



BSA Internal Audit

Kick-Off Meeting Meeting

January 17, 2023

Internal Audit Kick-Off Meeting

Agenda

- Introductions
- Key Partners
- Internal Audit's Approach
- Scope
- Project Timeline
- Engagement Expectations
- Logistics and next steps

Key IA Partners

Role	Team member	Team member contact
Audit Executive	Dana Sanders	Dana.Sanders@PNFP.com 615-743-6105
Senior Manager	Drew Young	Drew.Young@elliotttdavis.com
Managers	Erin DeMarco Jennifer Bledsoe	Erin.Demarco@PNFP.com Aditi.Mahajan@ey.com Jennifer.Bledsoe@elliotttdavis.com
Execution support	Aimee Bush (PNFP) Jordan Evans (PNFP) Nikki Henry (ED) Tricia Kutzli (ED)	Aimee.Bush@PNFP.com Jordan.Evans@PNFP.com Nikki.Henry@elliotttdavis.com Tricia.Kutzli@elliotttdavis.com

Key Management Partners*

Key Contact	Primary Role	Team member contact
Alanna Williams	BSA Officer	Alanna.Williams@pnfp.com
Nora Klein	BSA Manager (SARs Team)	Nora.Klein@pnfp.com
Teresa Clanton	BSA Manager (High Risk Team)	Teresa.Clanton@pnfp.com
Lisa Burkhart	BSA Manager (CTRs Team)	Lisa.Burkhart@pnfp.com
Valerie Partlow	BSA Manager (QC)	Valerie.Partlow@pnfp.com

**Please inform us of additional team members or members of leadership you would like IA to include in walkthroughs, status meetings, issue vetting, and/or report distribution.*

Confidential

Internal Audit's Approach

- Audit activities are scoped more broadly and performed at a more detailed level than regulatory reviews. Detailed and thorough audits aid regulators in utilizing risk-focused supervision standards (see page 11).
- We begin by evaluating Governance and Oversight within each audit entity including policies, procedures and risk and control documentation.
- Where risk and controls are defined and documented by management, IA will test the design and execution of those risks and controls.
- When risk and controls are not defined and documented by management, IA will conduct a series of interviews to identify risks and controls and assist with documenting those items for incorporation into the Process, Risk and Control matrices that will exist in Bwise.
- While Internal Audit will assist in drafting process, risk, and control language, it is ultimately management's responsibility to own this language and to make updates in the Process, Risk, and Control Library in Bwise as facts and circumstances change.
- Auditors will vet issues with management throughout the duration of the audit process. This approach will drive transparency and will ensure there are no surprises as the audit closes out.
- Each work paper created by audit will go through a layered review process with a Pinnacle Internal Audit Manager reviewing all work papers. This approach drives consistency in work product and fairness in reporting.

Scope

Scoping Considerations

- Aligns with FFIEC BSA/AML Examination Guide
- Top Risks as identified through IA risk assessment process
- Testing efforts will consider recent SOX and SOC control testing.

Areas in Scope

- Governance and oversight
 - BSA / AML & OFAC enterprise-wide program
 - BSA/AML annual risk assessment
 - BSA Officer appointment / designation
 - BSA program reporting - Board Risk Committee and BSA Oversight Committee
 - Regulatory change management
- Training
- Transaction Monitoring/Alert Management
- Suspicious Activity Reporting
- CTRs & CTR Exemptions
- Customer Identification Program (CIP)
- Customer due diligence (CDD) / enhanced due diligence (EDD), including customer risk scoring, beneficial ownership, politically exposed persons (PEPs), etc.

Scope

Areas in Scope (Continued)

- OFAC (Screening and list management)
- Wires/ACH Transaction Reviews
- Monetary Instruments
- Information Sharing
- Patriot Officer Rules Review
- Record Keeping Requirements
- Compliance with Special Measures
- BSA Compliance QC

Scope

Scope Continued

Areas out of scope:

- Foreign correspondent banking
- Domestic correspondent banking
- Private Banking
- Foreign Bank and Financial Accounts Reporting (FBAR)

Legal entities in scope:

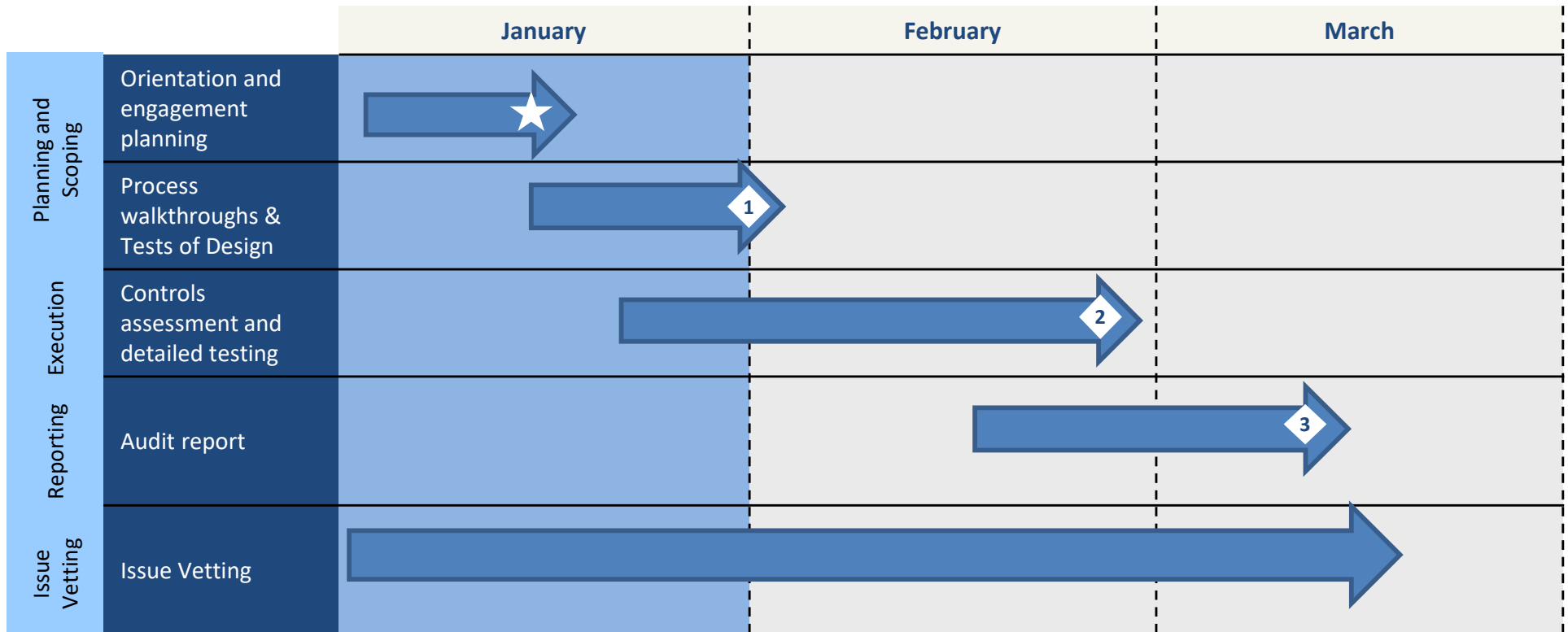
- Pinnacle Bank
- Pinnacle Wealth Advisors, Inc.
- Miller Loughry Beach Insurance Services, Inc.
- HPB Insurance Group, Inc.
- Advocate Capital
- BHG
- JB&B

Project Timeline

Milestones



Project Timeline



Engagement Expectations

IA Commitments

- Conduct weekly status meetings to provide updates on requested items, pending areas to be examined, and potential observations
- Attend meetings adequately prepared to be productive, including conducting comprehensive walkthroughs
- Coordinate with other assurance activities (e.g. 2LOD testing) to limit redundancies
- Partner with the business to provide an initial process risk and control matrix (RCM) that can be ingested into B Wise
- Timely communicate potential observations and issues upon identification
- Provide realistic recommendations that will improve the governance, risk management and control infrastructure at Pinnacle
- Restrict audit timelines to a three-month period

Auditee Expectations

- Participate in weekly status meetings
- Provide requested documents / information in accordance with agreed-upon timelines
- Provide access to the appropriate associate(s) to provide the most accurate information regarding the processes
- Actively engage in issues vetting process to ensure that issues are clearly articulated and factual, and that the underlying root cause is identified
- Participate in brainstorming sessions to develop the most appropriate management action plan to address the issue, root cause and risk
- Provide timely responses to audit reports (within 15 days of draft report delivery)
- Absent extenuating circumstances, audit reports will be issued 30 days from date of draft delivery report.

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Logistics and Next Steps

Logistics

- Communication protocols
- Team availability (i.e., out-of-office dates)
- Preferred day, time and frequency for status meetings
- System access

Next steps

- Continue to obtain existing documentation of processes and controls
- Schedule targeted walkthrough meetings with key process owners, as needed
- Document the Risk and Control Matrix for Management review and approval

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Risk-Focused Supervision

Excerpt from FDIC Risk Manual of Examination Policies, Section 1.1.

Effective risk management is central to safe and sound banking. The objective of a risk-focused examination is to efficiently evaluate the safety and soundness of a bank. Examiners should focus their resources on a bank's high risk areas when assessing risk management programs, financial conditions, internal controls, etc. The exercise of examiner judgment to determine the scope and depth of review in each functional area is crucial to the success of the risk-focused supervisory process. Examiners should make risk-scoping decisions on a case-by-case basis in consultation with their supervisory examiner, field supervisor, or the bank's case manager. The most effective examination approach focuses examiner resources on assessing management's ability to identify and control risks. Internal and external audits, loan reviews, and other control activities are integral considerations in an assessment of a bank's risk profile. Refer to the Internal Routine and Controls section of this Manual for an in-depth discussion of this area. Examiners should consider the adequacy of audit and control practices in determining a bank's risk profile and, when appropriate, try to reduce regulatory burdens by testing rather than duplicating the work of a bank's audit and control functions. Transaction testing remains a reliable and essential examination technique for use in the assessment of a bank's condition. However, the amount of transaction testing necessary to evaluate activities generally depends on the quality of the bank's risk management processes. Once the integrity of the bank's risk management system is verified through testing, conclusions regarding the extent of risks within an activity can often be based on the results of internal reports rather than in-depth, onsite assessments. The FDIC's long-standing philosophy and methods for examining institutions are fully described within this manual in Section 20.1 Risk-Focused, Forward-Looking Safety and Soundness Supervision. Examiners should be conducting examination activities consistent with Section 20.1.