

First National Bank

Organizational Functional Area:	All Employees
Policy For:	Code of Conduct & Conflict of Interest
Board Original Approval:	March 2003
Last Review Date:	October 2011
Last Revision Date:	October 11, 2011
Board Approval Date:	October 2011
Department/Individual Responsible for Maintaining/Updating Policy:	Human Resources / Judi Clements

This policy is to be reviewed at least annually and/or any other time compliance or circumstances necessitate review and/or updating.

CODE OF CONDUCT AND CONFLICT OF INTEREST POLICY

This Code of Conduct and Conflict of Interest Policy shall be applicable to directors, officers and employees of Pinnacle Bankshares Corporation and its subsidiaries and of First National Bank and its subsidiaries.

While it is in the interest of the Bank for directors and staff members to participate in various civic and professional organizations, it is important that the Bank's ethical standards are not compromised and that conflicts of interest are avoided. Business relationships must be carefully scrutinized to avoid even the appearance of impropriety. If any director or staff member is unclear of the impact of the Bank's policies upon a personal, non-Bank situation, it is important to seek guidance from Bank management prior to entering into that transaction or situation.

If a staff member has participated in or has been asked to participate in any activity that may be in violation of this policy including but not limited to the receipt of inappropriate gifts or involvement in a conflict of interest, he/she should inform the Bank's Chief Executive Officer (CEO) through supervisory channels. If the staff member is uncomfortable in discussing the situation with his/her supervisor, the staff member should contact the Director of Human Resources.

Conflict of Interest – Bank Transactions. A conflict of interest exists whenever a director or staff member has a financial interest, direct or indirect, with a customer doing business with the

Bank, and in the opinion of the Bank, that interest is of such extent that it might affect his or her judgment or decision on behalf of the Bank.

A Bank director or staff member shall not represent the Bank in any transaction in which he has any material connection or substantial financial interest. Specifically, a material connection includes the involvement of any family member or member of a director's or staff member's household. Family members include spouse, son, daughter, father, mother, brother, sister, father-in-law, mother-in-law, daughter-in-law, son-in-law, brother-in-law, sister-in-law, grandparent, grandchild, niece, nephew, first cousin, and step relationships of those listed here. Transactions involving business partners and close personal friends may also provide potential for such conflict of interest.

The definition of the phrase "substantial financial interest" shall be provided by the Bank. Each different situation may give rise to a different interpretation of this phrase.

The term "transaction" for purposes of this policy, includes but is not limited to, approval of Bank overdrafts, authorizing or accepting checks on uncollected funds, waiving Bank charges, late charges or other fees. It also includes approving loans, making loans, waiving financial statements or any similar type of activity.

No director or staff member shall acquire for the Bank any service, goods, equipment, machinery, property or securities from a firm, broker, vendor, or contractor in which he has a substantial financial interest or material connection as defined herein without first advising the Bank's CEO in writing.

Personal Affairs. Because of the great element of trust involved in the job, Bankers are usually more subject to public censure for bad habits or mismanagement of their personal lives than those engaged in other professions. Directors and staff members, therefore, have a responsibility to conduct their personal affairs in such a manner which avoids any unfavorable reflection upon the Bank.

The conscientious director and staff member will use common sense, good ethical standards and discretion as a guide to proper personal conduct.

If in the judgment of the Bank's management, a staff member fails to maintain these standards of personal conduct, appropriate disciplinary action, which may include termination of employment, will occur.

The Board of Directors will censure its own number in the event of breach of proper personal conduct.

Business Dealings With Customers. The Bank encourages directors and staff members to patronize any Bank customer engaged in legitimate professional or business activities. However, the director or staff member must not use information obtained through connections with the Bank, in any way, while dealing with this customer. Particularly prohibited is the use of Bank information to obtain special terms or price concessions.

Outside Employment. Staff members who desire employment unrelated to their work at the Bank must carefully avoid conflicts regarding employment transactions, hours of work or any other potential issue which may interfere with Bank activities. Staff members must bear in mind that their commitment to the Bank is their first responsibility. Although staff members normally work certain hours, they must remember that on occasions the job may create extra demand upon their time, and they must be available for that commitment first. Staff members must notify the Director of Human Resources that they are seeking employment in a supplemental job. Staff members who do not secure permission are subject to dismissal. Permission will not be granted for employment which will:

- encroach on the time or attention which should be devoted to Bank activities;
- adversely affect the quality of work performed;
- compete, directly or indirectly, with the Bank's activities or create the inference thereof;
- involve the use of the Bank's personnel, equipment, supplies, or facilities;
- imply sponsorship or support by the Bank on behalf of such interest, employment, activity or organization; or
- adversely affect, directly or indirectly, the good name of the Bank.

Community Involvement. Because the Bank believes that growth and progress of the Bank depends on the growth and progress of our community, the Bank encourages directors and staff members to take an active role in civic and community organizations and projects. These outside

activities make our community a better place in which to live and work. The Bank is proud to have those connected with the Bank involved in such endeavors. If time away from work is anticipated for staff members, it is important for staff members to obtain prior approval from their supervisor. A staff member who is asked to serve on a board or as a director of another organization should obtain approval of the Bank's CEO or his/her designated senior management official prior to accepting the appointment.

Political Involvement. Directors and staff members participating in political activities do so as individuals and not as representatives of the Bank. No entertainment endeavor may be conducted so as to be construed as a bribe of a public official. No loans may be made for political purposes to a political party, political organization, candidate for political office, or public official without the prior approval of the Board of Directors.

Any staff member desiring to run for an elective political office or to accept an appointment to a governmental office should inform the Bank's CEO through supervisory channels in order to insure that the duties of that office and possible time away from the job will not create a conflict with the Bank's expectations. A staff member who wishes to campaign for a political candidate, whether the candidate is a staff member or other party, should do so on the staff member's own time outside of the workplace. Signs, brochures, promotional pins or other promotional items for political candidates may not be displayed or distributed on Bank owned or occupied property.

Confidential Information. Confidential information pertaining to any of the Bank's customers, prospective customers, products or procedures may not be revealed to any persons outside of the Bank except by court order, nor used in any manner for personal gain. Inside financial or other material information regarding the Bank is not to be released to any person or entity without prior written approval from the CEO. Further, under no circumstances may a director or staff member obtain or knowingly assist others to obtain unauthorized confidential information about any individual, nor perform any unauthorized computer function or knowingly provide inaccurate, misleading, altered or incomplete information regarding any account or document. Staff members should not attempt to answer inquiries from the media about or on behalf of the Bank or its customers. All questions from the media should be referred to the CEO or to his/her designated senior management official.

Misappropriation of Bank Property. It is inappropriate for a director or staff member to use corporate materials such as official stationary, equipment, manpower or any other assets for personal or non-job related purposes other than these associated with civic and community organizations and projects.

Loans. Directors and staff members are discouraged from making personal loans to one another and with customers. When requests are made for an extension of credit from the Bank to close relatives of directors and staff members and/or entities in which a director or staff member has a direct or indirect financial interest or material connection, such requests must be considered and acted upon entirely by directors or staff members other than those having a relationship with the borrower.

Requests from customers, prospective customers, suppliers and vendors will be considered without regard to race, disability, veteran status, national origin, age or sex. Such decisions will be based strictly on business reasons.

Investments. It is improper for a director or staff member to invest in a Bank customer's business unless the interest is acquired through an organized exchange, and the Bank has no access to confidential information. It is improper for a director or staff member to subscribe to new issues of stock in a Bank customer's business. Major exchanges require that members avoid handling speculative accounts of bank employed persons without consent of the employer. Speculative investments such as margin buying, short accounts, puts, calls, or combinations are discouraged. No director or staff member will invest in a customer's business or enable others to do so as a result of inside information.

There are no restrictions placed on investing in U.S. government securities, municipal bonds, or mutual funds.

Sale of Property Securing Bank Loans. In the normal course of Bank operations, on occasion the Bank must sell assets securing Bank loans in order to collect on the debt. These assets can be in the form of real property (real estate) or personal property (vehicles, inventory, equipment, etc.). The sale of real estate may occur through foreclosure or, in the event the Bank would acquire title to a property in the foreclosure process, through a subsequent listing of the

property. The sale of personal property may take place through a public sale, auction or sealed bid process.

Questions have arisen from time to time regarding the propriety of Bank insiders (directors, officers, employees and their immediate family members and any of their business partners) participating in such sales as bidders or purchasers. For purposes of this paragraph, immediate family members include spouse, children, step-children, parents, siblings and any other family member residing within an insider's household. At issue in such situations are legal matters and matters of appearance. From a legal standpoint, purchase of property securing a Bank loan by an insider may require specific disclosure in the company's annual proxy statement as a related party transaction. From an appearance standpoint, an insider profiting or otherwise benefiting from the purchase of property securing a Bank loan may be viewed as occurring at the expense of a debtor. Such an appearance might damage the reputation of the Bank.

Because of the issues addressed, insiders, their immediate family members and business partners should not participate as a potential buyer in the sale of property securing Bank loans.

Exceptions to this policy must be approved in advance of any sale by senior Bank management in consultation with Bank counsel.

Prohibition of Certain Gifts, Fees, Legacies and Loans. The Bank Bribery Act, 18 U.S.C. § 215 (the "Bank Bribery Act"), provides that "whoever - (i) corruptly gives, offers, or promises anything of value to any person, with intent to influence or reward an officer, director, employee, agent, or attorney of a financial institution in connection with any business or transaction of such institution; or (ii) as an officer, director, employee, agent or attorney of a financial institution, corruptly solicits or demands for the benefit of any person, or corruptly accepts or agrees to accept, anything of value from any person, intending to be influenced or rewarded in connection with any business or transaction of such institution;" shall be guilty of a crime. Therefore, neither directors, officers, employees, agents or attorneys ("Bank insider") for the Bank may accept fees, gifts or other things of value from customers or vendors of the Bank, including commissions, special discounts or other forms of compensation in violation of the Bank Bribery Act.

The Office of the Comptroller of the Currency (“OCC”) has adopted guidance indicating when it may be appropriate for a Bank insider to accept something of value from someone doing or seeking to do business with the Bank. The OCC guidance indicates that the Bank’s policy may authorize an insider to accept an item if it: (i) is offered based on a family or personal relationship, independent of any Bank business; (ii) is available to the general public on the same conditions; or (iii) would be paid for by the Bank as a reasonable business expense if not paid for by another party. Common examples of these types of items include a business luncheon or holiday season gift. The OCC guidance also provides that acceptance of the following will not violate the Bank Bribery Act:

- Meals, gratuities, amenities, or favors based on obvious family or personal relationships provided it is clear that the relationship, rather than the business of the Bank, is the motivating factor.
- Meals, refreshments, travel arrangements, accommodations, or entertainment of reasonable value in the course of a meeting or other occasion provided the occasion is for a bona fide business discussion or part of an effort to foster better business relations, and the expense should be one the Bank would pay as a reasonable business expense if not being paid by another party.
- Advertising or promotional material of reasonable value, including pens, pencils, notepads, key chains, calendars, and similar items.
- Discounts or rebates on merchandise or services that are available to other customers under similar circumstances.
- Gifts of reasonable value related to commonly recognized events or occasions such as a promotion, new job, wedding, retirement, or holiday, provided that the value of the gifts received should not exceed \$250.00 in value.
- Civic, charitable, educational or religious organizational awards for recognition of service and accomplishments, provided that such awards are reasonable in value.
- Loans from other banks or financial institutions, when made on customary terms for the purpose of financing proper and usual activities of a Bank insider provided that the financial arrangements are not contingent upon either the Bank accepting or offering any

other service and the Bank insider must also ensure that he or she does not receive preferential loans from correspondent banks and they must report to the Board of Directors loans received from other financial institutions as required by 12 C.F.R. § 215.9 and § 215.22.

- Other benefits or items of value, when approved in writing, on a case-by-case basis, provided the approvals are based upon a full, written disclosure of all relevant facts and are consistent with the prohibitions contained in the Bank Bribery Act.

The acceptance of cash and/or other gifts or things of value that do not fall within the exceptions noted above are strictly forbidden unless prior approval has been obtained.

Any Bank insider who is offered or who receives something not authorized by this policy, or something of greater value than is authorized, must disclose that fact to the Bank's CEO and written reports of such disclosure must be maintained by the Bank.

Illegal Activities. Directors and staff members may not engage in any illegal activities as defined by Federal, State and local laws. Payments in the form of bribes or kickbacks to directors or staff members are prohibited. No director or staff member may knowingly make any false or misleading statement or entry into the Bank's records.

No director or staff member may engage in or condone a check writing or other scheme where a depositor takes advantage of the "float" to fund an interest free loan from the Bank. Such a scheme may occur in numerous ways, for example:

- Cashing a check outside the Bank where there are insufficient funds in the checking account to cover the check.
- Using an ATM to obtain funds which are not on deposit in the account.

Consequences. In some cases, a breach of this policy could be a violation of Federal, State, or local laws or regulations and could be cause for legal action against a director, staff member, or the Bank. When appropriate, violations will be reported to law enforcement and regulatory agencies.

If, in the opinion of the Board of Directors, any director violates any of the provisions of this policy, severe and appropriate disciplinary action will occur. Such disciplinary action may

include immediate dismissal from the Board for outside directors and dismissal from the Board and termination of employment for inside directors.

If, in the opinion of the Bank management, any staff member violates any of the provisions of this policy, severe and appropriate disciplinary action will occur. Such disciplinary action may include immediate termination of employment. The Board of Directors will be made aware of all violations of this policy by staff members via the appropriate communication channels.

Acknowledgement. Upon election or appointment to the Board of Directors, all directors are to be presented a copy of this policy and are then and annually thereafter for the term of their service as a director are to complete and sign a copy of the Acknowledgement Form in substantially the format as “Exhibit A” attached hereto.

Upon the commencement of employment, all staff members are to be presented a copy of this policy and are then and annually thereafter for the term of their employment to complete and sign a copy of the Acknowledgement Form in substantially the format as “Exhibit A” attached hereto.

Exhibit A
ACKNOWLEDGEMENT FORM

I hereby acknowledge that I have received a copy of the First National Bank Code of Conduct and Conflict of Interest Policy adopted March 2003, and revised October 11, 2011, that I have read this policy, am knowledgeable and understanding of this policy and am in compliance with this policy except as follows:

Signature

Date

Printed Name

Disclosure of Potential Conflicts of Interest

List here:

- **the names and account numbers of all First National Bank accounts not held in your name in which you have a material connection or substantial financial interest**

Account Name and Account Number _____

Account Name and Account Number _____

Account Name and Account Number _____

- **supplemental employment (if you are a First National Bank employee)**

Employer _____ Position _____

Begin Date _____ End Date _____

- **the name of organizations for which you serve as a board member or director**

Organization _____ Position _____

Begin Date _____ End Date _____

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