad range of material requested and received from management and its compensation consultant, including but not limited to, the following:

* financial reports covering, among other things, historical and year-to-date financial performance vs. the financial plan and financial performance vs. the peer group;
* individual performance information for the CEO and other executive officers;
* reports on Heartland's strategic objectives and future financial plans;
* information on executive officers' stock ownership;
* agreements and other plan documents regarding compensation; and
* competitive market data from consultants retained by the Compensation/Nominating Committee.

In formulating our performance-based compensation programs for executive officers, our Compensation/Nominating Committee considers the risk created by tying compensation to financial goals, including the risk of encouraging short-term behavior by tying a portion of compensation to annual goals, and the risks presented by encouraging higher earnings and asset and deposit growth. The Compensation/Nominating Committee is guided by the Guidance on Sound Incentive Compensation Policies jointly issued by the financial institution regulatory agencies in 2010, which establishes a framework for assessing the soundness of incentive compensation plans, programs and arrangements maintained by financial institutions, and encourages balanced risk-taking incentives compatible with effective controls and risk management and with general principles of strong corporate governance. The Compensation/Nominating Committee meets with Heartland's Chief Risk Officer annually and discusses any risks presented by its annual incentive program.

The Compensation/Nominating Committee believes that a sensible approach to balancing risk-taking and rewarding achievement of reasonable, but not necessarily easily attainable, goals has always been a component of the executive compensation program. The Compensation/Nominating Committee has regularly revisited the joint agency guidance as an effective tool for conducting its own assessment of the balance between risk and reward built into Heartland's executive compensation program.

The Compensation/Nominating Committee reviewed with the Chief Risk Officer of Heartland the incentive compensation arrangements for the named executive officers and has made reasonable efforts to ensure that such arrangements are appropriately balanced, do not create inappropriate risk-taking and do not impair the safety and soundness of Heartland and its subsidiary banks. We believe that tying a substantial portion of total direct compensation to long-term incentives keeps the named executive officers focused on the company's long-term performance. Other features in our executive compensation program discourage excessive risk-taking and encourage a focus on long-term performance. These features include performance standards that account for quality of growth, meaningful stock ownership guidelines and clawback provisions.

Role of Management. Our management evaluates employee performance, establishes business performance targets and objectives and recommends salaries, cash incentive and equity awards. Our CEO, President, Corporate Secretary and Chief Human Resources Officer assist the Chairman of the Compensation/Nominating Committee with setting the agenda for the Committee's meetings and coordinate the preparation of materials for all such meetings. At the request of the Compensation/Nominating Committee, our CEO, President and Chief Human Resources Officer also provide information regarding our strategic objectives, evaluations of executive officers' performance and compensation recommendations for executive officers other than themselves. Our CEO, President and Chief Human Resources Officer do not approve the compensation arrangements of any executive officers or participate in the formulation of their own compensation.

Role of Advisors - Peer Comparison. Grant Thornton LLP (“GT”) was retained by the Compensation/Nominating Committee in 2017 to provide compensation consulting services. GT’s role includes providing market information on compensation levels and practices, assisting in the design of compensation programs, providing input on related technical and regulatory matters and working with other advisors in developing peer groups.

In considering the retention of GT, the Compensation/Nominating Committee assessed GT’s independence in accordance with Nasdaq listing standards and considered that:

* GT does not provide any other services to Heartland, other than unrelated employment tax advisory services;
* The fees paid to GT by Heartland for its services as compensation consultant represent an insignificant portion of the total revenues of GT;
* GT maintains policies and procedures designed to prevent conflicts of interest between GT and the companies to which it provides services, as well as between its individual employees and such companies;
* Neither Heartland nor any member of the Compensation/Nominating Committee has any other business or personal relationship with GT or the employees of GT who provide services to the Committee;
* GT, and its employees who provide services to the Compensation/Nominating Committee, do not own any shares of Heartland common stock; and
* No executive officer of Heartland has any business or personal relationship with GT or its employees who provide services to the Compensation/Nominating Committee.

Based upon these and other factors, the Compensation/Nominating Committee concluded that the retention of GT did not present any conflicts of interest and that such retention was appropriate.

The Compensation/Nominating Committee annually reviews a competitive analysis generated by its compensation consultant as a benchmark for our executive compensation program. The Committee establishes appropriate and competitive ranges of annual and long-term compensation, with consideration for comparable benchmarks within the primary peer group. Various components of executive compensation (e.g., base salaries, equity compensation, retirement plan contributions and other benefits) are benchmarked against comparable positions within the primary peer group. In addition, the Compensation/Nominating Committee reviews information prepared by the compensation consultant on the usage of shares and related dilution levels for equity incentive plans within the primary peer group.

The Compensation/Nominating Committee, with the assistance of its compensation consultant, annually reviews the primary peer group which it uses to analyze the competitiveness of our executive compensation program. The members of the primary peer group are selected based on comparable industry, amount of total assets, market cap, and growth and returns over the past three to five years. The 2017 primary peer group added 13 companies and removed six companies from the 2016 primary peer group based on the criteria above. The table below lists the 28 companies that comprise our 2017 primary peer group:

NAME	CITY, STATE	TICKER	NAME	CITY, STATE	TICKER
Chemical Financial Corporation	Midland, MI	CHFC	Simmons First National Corporation	Pine Bluff, AR	SFNC
Western Alliance Bancorporation	Phoenix, AZ	WAL	LegacyTexas Financial Group, Inc.	Plano, TX	LTXB
International Bancshares Corporation	Laredo, TX	IBOC	Independent Bank Corp.	Rockland, MA	INDB
Great Western Bancorp, Inc.	Sioux Falls, SD	GWB	Park National Corporation	Newark, OH	PRK
Banc of California, Inc.	Irvine, CA	BANC	First Merchants Corporation	Muncie, IN	FRME
Banner Corporation	Walla Walla, WA	BANR	BancFirst Corporation	Oklahoma City, OK	BANF
Columbia Banking System, Inc.	Tacoma, WA	COLB	S&T Bancorp, Inc.	Indiana, PA	STBA
Glacier Bancorp, Inc.	Kalispell, MT	GBCI	Ameris Bancorp	Moultrie, GA	ABCB
Customers Bancorp, Inc.	Wyomissing, PA	CUBI	Eagle Bancorp, Inc.	Bethesda, MD	EGBN
FCB Financial Holdings, Inc.	Weston, FL	FCB	Tompkins Financial Corporation	Ithaca, NY	TMP
	Billings, MT	FIBK		Uniondale, NY	FFIC

First Interstate BancSystem, Inc.			Flushing Financial Corporation		
NBT Bancorp Inc.	Norwich, NY	NBTB	Southside Bancshares, Inc.	Tyler, TX	SBSI
Renasant Corporation	Tupelo, MS	RNST	1st Source Corporation	South Bend, IN	SRCE
Union Bankshares Corporation	Richmond, VA	UBSH	First Busey Corporation	Champaign, IL	BUSE

Because it recognizes the inherent limitations on benchmarked data, the Compensation/Nominating Committee does not establish compensation based on pre-established ratios of executive compensation to peer group data. Instead, peer group

17

data is one factor in the Committee's analysis, and it is used for a validation check of the final compensation package chosen for our executives.

Consideration of Advisory Vote. As determined by our stockholders in 2017, we annually submit our executive compensation arrangements to stockholders for a non-binding, advisory vote. The Compensation/Nominating Committee believes that an annual "say on pay" vote provides it with more direct and current input regarding the effectiveness of its compensation policies. At each of our Annual Meetings since the "say on pay" vote began, over 94% of the votes have been cast in favor of our executive compensation program. The Compensation/Nominating Committee interprets this high level of approval as an indication of our stockholders' endorsement of the program. The Compensation/Nominating Committee recognizes that effective practices evolve, and the Committee will continue to consider changes as needed to keep our executive compensation program competitive and performance-based.

Elements of Compensation

The compensation of our named executive officers is comprised of four primary components: (1) base salary, (2) annual incentive cash awards, and (3) long-term incentive equity compensation, which together constitute total direct compensation, and (4) additional benefits.

As illustrated by the following table, a substantial part of our CEO's total direct compensation for 2017 was performance-based:

2017 CEO Total Direct Compensation Mix

Fixed Compensation	Amount	% of Total Compensation	
Base Salary	$501,675	40	%
Total Fixed Compensation	$501,675	40	%
Variable-Based Compensation	Amount	% of Total Compensation	
Long-Term Equity Incentive - Performance-Based RSUs	$259,877	20	%
Long-Term Equity Incentive - Time-Based RSUs	$158,066	12	%
Annual Incentive Cash Award	$352,778	28	%
Total Variable-Based Compensation	$770,721	60	%
Total Direct Compensation	$1,272,396	100	%

Base Salary. The Compensation/Nominating Committee regards base salary as an important component of executive compensation because it provides executives with the assurance of a regular income. Base salaries are intended to assist us in attracting executives and recognizing different levels of responsibility and contribution. The Compensation/Nominating

Committee targets base salaries for our named executive officers near the peer group median for comparable positions, with additional consideration given to the executive's qualifications and experience, scope of responsibility and potential to achieve the goals and objectives established. Past performance and internal pay equity are also considered.

The following table lists the base salaries for our named executive officers in 2017 in comparison to 2016 and 2015:

Officer	2015	2016	2017
Lynn B. Fuller	$486,388	$499,219	$501,675
Bruce K. Lee	$383,519	$400,000	$485,417
Bryan R. McKeag	$305,625	$312,113	$316,913
Andrew E. Townsend	$—	$240,000	$266,250
Brian J. Fox	$—	$—	$275,025

Mr. Fox joined the group of named executive officers after the June 2017 retirement of Douglas Horstmann, the President and CEO of Heartland's flagship bank, Dubuque Bank & Trust. Mr. Fuller and Mr. McKeag received modest salary increases in 2017, while Mr. Lee and Mr. Townsend received more significant base salary increases in 2017 to align them more closely to the peer group median for their positions.

Annual Incentive Cash Awards. Our Compensation/Nominating Committee administers an executive incentive program that allows our named executive officers to earn annual incentive cash awards. The performance standards for the awards are designed to encourage not only financial performance, but to ensure growth in quality assets, to limit excessive risk-taking and to reward adherence to our longer-term financial plan. For our named executive officers, targets for the performance standards are based on Heartland's financial plan targets, with all of our named executive officers having a portion of their annual incentive tied to Heartland's return on common equity ("ROE"); efficiency ratio; organic loan growth, exclusive of loans obtained through acquisitions ("organic loan growth"); acquired loan growth; deposit growth, excluding certificates of deposit and deposits obtained through acquisitions ("organic deposit growth"); and acquired deposit growth. As Chief Credit Officer, Mr. Townsend does not have a component for deposit growth, but instead has performance standards for non-performing assets and net charge-offs.

The target annual incentive cash award for each named executive officer is based upon a percentage of his base salary. For 2017, the target annual incentive was 80% of base salary for Mssrs. Fuller and Lee, 60% for Mr. McKeag, and 50% for Mssrs. Townsend and Fox.

The total annual incentive cash award for each named executive officer is the sum of smaller awards based on each of the performance standards described above. The smaller awards are calculated using the following formula:

Award Based on Each Performance Standard	=	Executive Officer's Salary	x	Target Annual Incentive	x	Weighting of Performance Standard	x	(2017 Result ÷ 2017 Target)

The named executive officers may receive a maximum payout of up to 150% of target on all performance standards. No payout is received if threshold levels of performance are not met, with payouts beginning at 50% of targeted award levels for threshold performance.

Because we believe earnings and ROE are the most important indicators of market performance, and therefore best align the interests of our named executive officers with our stockholders, the largest proportion of the potential annual incentive cash award of our named executive officers is based upon ROE. To encourage superior performance, our ROE target is set at 10.25% or greater, which we believe is strong performance in relation to our peers based on competitive analysis.

As a growth-oriented bank holding company, it is also our objective to encourage growth in our most important asset: loans. Accordingly, both organic loan growth and acquired loan growth are significant factors for the annual incentive cash award of each of our named executive officers. Furthermore, because Mr. Townsend is in a particularly important position to influence the quality of loan growth, we base a portion of his annual incentive cash award on the ratio of nonperforming assets to total assets and on the ratio of net charge-offs to average total loans.

Our Compensation/Nominating Committee also bases a portion of the annual incentive cash award on organic deposit growth and acquired deposit growth for all named executive officers other than Mr. Townsend. Deposit growth is important to maintain liquidity and healthy reserves and to uphold a strong net interest margin.

The efficiency ratio is another factor in the named executive officers' annual incentive cash awards. This performance standard focuses attention on organizational efficiency. We believe the efficiency ratio, which measures productivity, is another indicator of returning value to our stockholders.

The remaining component upon which a portion of a named executive officer's annual incentive cash award may be earned is a discretionary standard. This allows the Compensation/Nominating Committee to take a broader view of the prior year's performance and allows the Committee to consider additional qualitative and quantitative factors, including risk management, merger and acquisition activity, credit quality, talent management, regulatory relations, special projects and unplanned/unexpected circumstances. Because of Heartland's successful system conversions and integration of a large bank acquisition in 2017, its strong net interest margin, aggressive growth and pipeline for future growth, and other factors, the Compensation/Nominating Committee awarded a payout of 125% for all named executive officers within the discretionary category.

The tables below show business plan targets and 2017 results that were used to calculate the annual incentive cash award for each of our named executive officers, dollars in thousands:

Mr. Fuller

Performance Standard	Weighting	2017 Target	2017 Result	2017 Score
Adjusted Return on Equity (non-GAAP)(1)	40.00 %	10.25 %	9.82 %	78.50 %
Efficiency Ratio (non-GAAP)(2)	10.00 %	65.00 %	65.40 %	90.00 %
Loan Growth, Organic	7.50 %	$267,586	$(42,101)	— %
Loan Growth, Acquired	7.50 %	$500,000	$1,081,846	150.00 %
YTD Non-Time Deposit Growth, Organic	7.50 %	$299,506	$(12,260)	— %
YTD Non-Time Deposit Growth, Acquired	7.50 %	$500,000	$1,245,670	150.00 %
Board Discretionary	20.00 %	100.00 %	125.00 %	125.00 %

Mr. Lee

Performance Standard	Weighting	2017 Target	2017 Result	2017 Score
Adjusted Return on Equity (non-GAAP)(1)	40.00 %	10.25 %	9.82 %	78.50 %
Efficiency Ratio (non-GAAP)(2)	10.00 %	65.00 %	65.40 %	90.00 %
Loan Growth, Organic	7.50 %	$267,586	$(42,101)	— %
Loan Growth, Acquired	7.50 %	$500,000	$1,081,846	150.00 %
YTD Non-Time Deposit Growth, Organic	7.50 %	$299,506	$(12,260)	— %
YTD Non-Time Deposit Growth, Acquired	7.50 %	$500,000	$1,245,670	150.00 %
Board Discretionary	20.00 %	100.00 %	125.00 %	125.00 %

Mr. McKeag

Performance Standard	Weighting	2017 Target	2017 Result	2017 Score
Adjusted Return on Equity (non-GAAP)(1)	40.00 %	10.25 %	9.82 %	78.50 %
Efficiency Ratio (non-GAAP)(2)	10.00 %	65.00 %	65.40 %	90.00 %
Loan Growth, Organic	7.50 %	$267,586	$(42,101)	— %
Loan Growth, Acquired	7.50 %	$500,000	$1,081,846	150.00 %
YTD Non-Time Deposit Growth, Organic	7.50 %	$299,506	$(12,260)	— %
YTD Non-Time Deposit Growth, Acquired	7.50 %	$500,000	$1,245,670	150.00 %

Board Discretionary	20.00 %	100.00 %	125.00 %	125.00%

Mr. Townsend

Performance Standard	Weighting	2017 Target	2017 Result	2017 Score
Adjusted Return on Equity (non-GAAP)(1)	40.00 %	10.25 %	9.82 %	78.50 %
Efficiency Ratio (non-GAAP)(2)	10.00 %	65.00 %	65.40 %	90.00 %
Loan Growth, Organic	7.50 %	$267,586	$(42,101)	— %
Loan Growth, Acquired	7.50 %	$500,000	$1,081,846	150.00%
Nonperforming Assets to Total Assets	10.00 %	0.90 %	0.76 %	135.00%
Net Charge-Offs to Average Loans Outstanding	10.00 %	0.20 %	0.24 %	80.00 %
Board Discretionary	15.00 %	100.00 %	125.00 %	125.00%

Mr. Fox

Performance Standard	Weighting	2017 Target	2017 Result	2017 Score
Adjusted Return on Equity (non-GAAP)(1)	40.00 %	10.25 %	9.82 %	78.50%
Efficiency Ratio (non-GAAP)(2)				