



## CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF TWO RIVER BANCORP

### Organization

- This Charter governs the operations of the Audit Committee (the Committee) of Two River Bancorp (the "Company"). The Company's Board of Directors in its business judgment shall appoint at least three of its members to serve on the Committee, consisting entirely of independent directors of the Board, and shall designate one member as chairperson or delegate the authority to designate a chairperson to the Committee. For purposes hereof, members shall be considered independent as long as they satisfy all of the independence requirements for Board Members as set forth in the applicable Nasdaq Global Market listing standards and Rule 10A-3 of the Securities Exchange Act of 1934.
- Each member of the Committee shall be financially literate, or become financially literate within a reasonable period of time, and at least one member shall be an "audit committee financial expert," as defined by SEC rules.
- The determination of the satisfaction of the independence and experience requirements by each director will be made by the Nominating and Corporate Governance Committee of the board in its business judgment.
- Members shall not serve on any other public company audit committee simultaneously unless the Board of Directors determines that such simultaneous service would not impair the member's ability to serve effectively on the Committee.
- The Committee shall meet separately and periodically with management, the personnel responsible for the internal audit function and the independent auditor. The Committee shall report regularly to the Board of Directors about its activities.
- A majority of the committee members shall be present to constitute a quorum for the transaction of the committee's business. Actions also may be taken by unanimous written consent, when deemed necessary or desirable by the committee or the committee chairman. Each regularly scheduled meeting will conclude with an executive session of the committee absent members of management and any directors not serving on the audit committee.

### Purpose

The Committee will have the following purposes:

- The Committee will provide assistance to the Board of Directors in fulfilling its oversight responsibility to the Company, its constituents and its regulators relating to: (1) the integrity of the Company's financial statements and accounting and financial reporting processes and financial statement audits, (2) the effectiveness of the Company's internal control over financial reporting, (3) the Company's compliance with legal and regulatory requirements, (4) the independent auditor's qualifications and independence, and (5) the performance of the Company's internal audit function and independent auditor.
- The Committee will prepare the audit committee report that SEC proxy rules require to be included in the Company's annual proxy statement. In fulfilling its purpose, the Committee is responsible for maintaining free and open communication between itself, independent auditor, the internal auditors and management of the Company, and for determining that all parties are aware of their responsibilities.

## Duties and responsibilities

- The Committee has the responsibilities and powers set forth in this Charter. Management is responsible for the preparation, presentation and integrity of the Company's financial statements; for the appropriateness of the accounting principles and reporting policies that are used by the Company; and for establishing and maintaining internal control over financial reporting. The independent auditor is responsible for auditing the Company's financial statements and the effectiveness of internal control over financial reporting, and for reviewing the Company's unaudited interim financial statements. It is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and in accordance with generally accepted accounting principles ("GAAP")
- The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible in order to best react to changing conditions and circumstances. The Committee will take appropriate actions to monitor the overall corporate "tone" for quality financial reporting, sound business risk practices and ethical behavior.
- The following shall be the principal duties and responsibilities of the Committee. These matters are set forth as a guide with the understanding that the Committee may supplement them as appropriate.

## Risk management and controls

- The Committee shall discuss the Company's policies on risk assessment and risk management, including the risk of fraud. The Committee also shall discuss the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.
- The Committee shall review with senior management the Company's overall antifraud programs and controls.
- The Committee shall discuss with the internal auditors and the independent auditor the overall scope and plans for their respective audits, including the adequacy of staffing and budget or compensation.

## Financial reporting and disclosure matters

- The Committee shall meet with management and the independent auditor to review and discuss the quarterly financial statements, including Management's Discussion and Analysis of Financial Condition and Results of Operations, prior to the filing of the Company's Quarterly Report on Form 10-Q. Also, the Committee shall discuss the results of the quarterly review and any other matters required to be communicated to the Committee by the independent auditor under the standards of the Public Company Accounting Oversight Board (PCAOB) (United States).
- The Committee shall meet to review and discuss the annual audited financial statements, including Management's Discussion and Analysis of Financial Condition and Results of Operations, with management and the independent auditor prior to the filing of the Company's Annual Report on Form 10-K (or the annual report to shareholders if distributed prior to the filing of Form 10-K), and shall recommend to the Board whether such financial statements should be included in the annual report on Form 10-K. Also, the Committee shall discuss the results of the annual audit and any matters required to be communicated to the Committee by the independent auditor under professional standards.
- The Committee's review of the financial statements shall include: (1) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, and major issues as to the adequacy and effectiveness of the Company's internal control over financial reporting and any specific remedial actions adopted in light of significant deficiencies or material weaknesses; (2) discussions with management and the independent auditor regarding significant financial reporting issues and judgements made about the preparation of the financial statements and the reasonableness of those judgments, including analyses of the effects of alternative GAAP methods on the financial statements; (3) consideration of the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements; (4) consideration of the judgment of both management and the independent auditor about the quality, not just the acceptability, of accounting principles; and (5) the completeness and clarity of the disclosures in the financial statements.

- The Committee shall review and discuss with the independent auditor, before the filing of the Company's Annual Report on Form 10-K (or the annual report to shareholders if distributed prior to the filing of Form 10-K), all critical accounting policies and practices of the Company; all material alternative treatments of financial information within GAAP that have been discussed with management, including the ramifications of using such alternative treatments and disclosures, and the treatment preferred by the independent auditor; and other material written communications between the independent auditor and management, including, but not limited to, the management letter and schedule of unadjusted differences.
- The Committee shall meet with management and the independent auditor to review and discuss all internal control reports (or summaries thereof). The Committee also shall review other relevant reports or financial information submitted by the Company to any governmental body or the public, including management certifications as required by the Sarbanes-Oxley Act of 2002 and relevant reports rendered by the independent auditor (or summaries thereof).
- The Committee shall review and discuss earnings press releases, prior to release, including the type and presentation of information, paying particular attention to any pro forma or adjusted non-GAAP information. The Committee also shall review and discuss financial information and earnings guidance provided to analysts and rating agencies. All such discussions may be in general terms (i.e., discussion of the types of information to be disclosed and the type of presentations to be made).
- The Committee shall discuss, with management and the internal auditors, management's process for assessing the effectiveness of internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act, including any material weaknesses or significant deficiencies identified.
- The Committee shall review management's report on its assessment of the effectiveness of internal control over financial reporting as of the end of each fiscal year and the independent auditor's report on the effectiveness of internal control over financial reporting.
- The Committee shall discuss with the independent auditor the characterization of any deficiencies in internal control over financial reporting. The committee shall also discuss, with management, management's remediation plan to address any internal control deficiencies. The Committee shall determine that the disclosures describing any identified material weaknesses and management's remediation plans are clear and complete.
- The Committee shall discuss with management its process for performing its required quarterly certifications under Section 302 of the Sarbanes-Oxley Act, including the evaluation of the effectiveness of disclosure controls by the Chief Executive Officer and Chief Financial Officer and shall receive and review any disclosure from the Company's CEO or CFO made in connection with the certification of the Company's quarterly and annual reports filed with the SEC of:
  - a) significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize, and report financial data; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls.
- The Committee shall discuss with management, the internal auditors and the independent auditor (1) any changes in internal control over financial reporting that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting that are required to be disclosed and (2) any other changes in internal control over financial reporting that were considered for disclosure in the Company's periodic filings with the SEC.

## **Independent auditor oversight and responsibilities**

- The Committee shall be directly responsible for the appointment (and recommending that the board submit for shareholder ratification, if applicable), compensation, retention and oversight of the work of the independent auditor in preparing or issuing an audit report or performing other audit, review or attest services for the Company. The independent auditor must report directly to the Committee.
- At least annually, the Committee shall obtain and review a report by the independent auditor describing: (1) the firm's internal quality control procedures; (2) 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, with respect to one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (3) all relationships between the independent auditor and the Company to assess the auditors' independence, including written disclosures and communications by the independent auditors required by the applicable requirements of PCAOB.
- After reviewing the foregoing report and the independent auditor's work throughout the year, the Committee shall

evaluate the auditors' qualifications, performance and independence. This evaluation should include the review and evaluation of the lead audit partner and take into account the opinions of management and the Company's personnel responsible for the internal audit function. The Committee shall terminate the independent auditor if circumstances warrant.

- The Committee shall determine that the independent auditor has a process in place to address the rotation of the lead audit partner and other audit partners serving the account as required under the SEC independence rules. The committee will also consider whether there should be rotation of the independent auditor itself.
- The Committee shall actively engage in dialogue with the independent auditor with respect to any disclosed relationships or services that may affect the independence and objectivity of the auditor and take appropriate actions to oversee the independence of the outside auditor.
- The Committee shall preapprove all audit and non-audit services provided by the independent auditor, including specific preapproval of internal control-related services based on PCAOB Rule 3525, and shall receive certain disclosure, documentation and discussion of non-prohibited tax services by the independent auditor based on PCAOB Rule 3524. The Committee shall not engage the independent auditor to perform non-audit services proscribed by law or regulation. The Committee may delegate preapproval authority to a member of the Audit Committee. The decisions of any Committee member to whom preapproval authority is delegated must be presented to the full Committee at its next scheduled meeting.
- The Committee shall oversee the resolution of disagreements between management and the independent auditor if they arise, and shall regularly review with the independent auditor any audit problems or difficulties encountered during the course of the audit work, including any restrictions on the scope of the independent auditor's activities or access to requested information, and management's response. The Committee should review differences that were noted or proposed by the auditors but were passed (as immaterial or otherwise) and any management or internal control letter issued, or proposed to be issued, by the audit firm to the Company that is in addition to its audit report on the effectiveness of internal control over financial reporting.
- The Committee shall set clear hiring policies for employees or former employees of the independent auditor that meet SEC regulations and applicable Nasdaq listing standards, such as the required one-year "cooling-off period" for individuals in a financial reporting

oversight role, such as the CEO, CFO, controller, CAO, or the equivalent.

- The Committee shall discuss with the independent auditors any significant issues arising from the most recent PCAOB inspection of the independent auditors, to the extent relevant to the Company, including the independent auditors' response to any identified accounting deficiencies.

## **Internal audit oversight and responsibilities**

- The Committee shall review and approve the Internal Audit Department's annual audit plan and all major changes to the plan.
- The Committee shall review and discuss with the internal auditors the scope, progress and results of executing the internal audit plan.
- The Committee shall receive reports on the status of significant findings and recommendations, and management's responses.
- The Committee shall review the reporting relationship, activities, staffing, organizational structure and credentials of the Internal Audit Department.
- The Committee shall review and concur on the appointment, replacement, reassignment or dismissal of the Internal Audit Director, who shall have direct access to the Committee.
- The Committee shall review the annual performance of the internal audit function.
- Review the regular internal reports to management (or summaries thereof) prepared by the internal auditor, as well as management's response. Periodically review the matrix of unresolved internal audit issues to monitor management's corrective action. Review the regulatory compliance audit reports to management, as well as management's response.

## **Compliance oversight and responsibilities**

- The Committee shall review the Company's compliance and ethics programs, including legal and regulatory requirements, and review with management its periodic evaluation of the effectiveness of such programs. The Committee shall review the Company's code of conduct and programs that management has established to

monitor compliance with such code. The Committee shall receive any corporate attorneys' reports of evidence of a material violation of securities laws or breaches of fiduciary duty by the Company.

- The Committee shall establish procedures for the receipt, retention and treatment of complaints received by the Company about accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by Company employees of concerns regarding questionable accounting or auditing matters.
- The Company shall provide the appropriate funding needed by the Committee for payment of compensation to the independent auditor engaged for preparing or issuing audit reports, or performing other audit, review or attest services for the Company.
- The Committee shall have the authority to retain outside counsel, accountants, experts and other advisors that it deems appropriate to assist the Committee in performing its functions. The Committee shall be provided with appropriate funding, as determined by the Committee, for payment of compensation to such outside counsel, accountants, experts and other advisors.
- The Committee shall perform an evaluation of its performance at least annually to determine whether it is functioning effectively. The Committee also shall discuss with the independent auditor the accountants' observations related to the effectiveness of the Committee.
- The Committee shall review and reassess this Charter at least annually and obtain the approval of the Board of Directors.
- The Committee shall review with the Company's counsel the legal compliance and legal matters that could have a significant impact on the Company's financial statements.

## **Investigative authority**

- The Committee shall be empowered to investigate any matter brought to its attention with full access to all Company books, records and personnel, using special counsel or outside experts when necessary or appropriate.