



Audit Committee Charter

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Table of Contents

Organization	2
Authority	2
Statement of Policy	2
Responsibilities	2
Limitations of Audit Committee's Role.....	5
Version History	6

Organization

There shall be a committee of the Board of Directors to be known as the Audit Committee. The Audit 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 and in compliance with NASDAQ/SEC/FDIC requirements, would interfere with their exercise of independent judgment as a committee member. Each member of the Audit Committee shall be elected by the Board of Directors, must be financially literate, with at least one member being considered a financial expert as defined by the Securities and Exchange Commission, which will be determined annually. The committee will meet at least four times per year.

Authority

The Audit 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 function of the Audit Committee is oversight. As such, the Audit Committee's responsibilities are to assist the Board in monitoring the following:

- 1) The integrity of the financial statements and internal controls over financial reporting
- 2) The qualifications, independence, appointment, and performance of the external auditors
- 3) The performance of the Chief Audit Executive and internal audit function.
- 4) Assessing the processes and controls by which management assesses and manages risk and ensures compliance with legal and regulatory requirements.

Statement of Policy

The Audit Committee shall provide assistance to the Board of Directors in fulfilling their responsibility to the shareholders, potential shareholders, and investment community relating to oversight functions enumerated above. In so doing, it is the responsibility of the Audit Committee to maintain free and open means of communication between the Board of Directors, the external auditors, the internal auditors, and 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 Committee believes its policies and procedures should remain flexible in order to best react to changing conditions and to assure 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.

To carry out these responsibilities, the Audit 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 external auditors to meet with the members of the Audit Committee without members of management present. Among the items to be discussed by the external auditors in the general sessions of these meetings are the outside auditors' evaluation of the organization's financial, accounting, and auditing personnel, the cooperation or difficulties that external 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 Standards .

Establish procedures for the receipt, retention, and treatment of complaints received by TowneBank regarding accounting, internal controls, and auditing. Establish confidential methods for employees of TowneBank to report questionable, unethical, or illegal accounting, internal control, and auditing matters.

Review reports from management covering related party transactions, Sarbanes Oxley certifications and testing results, and certifications of TowneBank's Code of Ethics.

Review with General Counsel of the Company, or the Company's outside legal counsel, regulatory or legal matters that may have a material impact on the financial statements.

Oversee the execution of internal audit risk assessments and testing plans. The oversight will include the periodic reporting on the status of the resolution of significant issues identified by these groups, external auditors, and examiners.

Call a meeting of the Audit 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.

Receive periodic reports on the status of Credit Review activities, issued reports, and identified issues.

Maintain the minutes of all meetings of the Audit Committee.

Provide updates of Audit Committee activities 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 external auditors prior to filing 10-K or 10-Q to determine that the

external 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, including a review of the Allowance for Credit Losses.
- 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 external 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.
- Disclosures under “Management Discussion and Analysis”.
- The Audit Committee report included in the annual proxy statement.
- The annual and quarterly certification process, the annual internal control report, the external auditor’s attestation, and any other material written communication between the external auditor and management.
- Discussion of the adequacy and effectiveness of the accounting and financial controls of the organization with management, the Chief Audit Executive, and the external auditors, any significant deficiencies or material weaknesses 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 “pro-forma”, or “adjusted” non-GAAP information.

External Auditors

Review and approve the external auditors to be selected to audit the financial statements of the organization and its subsidiaries, review and approve the discharge of the external auditors, consider the regular rotation of the external auditors. This includes review of the 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 external auditors.

Monitor the external auditor performance by conducting an annual inquiry regarding internal quality control procedures; external PCAOB reviews, any issues raised by the most recent internal quality control review, or peer review of the firm, or by any inquiry, investigation or examination by governmental or professional authorities, any steps taken to correct such issues, and the qualifications of the external auditor to audit the financial statements of the organization. Ensure rotation of the lead audit partners. Confirm and assure the independence of the outside auditor in accordance with Public Company Accounting Oversight Board Rule 3520, including a review of management consulting and non-audit services provided by the external auditor and related fees. This is accomplished by discussion with the outside auditors, by conducting inquiries regarding hiring of former employees of the external 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 Committee unless otherwise specified by the Pre-Approval Policy.

Meet with the external auditors and financial management to review the scope of the proposed audit for the current year and the audit procedures to be utilized. At the conclusion of the audit review, such audit, including any comments or recommendations of the external auditors, disagreements with management and any resolution of disagreements to be performed by the Committee, and consultations with the external auditor's national office related to auditing or accounting issues presented by the engagement. Discuss with the external auditors the Critical Audit Matters and auditor tenure included in the external auditor's opinion letter.

Internal Audit and Credit Review Functions

Review and concur in the appointment, replacement, reassignment, or dismissal of the Chief Audit Executive. Review the performance of and approve the compensation for the Chief Audit Executive. The Chief Audit Executive shall report directly to the Committee for functional purposes but may report to a member of management for administrative purposes. Matters affecting the independence and execution of the duties of the Chief Audit Executive as a result of the administrative reporting of the Chief Audit Executive should be reported to the Audit Committee.

Annually approve the internal audit charter, plan, utilization of internal or external resources to complete the plan, and funding for the internal audit function to perform their duties.

Review the internal audit function including the independence and authority of its obligations, the proposed audit plans for the coming year, the effectiveness of the internal audit function, and the coordination of such plans with the external auditors. Annually approve the internal audit charter delineating the authority and responsibilities of the internal audit function.

Receive at least quarterly a summary of findings from completed internal audits, reviews, or examinations performed by the Internal Audit Department, external auditors, and examiners.

Receive at least quarterly a progress report on the proposed internal audit and credit review annual plans, and explanations of deviations from the original plan.

Review the findings of any examinations by regulatory agencies.

Limitations of Audit Committee's Role

Responsibilities noted above do not imply that the Audit 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 Committee will rely on the expertise of management, internal auditors, and external auditors in performing the Committee's responsibilities.