



## CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

### **Purpose**

The primary purpose of the Audit Committee is to assist the Board of Directors of Pacific Financial Corporation ("Company") and its subsidiary Bank of the Pacific ("Bank") in fulfilling its independent and objective oversight responsibilities for the financial reporting process, the system of internal controls, the audit process, and the Bank's process for monitoring compliance with laws and regulations and the code of conduct. The Committee will ensure compliance of its financial statements with generally accepted accounting principles ("GAAP") as applied in the United States of America and shall also review and advise the Board with respect to the Company's risk management policies and tax policies.

### **Authority**

The audit committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- Appoint, compensate, and oversee the work of any registered public accounting firm employed by the organization.
- Resolve any disagreements between management and the auditor regarding financial reporting.
- Pre-approve all auditing and non-audit services.
- Retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation.
- Seek any information it requires from employees-all of whom are directed to cooperate with the committee's requests-or external parties.
- Meet with company officers, external auditors, or outside counsel, as necessary

### **Composition**

The Committee shall consist of at least three members. The Board of Directors will appoint committee members and the committee chair. Each member will be outside directors with a majority to be independent of management. No member of the Committee shall be employed or otherwise affiliated with the Company's independent accountants.

In the event that a Committee member faces a potential or actual conflict of interest with respect to a matter before the Committee, that Committee member shall be responsible for alerting the Committee Chairman, or Chairman of the Board, in cases where the Committee Chairman faces a conflict of interest. If it is concluded by the respective Chairman that a potential or actual conflict of interest exists, an independent substitute Director shall be appointed as a Committee member until the matter posing the potential or actual conflict of interest is resolved.

### **Meetings**

The committee will meet at least four times a year, with authority to convene additional

meetings, as circumstances require. All committee members are expected to attend each meeting, in person or via tele- or video-conference. A quorum of the committee shall be declared when a majority of the appointed members are in attendance. The committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary. It will hold private meetings with auditors (see below) and executive sessions. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared.

### **Responsibilities**

- The Committee's function is one of oversight and review, and it is not expected to audit the Company, to define the scope of the audit, to control the Company's accounting practices, or to define the standards to be used in preparation of the Company's financial statements. As such, the Audit Committee will carry out the following responsibilities: Review periodically the Company's tax policies and any pending audits or assessments.

### **Internal Control**

- Consider the effectiveness of the company's internal control system, including information technology security and control.
- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

### **Internal Audit**

- Approve the internal audit charter.
- Approve decisions regarding the appointment and removal of the SVP, Internal Audit Manager.
- Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the SVP, Internal Audit Manager.
- Approve the annual audit plan and all major changes to the plan. Review the internal audit activity's performance relative to its plan.
- Review with the SVP, Internal Audit Manager the internal audit budget, resource plan, activities, and organizational structure of the internal audit function.
- At least once per year, review the performance of the SVP, Internal Audit Manager and concur with the annual compensation and salary adjustment.
- Review the effectiveness of the internal audit function, including conformance with The Bank's Code of Ethics.
- On a regular basis, meet separately with the SVP, Internal Audit Manager to discuss any matters that the committee or internal audit believes should be discussed.

### **External Audit**

- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- Review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors.
- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the company, including non-audit services, and discussing the relationships with the auditors.
- On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.

### Compliance

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- Review the findings of any examinations by regulatory agencies, and any auditor observations.
- Consult with management on the establishment and maintenance of an environment that promotes ethical behavior, including the establishment, communication, and enforcement of codes of conduct to guard against dishonest, unethical, or illegal activities.
- Obtain regular updates from management and company legal counsel regarding compliance matters.
- Review significant conflicts of interest involving directors, executive officers or related parties, as defined in Section 10A of the Securities Exchange Act of 1934.
- Establish procedures to receive complaints or concerns regarding accounting or auditing matters and investigate any matter brought to its attention within the scope of its duties.

### Risk Management

- Review and evaluate risk management policies in light of the Company's business strategy, capital strength, and overall risk tolerance.
- Examine third-party reviews of the Company's risk management practices in various functional areas to ensure there is a culture and practice of proper adherence to policies and procedures.

### Reporting Responsibilities

- Regularly report to the board of directors about committee activities, issues, and related recommendations.
- Provide an open avenue of communication between internal audit, the external auditors, and the board of directors.
- Report annually to the shareholders, describing the committee's composition, responsibilities and how they were discharged, and any other information required by rule, including approval of non-audit services.
- Review any other reports the company issues that relate to committee responsibilities.

### Other Responsibilities

- Perform other activities related to this charter as requested by the board of directors.
- Institute and oversee special investigations as needed.
- Review and assess the adequacy of the committee charter annually, requesting board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
- Confirm annually that all responsibilities outlined in this charter have been carried out.