



**Charter of the Audit Committee
of the Board of Directors**

And

Audit Policy

Pinnacle Bank
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I. Audit Committee Purpose

The Audit Committee (the “Committee”) is appointed by the Board of Directors (the “Board”) of Pinnacle Bank (the “Bank”) to assist the Board in fulfilling its oversight responsibilities. The Audit Committee’s primary duties and responsibilities are to:

- Monitor the integrity of the Bank’s financial reporting process and systems of internal controls regarding finance, accounting, and legal and regulatory compliance.
- Monitor the qualifications, independence and performance of the Bank’s independent auditors, out-sourced internal audit firms, and external credit review firms, referred to herein, collectively as “independent auditors.”
- Provide an avenue of communication among the independent auditors, management and the Board.
- Monitor the Bank’s enterprise-wide risk management program.

The Audit Committee has the authority and responsibility to select, evaluate, and where appropriate, replace the independent auditors. The Audit Committee has the authority to, and shall, conduct any investigation appropriate to fulfilling its responsibilities, and has direct access to the independent auditors as well as anyone in the organization. The Audit Committee has the ability to retain, at the Bank’s expense, special legal or accounting experts, or other such consultants, advisors or experts it deems necessary in the performance of its duties at its discretion, without prior permission of the Bank’s Board of Directors or management.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or determine that the Bank’s financial statements and disclosures are complete, accurate, and in accordance with generally accepted accounting principles and applicable rules and regulations. Nor is it the duty of the Audit Committee to conduct investigations or to assure compliance with laws and regulations and the Bank’s corporate policies.

II. Committee Membership and Meetings

The Audit Committee will consist of no fewer than three members of the Board. All members of the Audit Committee shall satisfy the independence and experience requirements of the Securities and Exchange Commission (“SEC”) and the NASDAQ National Market (“NASDAQ”) applicable to audit committee members as in effect from time to time when and as required by SEC and NASDAQ, shall be able to read and understand fundamental financial statements, including a balance sheet, income statement and statement of cash flows and shall not have participated in the preparation of the financial statements of the Bank at any time during the prior three years. At least one member of the Audit Committee shall have experience or background that results in that member’s “financial sophistication” within the meaning of such requirements. A member of the Audit Committee who is a “financial expert” under the regulations of the Securities and Exchange Commission will be presumed to have financial sophistication for purposes of the preceding sentence.

The Board of Directors reserves all authority permitted under the rules of the Securities and Exchange

Commission (“SEC” or “Commission”) and NASDAQ in connection with any matter referred to in this Charter, including but not limited to the determination of independence of Audit Committee members.

The Audit Committee shall meet periodically, on no less than a quarterly basis, and special meetings may be called when circumstances require. The Committee may meet in person or by telephone or video conference call. One regular meeting shall be held prior to the start of each regular annual audit to review the proposed scope of the audit, cost estimates and current developments in the accounting and regulatory areas that may affect the Bank or its financial statements. The Audit Committee shall meet periodically with management and the independent auditor in separate executive sessions. The Committee shall keep minutes of all Committee meetings and provide to the Board on a timely basis.

III. Committee Responsibilities and Duties

The Audit Committee has the specific responsibilities and authority necessary to comply with Rule 10A-3(b), (2), (3), (4) and (5) under the Securities Exchange Act of 1934. Although the Committee may wish to consider other duties from time to time, the general recurring activities of the Committee in carrying out its oversight role are described below.

All issues of policy of the Committee will be presented to the Board of Directors for approval.

a) Review Procedures

- Review and reassess the adequacy of this Charter and Audit Policy at least annually. Submit changes to the Charter and Audit Policy to the Board of Directors for approval
- Prepare the report that the rules of the SEC require be included in the Bank’s annual proxy statement, at such time as this requirement may become applicable to the Bank.
- Review the Bank’s annual audited financial statements prior to filing or distribution. Review to include discussion with management and independent auditors of all significant issues and reports regarding accounting principles, practices, and judgments.
- In consultation with management and the independent auditors, review and discuss the integrity, adequacy, and effectiveness of the Bank’s financial reporting processes and controls. Discuss significant financial risk exposures and the steps management has taken to monitor, control and report such exposures. Review and discuss any significant deficiencies in internal control and changes in such controls reported to the Audit Committee by the independent auditors or management together with management’s responses.
- Review with financial management and the independent auditors the Bank’s quarterly financial results prior to the release of earnings, material news releases and the Bank’s quarterly financial statement prior to filing or distribution.
- Review the process for filing accurate and timely financial statements and Call Reports.
- Discuss any significant changes to the Bank’s accounting practices and any items required by regulation to be discussed, including, but not limited to: the auditor’s responsibility under Generally Accepted Auditing Standards (GAAS), significant accounting policies, management judgments and accounting estimates, significant audit adjustments, other information in documents containing audited financial statements, disagreements with management – including accounting principles, scope of audit, disclosures, consultation with other accountants by management, major issues discussed with management prior to retention and difficulties encountered in performing the audit.

b) Independent Auditors

- All independent auditors are ultimately accountable and report to the Audit Committee and the Board of Directors. The Audit Committee shall review the independence and performance of all auditors and annually recommend to the shareholders the appointment of the independent auditors or approve any discharge of auditors when circumstances warrant.
- Approve in advance the fees and other significant compensation to be paid to independent auditors.
- On an annual basis, the Committee will review and discuss with independent auditors all significant relationships they have with the Bank and whether any could impair the auditor's independence. The Audit Committee shall ensure that it receives from independent auditors a formal written statement delineating all relationships between the auditors and the Bank.
- Review and discuss with independent auditors the independent auditors' audit plan, and discuss the scope, staffing, locations, reliance upon management, and the general audit approach. Discuss with independent auditors and management the timing and process for implementing the rotation of the lead partner and reviewing partner.
- Obtain and review on an at least annual basis a report prepared by each independent auditor firm describing the independent auditors' internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review, 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 independent auditing firm, and any steps taken to resolve any such issues.
- Discuss the results of the audit with the independent auditors prior to releasing the year-end earnings. Discuss with the independent auditors, at least on an annual basis, the matters required to be communicated to audit committees, including, but not limited to: the auditor's responsibility under Generally Accepted Auditing Standards (GAAS), significant accounting policies, management judgments and accounting estimates, significant audit adjustments, other information in documents containing audited financial statements, disagreements with management – including accounting principles, scope of audit, disclosures, consultation with other accountants by management, major issues discussed with management prior to retention and difficulties encountered in performing the audit.
- Consider the independent auditors' judgment regarding the quality and appropriateness of the Bank's accounting principles as applied in its financial reporting, including the underlying estimates used in the preparation of the Bank's financial statements, the clarity of the financial disclosure practices used by the Bank. Inquire as to the independent auditors' views regarding whether management's choice of accounting principles appear reasonable from the perspective of income, asset and liability recognition, and whether those principles are common or minority practices.
- Review with management and independent auditors their assessments of the adequacy of all internal controls, and the resolution of identified material weaknesses and reportable conditions in internal controls, including the prevention or detection of management override or compromise of the internal control system.
- Review with management and independent auditors the Bank's compliance with laws and regulations.

c) Internal Auditors

- The Audit Committee shall review the appointment, performance and termination of the outsourced internal audit and credit review firms. The Bank’s internal audit and credit review firms will report directly to the Audit Committee.
- Approve the annual internal audit plan to assure comprehensive coverage of significant risk areas.
- Discuss with management the Bank’s major financial and other risk exposures and the steps management has taken to monitor and control such exposures.
- Review internal audit reports and review management’s responses to the reports.

d) Compliance Oversight

- Review with management the results of all Regulatory Reports of Examination and provide oversight of the work plan, which will bring the Bank into compliance with regulatory recommendations in a timely manner.
- Obtain reports from management, the Bank’s Compliance Committee and independent auditor that the Bank is in conformity with applicable legal and regulatory. Review reports and disclosure of insider and affiliated party transactions. Advise the Board with respect to the Bank’s policies and procedures regarding compliance with applicable laws and regulations.
- Establish procedures for the receipt, retention and treatment of complaints received by the Bank regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
- As needed, review with the Bank’s counsel, any legal matters that could have a significant impact on the organization’s financial statements, the Bank’s compliance with applicable laws and regulations, and inquiries received from regulators of governmental agencies.

e) Other Audit Committee Responsibilities

- Annually perform self-assessment of Audit Committee performance.
- Review all off-balance sheet transactions for compliance with applicable accounting rules and legal disclosure rules.
- Review the schedule of unrecorded adjustments to the Bank’s financial statements and the reasons underlying the Bank’s assessment of the immateriality of such adjustments.
- Review risk assessment and risk management in connection with the enterprise risk management process. While the Bank’s executive team is responsible for assessing and managing the entity’s exposure to risk, the audit committee will discuss guidelines and practices to govern the process by which this is accomplished and to discuss the entity’s major financial risk exposures.
- Perform any other activities consistent with this Charter, the Bank’s by-laws, and governing law, as the Audit Committee or the Board of Directors deems necessary or appropriate.

g) Resolution of Audit Findings

- The following guidelines have been set for management to respond to audit findings:

Risk Rating	Maximum Resolution Timeframe
High	30 days
Moderate	90 days
Low	180 days

The action to resolve, or proposed to resolve, each audit finding will be presented in writing to the Audit Committee at the next regularly scheduled committee meeting after receipt of an audit or examination report unless the report is received within 15 days of such a meeting; in this case, the written response will be presented at the following regularly scheduled Audit Committee meeting.

IV. AUDIT LIASION

The Bank's Chief Risk Officer serves as an Audit Liaison. Responsibilities of the Audit Liaison role include:

- Coordinating logistics of internal audits and examinations
- Coordinating audit and examination responses
- Maintaining Master Audit Schedule
- Coordinating maintenance of Audit Log