

# Heartland Financial USA, Inc.

## Internal Audit Charter Revised December 2017

### Purpose and Mission

The purpose of Heartland Financial USA, Inc. and its subsidiaries' (Company's) Internal Audit department is to provide independent, objective assurance and consulting services designed to add value and improve the Company's operations. The mission of Internal Audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight. Internal Audit reviews corporate activities as a service to the Board of Directors, Audit Committee and Management of the Company. The Internal Audit departmental activities helps the Company accomplish its objectives by bringing a systemic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Internal Audit represents an in-house department of the Company. Some aspects of the Company's Internal Audit activities may be outsourced/co-sourced to an independent third-party audit firm; however, will be managed under the direction of the Chief Audit Executive (i.e., Director of Internal Audit) or their designee.

### Standards for the Professional Practice of Internal Auditing

The Internal Audit department will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing*, and the Definition of Internal Auditing. The Chief Audit Executive will report periodically to senior management and the Company's Audit Committee regarding the Internal Audit department's conformance to the Code of Ethics and the *Standards*.

### Authority and Oversight

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. To establish, maintain, and assure the Company's Internal Audit department has sufficient authority to fulfill its duties, the Company's Audit Committee will:

- Approve the Audit Committee's and the Internal Audit department's charters.
- Approve the Risk-Based Internal Audit Plan.
- Approve the Internal Audit department's budget and resource plan.
- Approve the fees paid to Internal Audit third party providers performing outsourced/co-sourced Internal Audit services.
- Receive communications from the Chief Audit Executive on the Internal Audit department's performance relative to its plan, resources and other matters.
- Approve decisions regarding the appointment and dismissal of the Chief Audit Executive.
- Approve the performance and remuneration (i.e., compensation) of the Chief Audit Executive.
- Make appropriate inquiries of management and the Chief Audit Executive to determine whether there is inappropriate scope or resource limitations.

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In addition to reliance for oversight of the Internal Audit department, the Audit Committee considers the work performed by other in-house second line of defense business areas (i.e. Risk Management, Loan Review and Compliance), the Company's independent registered public accounting firm, and the periodic examination reviews performed by the FDIC, State financial institution regulatory agencies and the FRB.

The Chief Audit Executive will have unrestricted access to, and communicate and interact directly with, the Company's Audit Committee, including in private meetings without management present.

The Company's Audit Committee authorizes the Internal Audit department to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives and issue reports.
- Obtain assistance from the necessary personnel of the Company, as well as other specialized services from within or outside the Company, in order to complete the engagement.

### Independence and Objectivity

The Chief Audit Executive will ensure that the Internal Audit department remains free from all conditions that threaten the ability of Internal Auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Chief Audit Executive determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal Auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, Internal Auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for the Company.
- Initiating or approving transactions external to the Internal Audit department.
- Directing the activities of any Company employee not employed by the Internal Audit department, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist Internal Auditors.

Where the Chief Audit Executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

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Internal Auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The Chief Audit Executive will confirm to the HTLF Audit Committee, at least annually, the organizational independence of the Internal Audit department and its personnel. The Chief Audit Executive will disclose to the HTLF Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

### Scope of Internal Audit Activities

The scope of Internal Audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the HTLF Audit Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for the Company. Internal Audit assessments include evaluating whether:

- Risks relating to the achievement of Company's strategic objectives are appropriately identified and managed.
- The actions of the Company's officers, directors, employees, and contractors are in compliance with the Company's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Company.
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Chief Audit Executive will report periodically to senior management and the Audit Committee regarding:

- The Internal Audit department's purpose, authority, and responsibility.
- The Internal Audit department's plan and performance relative to its plan.
- The Internal Audit department's conformance with The IIA's Code of Ethics and *Standards*, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee.
- Results of audit engagements or other activities.
- Resource requirements.

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- Any response to risk by management that may be unacceptable to the Company.

The Chief Audit Executive also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. When in-house Internal Audit personnel expertise cannot be achieved, the audit work shall be outsourced to an independent third-party audit firm. The Internal Audit department may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the Internal Audit department does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

Activities performed by the Internal Audit department may also serve as a basis of reliance for the independent registered public accounting firm, regulatory agencies, and other third-party providers, thus leveraging the work and time spent reviewing the Company's processes and financial records. Internal Audit primarily focuses on compliance with the Company's policies and procedures, safety and soundness laws and regulations, performing financial and operational process audits and will be conducted in a manner to detect inconsistencies with application to policies, procedures, laws and regulations and in identifying internal control deficiencies while providing value added service. These services may range from reporting results of substantive testing performed that is inconsistent with policies, procedures, law and regulations as well as providing suggestions to eliminate redundancies in operations to providing sources where foregone income may exist.

Internal Audit reports will be directed to appropriate levels of management responsible for the subject under review. In addition, summarized results of Internal Audit deliverables are generally presented at each regularly scheduled Audit Committee meeting with the availability of the full detailed deliverable available upon request or included as part of the Audit Committee Supplementary Appendix.

Unless otherwise noted, the scope of each Internal Audit shall be sufficient to assign a rating for the auditable unit under review. The auditable unit will be overall rated as Satisfactory, Low Satisfactory, Needs Improvement or Unsatisfactory, based upon criteria established and uniformly applied by the Internal Auditor. The overall ratings are intended to generally align with the Company's Enterprise Risk Management (ERM) framework classifications and associated definitions. A description of the ratings is as follows:

<b>SATISFACTORY</b>	Virtually all desired operational, financial, and compliance controls necessary to ensure that risk of material loss is minimized and functional objectives are met, are in place, documented, and performing as designed. No significant deficiencies and/or significant violations of laws or regulations exist. While improvement continues to be appropriate, controls are considered adequate and aggregate findings are not significant to the overall unit.
<b>LOW SATISFACTORY</b>	No significant deficiencies exist; however, multiple deficiencies and/or minimal instances of non-compliance with laws or regulations were identified that could have some level of impact on the operations of the unit. The areas reviewed were sufficiently addressed, however, the

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	number of issues identified, relative to the risk profile for the business process, law and/or regulation, warrants a less than satisfactory rating.
<b>NEEDS IMPROVEMENT</b>	Some improvement is needed to bring the unit to a low satisfactory status or satisfactory status. Identified deficiencies and/or instances of non-compliance with laws or regulations, if combined, could have a significant impact on the operations of the unit. If deficiencies are not remediated, they could lead to further deterioration and an unsatisfactory status. The number and/or riskiness of issues noted suggest that immediate Management action is strongly encouraged.
<b>UNSATISFACTORY</b>	Significant deficiencies, material weaknesses and/or significant violations of laws or regulations exist that could lead to material financial loss or embarrassment to the Bank. Immediate Management action is required.

Unless otherwise noted, an Internal Audit report/deliverable shall be issued for each assessment and directed to the appropriate level of management of the auditable unit as well as to the Company's CRO, CFO, President, and CEO. In addition, each Internal Audit report issued will be made available to the Company's independent registered public accounting firm and other external parties upon request. For each observation noted, a formal management response is requested an estimated target date of remediating the observation as well as the responsible owner and other managers that need to be assigned to the observation.

### Responsibility

The Chief Audit Executive has the responsibility to:

- Submit, at least annually, to senior management and the Audit Committee a Risk-Based Internal Audit Plan for review and approval.
- Communicate to senior management and the Audit Committee the impact of resource limitations on the Internal Audit Plan.
- Review and adjust the Internal Audit Plan, as necessary, in response to changes in the Company's business, risks, operations, programs, systems, and controls.
- Communicate to senior management and the Audit Committee any significant interim changes to the Internal Audit Plan.
- Ensure each engagement of the Internal Audit Plan is executed, including the establishment of objectives and scope, and assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow-up on engagement findings and corrective actions (including regulatory safety and soundness issues), and report periodically to senior management and the Audit Committee any corrective actions not effectively implemented.
- Ensure principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the Internal Audit department collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Internal Audit charter.
- Ensure trends and emerging issues that could impact the Company are considered and communicated to senior management and the Audit Committee as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.

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- Establish and ensure adherence to policies and procedures designed to guide the Internal Audit department.
- Perform a review with respect to the Audit Committee's compliance with their charter.
- Ensure adherence to the Company's relevant policies and procedures, unless such policies and procedures conflict with the Internal Audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Audit Committee.
- Ensure conformance of the Internal Audit departmental activities with the *Standards*, with the following qualifications:
  - If the Internal Audit department is prohibited by law or regulation from conformance with certain parts of the *Standards*, the Chief Audit Executive will ensure appropriate disclosures and will ensure conformance with all other parts of the *Standards*.
  - If the *Standards* are used in conjunction with requirements issued by regulatory and/or other authoritative bodies, the Chief Audit Executive will ensure that the Internal Audit department conforms with the *Standards*, even if the Internal Audit department also conforms with the more restrictive requirements of these regulatory and/or other bodies.

### Quality Assurance and Improvement Program

The Internal Audit department will maintain a quality assurance and improvement program that covers all aspects of the Internal Audit department. The program will include an evaluation of the Internal Audit department's conformance with the *Standards* and an evaluation of whether Internal Auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the Internal Audit department and identify opportunities for improvement.

The Chief Audit Executive will communicate to senior management and the Audit Committee on the Internal Audit department's quality assurance and improvement program, including the results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Company.