

## **TOWNEBANK**

### **CHARTER OF THE AUDIT AND RISK COMMITTEE OF THE BOARD OF DIRECTORS**

#### **Organization**

There shall be a committee of the Board of Directors to be known as the Audit and Risk Committee. The Audit and Risk Committee shall be composed of at least three directors who are independent of the management of the organization and are free of any relationship that, in the opinion of the Board of Directors, would interfere with their exercise of independent judgment as a committee member. Each member of the Audit and Risk Committee must be financially literate, with at least one member being considered a financial expert as defined by the Securities and Exchange Commission. The committee will meet at least four times a year.

In 2013 the Risk Management Committee was formed as a sub-committee of the Audit and Risk Committee. This Committee was appointed to assist the Audit and Risk Committee and Board of Directors in their oversight of the TowneBank organization's enterprise risk management governance processes. Meeting minutes are reported to the Audit and Risk Committee.

#### **Authority**

The Audit and Risk Committee has the authority to conduct or authorize investigations into any matters within its scope of responsibility. This may include retaining outside counsel, accountants, or others to advise the committee or assist in the conduct of an investigation; meeting with company officers and seeking any information it requires from employees or external parties.

The Audit and Risk Committee will assist the Board in monitoring the following:

- 1) The integrity of the financial statements and internal controls
- 2) The qualifications, independence and performance of the independent auditor
- 3) The performance of the Corporation's Chairman of the Risk Committee, the Chief Credit Risk Officer, the Risk Management Manager, and the Director of Internal Audit.
- 4) The compliance with legal and regulatory requirements
- 5) Assessing the processes by which management assesses and manages risk

#### **Statement of Policy**

The Audit and Risk Committee shall provide assistance to the Board of Directors in fulfilling their responsibility to the shareholders, potential shareholders, and investment community relating to corporate accounting, reporting practices of the organization, and the quality and integrity of the financial reports of the organization. In so doing, it is the responsibility of the Audit and Risk Committee to maintain free and open means of communication between the Board of Directors, the independent auditors, the internal auditors, and the financial management of TowneBank. This includes periodically reporting to the Board on significant results of the Committee's activities.

### **Responsibilities**

In carrying out its responsibilities, the Audit and Risk Committee believes its policies and procedures should remain flexible in order to best react to changing conditions and to ensure to the Directors and shareholders that the accounting and reporting practices of the organization are in accordance with all requirements and are of the highest quality.

In order to carry out these responsibilities, the Audit and Risk Committee will:

Review and update the Committee's charter annually with revisions submitted to the Board of Directors for approval.

Provide sufficient opportunity for the internal and outside auditors and the risk management manager to meet with the members of the Audit and Risk Committee without members of management present. Among the items to be discussed in these meetings are the outside auditors' evaluation of the organization's financial, accounting, and auditing personnel, the cooperation or difficulties that independent auditors encounter inclusive of disagreements with management during the course of the audit and any other matters required to be disclosed regarding the conduct of the audit per Public Company Accounting Oversight Board's Auditing Standard AU 380.

Establish procedures for the receipt, retention, and treatment of complaints received by TowneBank regarding accounting, internal controls, and auditing.

Review reports from management covering related party transactions and certifications of TowneBank's Code of Ethics.

Call a meeting of the Audit and Risk Committee to evaluate risk and consider options inclusive of hiring external audit resources if at any time the internal audit department is unable to continue its activities.

Submit the minutes of all meetings of the Audit and Risk Committee to the Board of Directors.

Perform an annual review and self-evaluation of the Committee's performance.

### Financial Statements

Review the financial statements, contained in the annual and quarterly reports to shareholders, with management and the independent auditors prior to filing 10-K or 10-Q to determine that the independent auditors are satisfied with the disclosure and content of the financial statements to be presented to the shareholders. This includes:

- Complex or unusual transactions and highly judgmental areas.
- Significant changes in the selection or application of accounting principles.
- The effect of regulatory and accounting initiatives and of any off balance sheet structures on the financial statements.
- Analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues or judgments made in connection with the preparation of the financial statements inclusive of effect of alternative GAAP methods.

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- Disclosures under “Management Discussion and Analysis”.
- The Audit and Risk Committee report included in the annual proxy statement.
- The annual and quarterly certification process, the annual internal control report, the independent auditor’s attestation, and any other material written communication between the independent auditor and management.
- Discussion of the adequacy and effectiveness of the accounting and financial controls of the organization, any significant deficiencies in the design or operation of internal controls, any fraud involving management or other employees that have a significant role in the company’s internal controls and any recommendations for improvement.
- Discussion of earnings press release. Particularly use of “proforma”, or “adjusted” non-GAAP information.

Independent Auditors

Review and approve the independent auditors to be selected to audit the financial statements of the organization and its subsidiaries, and review and approve the discharge of the independent auditors. This includes review of engagement letter to ensure there are no provisions limiting the independent auditor’s liability as well as confirming management compliance with regulatory notice requirements related to the selection, change and termination of independent auditors.

Conduct inquiry regarding internal quality control procedures; any 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 and any steps taken to correct such issues. Ensure rotation of the lead audit partners. Confirm and assure the independence of the outside auditor, including a review of management consulting services provided by the independent auditor and related fees. This is accomplished by discussion with the outside auditors, by conducting inquiries regarding hiring of former employees of the independent auditors at TowneBank, and by receipt of a formal written statement from the outside auditors delineating all relationships between the auditor and TowneBank and its subsidiaries. Services and fees will be approved by the Audit and Risk Committee unless otherwise specified by the Pre-Approval Policy.

Meet with the independent auditors and financial management to review the scope of the proposed audit for the current year and the audit procedures to be utilized, and at the conclusion thereof review such audit, including any comments or recommendations of the independent auditors.

Internal Audit, Legal and Regulatory Compliance, Credit Review and Risk Management Functions

Review and concur in the appointment, replacement, reassignment, or dismissal of the Chairman of the Risk Committee, the Chief Credit Risk Officer, the Risk Management Manager, and the Director of Internal Audit. Review the performance of and approve the compensation for the Chairman of the Risk Committee, the Chief Credit Risk Officer, the Risk Management Manager, and the Director of Internal Audit. The Chairman of the Risk Committee, the Chief Credit Risk Officer, the Risk Management Manager and the Director of Internal Audit shall each report directly to the Committee for functional purposes but may report to a member of management for administrative purposes.

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Review the internal audit, regulatory compliance, and credit review function including the independence and authority of its obligations, the proposed audit plans for the coming year, and the coordination of such plans with the independent auditors.

Receive for each meeting a summary of findings from completed internal audits, regulatory compliance and credit review activities a progress report on the proposed internal audit, regulatory compliance and credit review plans, with explanations of deviations from the original plan. Internal audits reviewed will include audits completed by the Internal Audit and Regulatory Compliance departments.

Receive reports from management as to compliance with laws and regulations, external examinations, and significant consumer complaints and legal matters.

Review the findings of any examinations by regulatory agencies.

Discuss and assess risk management philosophy and activities. This includes sufficiency of risk limits approved by the Board.

Review management risk assessments of significant areas.

Review risk limits that have been established and review periodic reports on compliance with limits and trends that may indicate emerging or higher risks. This includes periodic updates from the Asset and Liability Committee and other Management Committees.

Review reports on key risks that may impact achievement of key objectives. This includes significant investments in new products or services or market expansions.

**Limitations of Audit and Risk Committee's Role**

Responsibilities noted above do not imply that the Audit and Risk Committee has the duty to plan or conduct audits or to determine that financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the independent auditor. In addition, TowneBank's management is responsible for managing its risk function and the Risk Management Manager is responsible for reporting the results of risk assessments and risk management processes.