

1st Capital Bancorp	OPERATIONS PROCEDURE MANUAL
Administration	Audit and Compliance Committee

AUDIT AND COMPLIANCE COMMITTEE CHARTER

PURPOSE

The Audit and Compliance Committee (“Committee”) has been established by the Board of Directors of 1st Capital Bancorp (“Company”). The Committee shall operate within the terms of reference set out in this charter.

COMMITTEE MEMBERSHIP

The Committee shall consist of no fewer than three independent Director members. Each member of the Committee shall have the following attributes, subject to permissible exceptions:

1. Independence, as defined in the Nasdaq Listing Rules, including that a member shall not have participated in the preparation of the financial statements of the Bank or any current subsidiary or affiliate of the Bank at any time during the past three years; and
2. The ability to read and understand fundamental financial statements, including the Bank’s balance sheet, income statement, and cash flow statement.

The Board shall appoint the Committee’s members at the Board meeting next following the Corporation’s annual meeting of shareholders. The Board may replace a committee member at any time.

COMMITTEE CHAIR

The Board shall appoint one of the independent Committee members as the Committee Chair. The Committee may appoint one of its members as Vice Chair, to carry out the duties of the Committee Chair in his or her absence.

MEETINGS

The Committee shall convene for at least one meeting each quarter and more frequently, as needed. The actions of the Committee require a quorum. A presence of a majority of the Committee members shall constitute a quorum. The action of a majority of those present at a meeting at which a quorum is attained shall be the act of the Committee. The Committee shall

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meet periodically with the Bank’s management, independent public accountants, internal auditor, and, as applicable, its Compliance Officer and/or Audit Officer.

Meeting agendas are established by Risk and Compliance Leadership Team. The Committee may meet in executive session at the call of the Committee Chair, Compliance Officer and/or Audit Officer.

The Committee may request any officer or employee of the Bank, or the Bank’s counsel, or independent public accountants, or internal auditors, or compliance officer, to attend a meeting of the Committee or to meet with any members of, or advisors to, the Committee.

REPORTING OF COMMITTEE ACTIVITIES TO THE BOARD OF DIRECTORS

The Chair or designee for the Committee will report its activities and its recommendations for action to the Board of Directors of the Bank and/or of the Company, depending on requirement of an action, at its next meeting after that of the Committee. Minutes of the meetings of the Committee will be submitted to the Board of Directors at a subsequent meeting of the Board of Directors.

COMMITTEE AUTHORITY AND RESPONSIBILITIES

The Committee, in its capacity as a committee of the Board of Directors, shall be directly responsible for the appointment of the independent public accountants (subject, if applicable, to shareholder ratification) and for the retention, compensation and oversight of the work of the independent public accountants (including resolution of disagreements between management and the independent public accountants regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Bank. The independent public accountant shall report directly to the Committee.

The Committee shall pre-approve all audit services and permissible non-audit services to be performed for the Bank by the independent public accountants, subject to any permitted exceptions for pre-approval of non-audit services pursuant to rules and regulations of the Securities and Exchange Commission as adopted by the Federal Deposit Insurance Corporation and/or, as applicable, Nasdaq.

The Committee shall have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting, or other advisors. The Bank shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent public

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accountants for the purpose of preparing or issuing an audit report or performing other audit, review, or attest services and to any other advisors employed by the Committee.

The Committee shall establish procedures for the receipt, retention, and treatment of complaints received by the Bank regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential, anonymous submission by the Bank’s employees of concerns regarding questionable accounting or auditing matters.

The Committee shall make regular reports to the Board of Directors. The Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board of Directors for approval.

The Committee shall have unrestricted access to Bank personnel and documents and will be provided the resources necessary to operate under this Charter. The Committee shall have the power to conduct or authorize investigations into any matters within the scope of this Charter.

The Committee shall perform such other duties and responsibilities as are consistent with the purpose of the Committee and as the Board of Directors or the Committee deems appropriate including, to the extent required by applicable rules or regulations of the Securities and Exchange Commission as adopted by the Federal Deposit Insurance Corporation and/or, as applicable, Nasdaq including the following:

1. Financial Statement and Disclosure Matters
 - a. Review with management and the independent public accountants the annual audited financial statements, including disclosures made in the Bank’s Annual Report to Shareholders
 - b. Review with management, the independent public accountants, the internal auditors, and Bank counsel any certification provided by management related to the Bank’s financial statements. Review with management, the independent public accountants, and the internal auditor management’s assertion regarding the design effectiveness and operation efficiency of the Bank’s internal control over financial reporting and compliance with the applicable laws and regulations.
 - c. Review with management and the independent public accountants significant financial reporting issues and judgments made in connection with the preparation of the Bank’s financial statements, including any

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significant changes in the Bank's selection or application of accounting principles, any material issues as to the adequacy of the Bank's internal controls and any actions taken or adopted in light of material control deficiencies.

- d. Review a report by the independent public accountants concerning
 - i. all critical accounting policies and practices to be used;
 - ii. alternative treatments of financial information within GAAP that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent public accountants; and
 - iii. any other material written communications between the independent public accountants and the Bank's management

- e. Review with management and the independent public accountants the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Bank's financial statements.

- f. Review with management the Bank's major financial risk exposures and the actions management has taken to monitor and control such exposures, including the Bank's risk assessment and risk management policies

- g. Review with the independent public accountants
 - i. the matters required to be discussed by the Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards), as amended or supplemented.
 - ii. the letter from the independent public accountants required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as amended or supplemented, and the independence of the independent public accountants related thereto; and
 - iii. matters relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.

- h. Review disclosures made to the Committee by the Bank's Chief Executive

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Officer and Chief Financial Officer about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Bank's internal controls.

2. Independent Public Accountant Oversight

- a. Review the length of time the lead and concurring partner of the independent public accountants' team has been engaged to audit the Bank.
- b. On an annual basis, the Committee shall review and discuss with the independent public accountants
 - i. all relationships they have with the Bank that could impair the independent public accountant's independence;
 - ii. the independent public accountant's internal quality control procedures; and
 - iii. any material issues raised by the most recent internal quality control review or peer review of the independent public accountant's 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 independent public accountant's firm, and the steps taken to deal with those issues.
- c. Ensure the rotation of the lead audit partner of the independent public accountants having primary responsibility for the Bank's audit and the audit partner responsible for reviewing the audit to the extent required by applicable law or regulation.
- d. Prohibit, to the extent required by applicable law or regulation, the hiring of any employee of the independent public accountants who was engaged on the Bank's account and who would be employed by the Bank in a financial reporting oversight role.
- e. Meet with the independent public accountants prior to the Bank's audit to discuss the planning and staffing of the audit.

3. Internal Audit Oversight

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- a. Approve the appointment and replacement of the independent firm of internal auditors; including the independence and authority of the auditors' reporting obligations
- b. Review significant reports to management prepared by the auditors and management's responses
- c. Review with the auditors and management the auditors' responsibilities, budget and staffing and any recommended changes in the planned scope of the internal audit.
- d. Review the audit scope and audit staffing plan and discuss the completeness of coverage and effective use of audit resources with both the auditors and the independent public accountants.
- e. Review with the auditors a progress report on the internal audit plan and any significant changes with explanations for any changes from the original plan.
- f. Receive confirmation from both the auditors and the independent public accountants that no limitations have been placed on the scope or nature of their audit process or procedures.

4. Compliance and Internal Control Oversight

- a. Review reports and disclosures of insider and related person transactions
- b. Review with management and the independent public accountants any correspondence with regulators or governmental agencies and any published reports which raise material issues regarding the Bank's internal controls, financial statements, or accounting policies.
- c. Review legal matters that may have a material impact on the financial statements or the Bank's compliance policies with the Bank's counsel.
- d. Review the adequacy and effectiveness of the Bank's internal controls and security matters with management, the auditors, and the independent public accountants.

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AUDIT OFFICER

A member of the Bank’s Senior Leadership Team or designee will serve as the Audit Officer. The Audit Officer will report functionally to the Audit and Compliance Committee and administratively to a member of Executive Management. In addition to the Audit Officer’s primary responsibility of assisting the Committee in carrying out the aforementioned responsibilities, additional duties of the Audit Officer will be:

- a. Develop and administer the annual Audit Plan under the direction of the Board of Directors Audit and Compliance Committee.
- b. Plan, assign and oversee various risk-based audits of the bank to provide reasonable assurance that the institution will achieve the following objectives: efficient and effective operations, safeguarding of assets, reliable financial reporting and compliance with applicable laws and regulations.
- c. Oversee preparation, staffing and logistics for all internal audits and regulatory examinations.
- d. Foster open lines of communication and exercise authority to apprise the Board of Directors and Audit and Compliance Committee of significant matters pertaining to audit and compliance.
- e. Coordinate audit and examination recommendation responses and remediation efforts. Including ensuring the Committee stays apprised of the status of all remediation efforts through validation of remediation.
- f. Prepare periodic status reports of the action items noted above for review and approval by the Committee.
- g. Maintain Committee approved Master Audit Schedule; ensuring any changes, revisions, and/or extensions, receive approval of the Committee.
- h. Coordinate maintenance of Audit & Examination Tracking Matrix
- i. Have direct access to the Committee and/or the Board of Directors to ensure a culture of objectivity and independence should circumstances warrant.

REVIEW OF COMMITTEE CHARTER

The Committee will review and reassess the adequacy of the Charter, as needed. The Board will review and approve the Committee Charter as recommended by the Committee.

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Document Management Information

Revision history	Version	Approval date	Author	Title
NEW	DRAFT	09.22.2022	Vida Villanueva	Chief Operating Officer
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