

# **HEARTLAND FINANCIAL USA, INC. CHARTER OF THE AUDIT AND CORPORATE GOVERNANCE COMMITTEE OF THE BOARD OF DIRECTORS**

(Revised December 2017)

## **I. Audit and Corporate Governance Committee Purpose**

The primary functions of the Audit and Corporate Governance Committee are to: (1) assist the Board of Directors of Heartland Financial USA, Inc., and its subsidiaries (the “Company”), in fulfilling its oversight responsibilities by reviewing the financial reports and other financial information provided by the Company to any governmental body or the public; reviewing the Company’s systems of internal controls regarding finance, accounting, risk management, legal compliance and ethics that management and the Boards of Directors have established; and reviewing the Company’s auditing, accounting and financial reporting processes generally and (2) develop and establish corporate governance policies and procedures for the Company. The Audit and Corporate Governance Committee’s primary duties and responsibilities are to:

- Monitor the integrity of the Company’s financial reporting process and systems of internal controls regarding finance, accounting, risk management, and legal compliance;
- Retain, oversee, review and terminate, if necessary, the Company’s independent registered public accounting firm and 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 by the Committee before work begins, regardless of dollar amount);
- Provide an avenue of communication among the independent registered public accounting firm, management, the risk management functions (i.e., Chief Risk Officer, Loan Review and Compliance), the Internal Audit department 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; and
- Monitor compliance with legal and regulatory requirements and establish appropriate corporate governance policies for the Company.

The Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the independent registered public accounting firm, Chief Risk Officer and the Chief Audit Executive (i.e., Director of Internal Audit), as well as anyone in the organization. The Committee has the ability to retain, at the Company’s expense, special legal, accounting or other consultants or experts it deems necessary in the performance of its duties. The Committee shall report to the Board of Directors regarding audit and corporate governance matters.

## **II. Audit and Corporate Governance Committee Composition**

The Audit and Corporate Governance Committee shall be comprised of three or more directors as determined by the Board, each of whom shall be an independent, non-employee director, free from any relationship that would interfere with the exercise of his or her independent judgment. Additionally, each Committee member shall be independent as defined by the rules and regulations of the Securities and Exchange Commission (the “SEC”), the Nasdaq Stock Market and any other body with regulatory

authority over the Company. All members of the Committee shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements. At least one member of the Committee shall possess financial management expertise sufficient to qualify as an “audit committee financial expert” as defined by the rules and regulations of the SEC and at least one member (who may also serve as the Audit Committee financial expert) shall have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication. Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Company or an outside consultant and shall satisfy all continuing education requirements of the SEC and the Nasdaq Stock Market (or by the rules and regulations of any other exchange or national market on which the Company’s common stock is quoted or listed for trading).

The Board of Directors shall appoint the members of the Committee. If a Committee Chair is not designated or present, the members of the Committee may designate a Chair by majority vote of the Committee membership.

### **III. Meetings**

The Audit and Corporate Governance Committee shall meet at least once quarterly, or more frequently as circumstances dictate. The Committee shall maintain copies of minutes of each meeting of the Committee. A copy of the minutes of each meeting and all consents shall be placed in the Company’s minute book.

As part of its job to foster open communication, the Committee shall meet at least annually with management, the Chief Risk Officer, the Internal Auditors and the independent registered public accounting firm in separate executive sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately. In addition, the Committee, or the Chairman of the Committee, shall meet with the independent registered public accounting firm and management quarterly to review the Company’s financial statements.

### **IV. Duties and Responsibilities of the Committee with Respect to Audit Matters**

#### ***The Audit and Corporate Governance Committee shall:***

1. Review and approve the Company’s annual audited financial statements prior to filing with the SEC and discuss with management and the Company’s independent registered public accounting firm any significant issues regarding accounting principles, practices and judgments.
2. Review with management and the independent registered public accounting firm the Company’s quarterly financial results or other items required to be communicated by the independent registered public accounting firm under PCAOB Auditing Standard No. 16, as amended either prior to the release of earnings or before filing with the SEC. In accordance with PCAOB Auditing Standard No. 16, the quarterly communications with the Committee also include management representations and differences identified throughout the

independent registered public accounting firm's quarterly reviews. The Chair of the Committee may represent the entire Committee for purposes of this review.

3. In consultation with management, the independent registered public accounting firm, the risk management functions and the Internal Audit department, consider the integrity of the Company's financial reporting processes and controls.
4. Participate in meetings with management, the risk management functions, the Internal Audit department and the independent registered public accounting firm to discuss any significant risk exposures and the steps management has taken to monitor, control and report such exposures. In so doing, the Committee shall review significant findings reported by the independent registered public accounting firm, the risk management functions and the Internal Audit department, together with management responses.
5. Have sole authority over, and responsibility for, the retention and oversight of the Company's independent registered public accounting firm. The independent registered public accounting firm shall report directly to the Committee. The Committee shall pre-approve any tax-related services to be paid to the independent registered public accounting firm before work begins, regardless of dollar amount. Exclusive of any tax-related services, the Committee shall approve all other services with fees greater than \$25,000 and ratify all services less than \$25,000 and other compensation to be paid to the independent registered public accounting firm. In fulfilling these duties, the Committee shall consider the independence and effectiveness of the independent registered public accounting firm. The Committee shall continuously review and discuss with the independent registered public accounting firm all significant relationships that the firm has with the Company to determine the firm's independence. The Committee shall have sole authority over, and responsibility for, reviewing the performance of the independent registered public accounting firm and discharging the independent registered public accounting firm when circumstances warrant.
6. Pre-approve any tax-related services to be performed by the independent registered public accounting firm regardless of dollar amount. Pre-approve all audit and non-audit services in excess of \$25,000 and ratify all services less than \$25,000 to be performed by the independent registered public accounting firm.
7. Review the independent registered public accounting firm's audit plan, including aspects of the plan relating to scope, staffing, locations, reliance upon management and the Internal Audit department and general audit approach, prior to the audit.
8. Monitor the services performed by the independent registered public accounting firm to ensure that any services prohibited by the SEC, or by any exchange or national market on which the Company's common stock is quoted or listed for trading, are not performed during the period in which the independent registered public accounting firm is performing audit services for the Company.

9. Monitor policies for the Company's hiring of employees or former employees of the independent registered public accounting firm who were engaged on the Company's account (recognizing that the independent auditors may not perform the audit if the chief executive officer, controller, chief financial officer or chief accounting officer was employed by the independent registered public accounting firm and participated in any capacity in the audit during the one year preceding the initiation of the audit).
10. Discuss with the independent registered public accounting firm the matters required to be discussed by PCAOB Auditing Standard No. 16, as amended relating to the conduct of the audit. Such review should also include:
  - a. Any problems or difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information;
  - b. Any management letter provided by the independent registered public accounting firm and the Company's response to that letter;
  - c. Any changes required in the planned scope of the audit;
  - d. The Internal Audit department responsibilities;
  - e. Selection of new accounting policies or a change in the application of existing accounting policies;
  - f. Significant estimates, judgments and uncertainties in management's preparation of financial statements; and
  - g. Unusual transactions.
11. Obtain and review a report from the independent registered public accounting firm at least annually describing (a) the firm's internal quality-control procedures, (b) any material issues raised by the most recent quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm, (c) any steps taken to deal with any such issues, and (d) all relationships between the independent registered public accounting firm and the Company. After reviewing such report, the Committee will evaluate the qualifications, performance and independence of the independent registered public accounting firm, including considering whether the auditor's quality controls are adequate and the provision of non-audit services is compatible with maintaining the auditor's independence, and taking into account the opinions of management and the Internal Auditors. The Committee shall also be responsible for actively engaging in a dialogue with the independent registered public accounting firm with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent registered public accounting firm and for taking, or recommending that the Board take, such appropriate action as may be necessary to satisfy itself as to the qualifications, performance and

independence of the independent registered public accounting firm. The Committee shall present its conclusions with respect to the independent registered public accounting firm to the Board.

12. Consider the independent registered public accounting firm's judgment about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting.
13. Review, with the Company's counsel, any legal matters that could have a significant impact on the Company's financial statements.
14. Review and approve the Annual Risk-Based Internal Audit Plan of the Internal Audit department, and its performance under said Plan.
15. Review and approve decisions regarding the appointment, replacement, dismissal, compensation and performance of the Chief Audit Executive (i.e., Director of Internal Audit). As a part of such review and approval, the Committee meeting minutes should reflect the review and approval of these duties and responsibilities.
16. Discuss with the Chief Audit Executive whether there are any significant relationships Internal Audit personnel have with the Company that would impair their objectivity and independence.
17. Review and approve the Internal Audit budget and resource plan at least annually, and receive periodic communications from the Chief Audit Executive on the Internal Audit department's performance relative to its plan, resources and other matters (i.e., inappropriate scope or resource limitations).
18. Review and approve the fees to be paid to Internal Audit third party providers performing outsourced/co-sourced Internal Audit services.
19. Review and evaluate the organizational independence and oversight of the Internal Audit department at least annually, to ensure it has sufficient authority to fulfill its duties. The Chief Audit Executive will report functionally to the Company's Audit Committee and administratively (i.e., day-to-day operations) to the Company's Chief Executive Officer. Changes in the reporting structure of the Chief Audit Executive shall be subject to Committee approval.
20. Review significant reports prepared by the Internal Audit department together with management's response and follow-up to such reports.
21. Review significant risk instances or risk management reports prepared by the Chief Risk Officer and other risk management functions and provide follow-up to such reports/instances. The Chief Risk Officer shall administratively report to the Company's Chief Executive Officer and functionally report to the Committee on a regular basis.

22. On at least an annual basis obtain from the independent registered public accounting firm all copies of attorney letters discussing any legal matters that could have a significant impact on the Company's financial statements, the Company's compliance with applicable laws and regulations and inquiries received from regulators or governmental agencies. The Committee shall review all reports concerning any significant fraud or regulatory noncompliance that may have occurred at the Company. This review should include consideration of the internal controls that should be strengthened to reduce the risk of such occurrences.
23. Annually direct the creation of and approve a report to stockholders as required by the SEC for inclusion in the Company's annual proxy statement.
24. Maintain minutes of Committee meetings and report to the Board of Directors on significant results of the foregoing activities.
25. Review and reassess the adequacy of this Charter and Internal Audit Department's Charter at least annually, and update the Charters as conditions may dictate.
26. Perform any other activities consistent with this Charter, the Company's by-laws, and governing law, as the Committee or the Board deems necessary or appropriate.

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of the independent registered public accounting firm and management.

## **V. Duties and Responsibilities of the Committee with respect to Corporate Governance Matters**

### ***The Audit and Corporate Governance Committee shall:***

1. At least annually, determine whether each member of the Board of Directors of the Company is "independent" as such term is defined in the requirements of the SEC, the Nasdaq Stock Market and any other body with regulatory authority over the Company.
2. The Committee shall develop and maintain, and shall recommend to the Board of Directors that it adopt, a Code of Business Conduct and Ethics for the Company. Such Code shall address various legal and regulatory issues applicable to the directors, officers and employees of the Company. The Committee shall review, at least annually, the Company's enforcement mechanism for such Code.
3. The Committee shall review and assess, at least annually, the adequacy of the Company's corporate governance policies and procedures in light of the legal and regulatory requirements applicable to the Company, its directors, officers and employees, and shall amend and supplement such policies and procedures as the Committee determines are appropriate and as approved by the Board of Directors.

4. Establish and maintain policies and procedures for employees of the Company to anonymously report accounting errors or improprieties directly to the Committee.
5. Review and pre-approve all material related party transactions that are not prohibited by the rules of the SEC or of any exchange or national market on which the Company's common stock is quoted or listed for trading.
6. Establish an orientation program for directors beginning their service on the Board of Directors. Such program shall provide new directors with information regarding their duties and responsibilities to the Company, the Company's business and operations, the policies and procedures applicable to service on the Board of Directors and the legal implications of Board service.
7. Establish, coordinate, monitor and maintain a continuing education and training program for directors of the Company. The Committee shall establish participation requirements in such program for directors of the Company and shall monitor compliance with those requirements. The program shall be designed to apprise directors of any legal, accounting, corporate governance or other developments relevant to service on the Board of Directors.
8. Review, with the Company's counsel, legal compliance matters, including corporate securities trading policies.
9. The Committee shall, at least annually, evaluate the performance, structure and authority of the committees of the Board of Directors. The Committee shall make recommendations to the Board of Directors with respect to the assignment of individual directors to the committees of the Board of Directors.