



## **FNCB Bancorp, Inc.**

# **AUDIT COMMITTEE CHARTER**

### **Purpose**

The Board of Directors (the “Board”) of FNCB Bancorp, Inc. (together with its subsidiaries, including FNCB Bank, the “Company”) has established the Audit Committee (the “Committee”) to assist the Board in fulfilling its oversight responsibilities for the:

- Integrity of the Company’s financial statements
- Independent auditor’s qualifications and independence
- Performance of the Company’s independent auditors and internal audit function
- Effectiveness of the Company’s internal controls
- Company’s compliance with legal and regulatory requirements

The Committee also prepares the report that SEC rules require be included in the Company’s annual proxy statement.

In carrying out its responsibilities, the Committee’s policies and procedures should remain flexible, in order to best react to changing conditions and to assure the directors and shareholders that the corporate accounting and reporting practices of the Company and the Bank are in accordance with all accounting requirements.

### **Authority**

The Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. Without limitation, it is empowered to:

- Select, appoint, compensate, and oversee the work of the independent registered public accounting firm (the “independent auditors”) employed by the organization to conduct the annual audit and quarterly reviews, and to terminate such independent auditors, if necessary. This firm will report directly to the Committee.
- Resolve any disagreements between management and the independent auditor regarding financial reporting.
- Pre-approve the terms of engagement, including all auditing and permitted non-audit services performed by the Company’s external audit firm.

- Retain independent counsel, auditors, or others to advise the Committee or assist in the conduct of an investigation, as it deems necessary to fulfill its duties and responsibilities under this Charter, without prior permission of the Board. The Committee shall set the compensation, and oversee the work, of any outside counsel, auditors, or other advisors.
- Seek any information it requires from employees or external parties, all of whom are directed to cooperate with the Committee's requests.
- Meet with Company officers, independent auditors, or outside counsel, as necessary.
- Delegate authority to subcommittees, including the authority to pre-approve all auditing and permitted non-audit services, providing that such decisions are presented to the full Committee at its next scheduled meeting.

The Committee shall receive appropriate funding from the Company, as determined by the Committee in its capacity as a committee of the Board, for the payment of compensation to the Company's independent auditors, any other accounting firm engaged to perform services for the Company, outside counsel and any other advisors to the Committee, and administrative expenses of the Committee.

### **Composition**

The Committee shall be comprised of at least three directors as determined by the Board, each of whom shall be independent directors in accordance with independence standards and expertise standards of Rule 10A-3 of the Securities Exchange Act of 1934 and The Nasdaq Stock Market, LLC corporate governance listing standards. Directors who are executive officers of the Company including, but not limited to, the President and CEO, are not considered independent and, therefore, cannot be members of the Audit Committee.

- Each member of the Committee must be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement and cash flow statement. At least one member of the Committee must have past employment experience in finance or accounting, requisite professional certification in accounting or other comparable experience or background that leads to financial sophistication. A person who satisfies the definition in Item 407(d) (5) (ii) of Regulation S-K of audit committee "financial expert" will be presumed to have financial sophistication.
- No Committee member shall simultaneously serve on the audit committees of more than two other public companies.
- No Committee member can have participated in the preparation of the Company's financial statements at any time during the past three years.

The Board shall appoint the members of the Committee at the annual reorganization meeting to serve until their successors are elected. One member of the Committee shall be appointed as chair. The chair shall be responsible for leadership of the Committee, including scheduling and presiding over meetings.

## **Meetings**

- The Committee shall meet at least four times annually or more frequently as circumstances dictate. All Committee members are expected to attend each meeting in person or by conference call.
- The Committee may ask members of management or others to attend the meeting to provide pertinent information, as necessary.
- The Committee shall meet in executive session with management, the internal auditors and the independent auditors periodically and at least once annually, however, the Committee shall meet regularly without such persons present.
- Meeting agendas shall be prepared and provided in advance to members, along with appropriate briefing materials.
- Written minutes of all meetings shall be prepared and retained.
- Only members of the Committee shall have the right to vote. Other individuals and management may be invited to attend for part or all or any meeting as and when considered appropriate by the Committee.

## **Responsibilities**

The Committee will carry out the following responsibilities:

## **Related Party Transactions**

On an on-going basis, the Committee shall conduct an appropriate review of all transactions with a related person (as defined in Item 404 of Regulation S-K) for potential conflicts of interest and all such transactions shall be approved by the Committee to the extent required by applicable law.

## **Financial statements**

1. Review significant accounting and reporting issues and understand their impact on the financial statements. These issues include, without limitation:
  - (a) Complex or unusual transactions and highly judgmental areas.
  - (b) Major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles.
  - (c) The effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company.
2. Review with management and the independent auditors any difficulties encountered, disagreements with management or any restrictions on the scope of the independent auditor's activities.

3. Discuss the annual and quarterly financial statements with management and the independent auditors, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the form of audit opinion to be issued by the independent auditors on the financial statements.
4. Review disclosures made by the CEO and CFO during the Forms 10-K and 10-Q certification process about significant deficiencies in the design or operation of internal controls or any fraud that involves management or other employees who have a significant role in the Company's internal controls.
5. Discuss earnings press releases (particularly use of "pro forma," or "adjusted" non-GAAP, information), as well as financial information and earnings guidance provided to analysts and rating agencies. This review may be general (i.e., the types of information to be disclosed and the type of presentations to be made). The Committee does not need to discuss each release in advance.

### **Independent Auditors**

6. Set the compensation for the Company's independent auditors.
7. Review the independent auditor's proposed audit scope and approach, including the auditor's responsibilities under generally accepted auditing standards, coordination of audit effort with internal audit, and the results, including significant findings, of the annual audit.
8. At least annually, review the performance and independence of the independent auditors, and exercise final approval on the appointment or discharge of the auditors. In performing this review, the Committee will:
  - (a) At least annually, obtain and review a report by the independent auditor describing: the firm's internal quality-control procedures; any material issues raised by the most recent internal 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, and any steps taken to deal with any such issues; and (to assess the auditor's independence) all relationships between the independent auditor and the Company.
  - (b) Take into account the opinions of management and internal audit.
  - (c) Review and evaluate the lead partner of the independent auditor.
9. Require the rotation of the lead audit partner every five years and other audit partners every seven years and consider whether there should be regular rotation of the audit firm itself.
10. Present its conclusions with respect to the independent auditor to the full board.
11. Set clear hiring policies for employees or former employees of the independent auditors.
12. On a regular basis, meet separately with the independent auditor to discuss any matters that the Committee or independent auditors believe should be discussed privately.
13. Pre-approve and review annually thereafter, all auditing and permissible non-audit services performed by the independent auditor.

14. Select, retain, compensate, oversee and terminate, if necessary, any other registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company.

### **Internal Audit**

15. Ensure that the internal audit activity is independent of Company management, both in intent and actual practice.
16. Formally evaluate the performance of the Audit Officer on an annual basis.
17. Review with management and the Audit Officer the charter, plans, policies, activities, staffing, and organizational structure of the internal audit function by which management assesses and manages the Company's risks, including the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.
18. Determine there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the Audit Officer.
19. Review the effectiveness of the internal audit function to ensure that it operates within applicable professional standards, including compliance with The Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*.
20. On a regular basis, meet separately with the Audit Officer to discuss any matters that the Committee or internal audit believes should be discussed privately.

### **Internal Controls and Compliance**

21. Review the effectiveness of the internal control system for monitoring compliance with laws and regulations, including any significant deficiencies or material weaknesses in the design or operation of, and any material changes in, the Company's internal control system and any special audit steps adopted in light of any material control deficiencies and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
22. Review the findings of any examinations by regulatory agencies, and any auditor observations.
23. Review the process for communicating the Code of Business Conduct and Ethics to company personnel, and for monitoring compliance therewith.
24. Obtain regular updates from management and Company legal counsel regarding compliance and legal matters.

### **Reporting**

25. Regularly report to the Board about Committee activities and issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance

and independence of the Company's independent auditors and the performance of the internal audit function.

26. Review any other reports the Company issues that relate to Committee responsibilities.
27. The Committee shall prepare a report for inclusion in the proxy statement and/or 10-K that describes the Committee's composition and responsibilities, and how they were discharged, including a statement regarding their review and discussion of the annual financial statements, review of the independence of the independent accountants, and discussions with the independent accountants, and a statement that based on the foregoing, the Committee recommended that the annual financial statements be included in the Company's annual report on Form 10-K.

## **Other**

28. Establish procedures for: (I) the receipt, retention, and treatment of complaints received by the listed issuer regarding accounting, internal accounting controls, or auditing matters; and (II) the confidential, anonymous submission by employees of the listed issuer of concerns regarding questionable accounting or auditing matters.
29. Provide an open avenue of communication between internal audit, senior management, the independent auditors, and the board of directors.
30. Discuss with management the Company's major policies with respect to risk assessment and risk management.
31. Perform other oversight activities and special investigations related to this charter or as requested by the Board.
32. Review and assess the adequacy of the Committee charter annually, requesting Board approval for proposed changes, and appropriate disclosure as may be required by law or regulation.
33. Conduct a self-assessment of the Committee's performance annually and report the results of that assessment to the Board.
34. Perform any other activities consistent with this charter, the Company's bylaws, and governing laws that the Board or Committee determines are necessary or appropriate.