



# AUDIT COMMITTEE CHARTER

Date: May 23, 2017

## Table of Contents

<b>AUDIT COMMITTEE CHARTER.....</b>	<b>3</b>
<b>I. AUDIT COMMITTEE PURPOSE.....</b>	<b>3</b>
<b>II. COMMITTEE ELIGABILITY, STRUCTURE AND OPERATIONS.....</b>	<b>3</b>
<b>III. COMMITTEE’S DUTIES AND RESPONSIBILITIES.....</b>	<b>5</b>
<b>IV. INDEPENDENT AUDITORS.....</b>	<b>7</b>
<b>V. INDEPENDENCE OF THE BSA OFFICER.....</b>	<b>8</b>
<b>VI. AUDIT FREQUENCY.....</b>	<b>8</b>
<b>VII. COMPLIANCE OVERSIGHT RESPONSIBILITIES.....</b>	<b>9</b>
<b>VIII. LIMITATION ON AUDIT COMMITTEE’S ROLE.....</b>	<b>9</b>
<b>IX. OTHER AUDIT COMMITTEE RESPONSIBILITIES.....</b>	<b>9</b>

## **AUDIT COMMITTEE CHARTER**

### **I. AUDIT COMMITTEE PURPOSE**

The Audit Committee is appointed by the Board of Directors (the “Board”) of Royal Business Bank (the “Bank”) and RBB Bancorp (the “Bancorp”) (jointly, the “Company”) to assist the Board in monitoring:

- (1) The integrity of the Company’s financial reporting process and systems of internal controls regarding finance, accounting, and legal compliance over financial reporting of the Company and the audits of its financial statements;
- (2) Appoint the Company’s independent auditors and monitor the independent auditor's qualifications and independence;
- (3) The performance of the Company's internal audit function and independent auditors; and
- (4) The compliance by the Company with legal and regulatory requirements.

### **II. AUTHORITY**

The Audit Committee has the authority to:

- retain and to terminate as it deems appropriate special legal, accounting, or other consultants or experts who are to be engaged or have been engaged to assist the Audit Committee with carrying out its responsibilities and fulfilling its duties under this Charter, including the authority to approve the fees and other retention terms for such persons or firms;
- appoint and determine the compensation of the Company’s independent auditors, and the Company shall provide appropriate funding for such compensation;
- resolve disagreements between the Company’s management and its independent auditors regarding financial reporting; and
- conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the Company’s independent auditors as well as anyone in the Company.

The Company shall provide for appropriate funding, as determined by the Audit Committee, for payment of compensation (i) to the independent auditors engaged for purposes of rendering an audit report or related work or performing other audit, review or attest services; (ii) to the internal auditor and staff or, if such function is out-sourced, the firm providing the internal audit function; (iii) any advisors employed by the Audit Committee; and (iv) for any ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

### **III. CHARTER REVIEW**

The Audit Committee will review and reassess the adequacy of this charter at least once a year and obtain the approval of the Board of Directors as to the proposed revisions, if any. In addition, to the extent and in the manner that the Company is legally required to do by the rules of the Securities and

Exchange Commission (the “SEC”), the Audit Committee will cause the Company to publicly file this charter (as then constituted).

#### **IV. COMMITTEE ELIGIBILITY, STRUCTURE AND OPERATIONS**

The Audit Committee will be comprised of at least three (3) members of the Board who are not members of management and do not have personal or business relationships with management. The members will be appointed by and serve at the pleasure of the Board.

Each member of the Audit Committee will be an “independent” director under the NASDAQ Stock Market listing requirements and Section 10A(m)(3) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), Rule 10A-3 promulgated under the Exchange Act, and all other applicable rules and regulations of the SEC for Audit Committee members and any standards prescribed for purposes of any federal securities, tax, banking, or other laws relating to the Audit Committee’s duties and responsibilities. In addition, each member of the Audit Committee shall not have participated in the preparation of the financial statements of the Company or any of its current subsidiaries at any time during the past three years.

Each member of the Audit Committee also must be able to read and understand fundamental financial statements, including the Company’s balance sheet, income statement, and cash flow statement. In addition, at least one member of the Audit Committee shall, in the judgment of the Board, be an “Audit Committee financial expert” in accordance with the SEC rules and regulations, and at least one member (who may also serve as the “Audit Committee financial expert”) shall, in the judgment of the Board, be financially sophisticated in accordance with the NASDAQ rules.

##### **A. Committee Meetings**

The Audit Committee shall meet in person or telephonically at least once each calendar quarter at a time and place determined by the Committee chairperson, with further meetings to occur when deemed necessary or desirable by the Chairman of the Board of the Company, Chairperson of the Committee or by a majority of the members of the Committee. The Audit Committee should meet privately in an executive session at least annually with management, the independent auditors, and as a committee to discuss any matters that the Audit Committee or each of these groups believes should be discussed. In addition, the Audit Committee, or at least its Chair, should communicate with management and the independent auditors quarterly to review the Company’s financial statements and significant findings based upon the auditors’ limited review procedures. At the invitation of the Chairperson of the Committee, the meetings shall be attended by the Chief Executive Officer, Chief Risk Officer, the Chief Financial Officer, the Chief Credit Officer, Company Security Officer, legal counsel for the Company, the representatives of the external auditing firm, and such other persons whose attendance is appropriate to the matters under consideration. The Chief Executive Officer (“CEO”) should not attend any portion of any meeting where the CEO’s performance or compensation is discussed, unless specifically invited by the Committee.

##### **B. Reporting Activities**

The Committee Chairperson, or designee, shall make regular reports to the Board. The Audit Committee shall review and reassess the adequacy of this Charter annually, recommend any proposed changes to the Board for approval, submit the charter to the Board of Directors for approval annually, and post any updates on the Company’s website in accordance with SEC regulations.

## V. COMMITTEE'S DUTIES AND RESPONSIBILITIES

The Audit 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 Audit Committee should take appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices, and ethical behavior.

The Audit Committee, to the extent it deems necessary or appropriate, shall:

- (1) Review and discuss with management and the independent auditor the Company's annual audited financial statements prior to filing or distribution. Review should include the financial statements, related notes, the auditor's opinion, and any unresolved disagreements with management concerning accounting or disclosure matters, including disclosures made in management's discussion and analysis, and the results of the audit.
- (2) Review and discuss with management and the independent auditor the Company's quarterly financial statements including the results of the independent auditor's review of the quarterly financial statements.
- (3) Following completion of the annual audit, review separately with management and the independent auditors any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work, access to required information, or any significant changes to the planned scope of the audit.
- (4) Prior to releasing the year-end audited financial statements, discuss the results of the year-end audit with the independent auditors. Consider the auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting.
- (5) Discuss with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies.
- (6) Review the risk management assessment of the Company's branches, credit centers and operating units and assign priorities for the year to have independent reviews conducted by loan, operational, information systems and compliance teams hired by the Committee; meet with such independent review consultants on at least an annual basis; and approve the contractual basis of each engagement letter and arrangement under consideration.
- (7) Review annual and quarterly SEC reports prior to filing, and discuss those reports with management and the independent accountants as appropriate.
- (8) Review the budget, strategic plan, changes in plan, activities and organizational structure, as needed.
- (9) Review and discuss annually reports from the independent auditors on:
  - a. All critical accounting policies and practices to be used.

- b. All alternative treatments of financial information within Generally Accepted Accounting Principles (“GAAP”) that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor.
  - c. Review other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
  - d. Discuss with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.
  - e. Review and approve all related party transactions including but not limited to Regulation "O" requirements.
- (10) In consultation with the management and the auditors, consider the integrity of the Company's financial reporting processes and controls and discuss significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures.
- (11) Review all Reports of Examination prepared by regulators regarding safety and soundness, compliance, or other examinations performed by such agencies.
- (12) Discuss with management prior to their release the Bancorp's earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information. The chairperson of the committee may represent the entire committee for purposes of this discussion. Prior to releasing the year-end earnings, the Audit Committee shall discuss the results of the audit with the independent auditors, and shall discuss certain matters required to be communicated to audit committees in accordance with AICPA SAS 114.
- (13) Review and approve any and all management initiated responses to engagements conducted by independent consultant firms or regulatory agencies, prior to their dispersal to the appropriate reviewing agent.
- (14) On at least an annual basis, review with the Company's counsel any legal matters that could have a significant impact on the Company's financial statements, compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies, if any.
- (15) Audit Committee members will review all the Company's complaints that submitted from Chief Risk Officer or Compliance Officer to ensure the appropriate actions and responses are taken by the related Department and Branch.
- (16) The Audit Committee is responsible for investigating any written complaints directed to the Company's senior management or Board members that are regarding accounting, internal accounting controls or auditing matters. The Audit Committee will report to the Board of Directors after the investigation. If necessary, the Audit Committee will hire an independent investigator who does NOT have an interest or business relationship with the person who submitted or is the target of the complaint.
- (17) The investigation report should describe any relationship between the person making the complaint and the subject person. The investigation report should be addressed directly to the Board of Directors or Audit Committee, not to the subject of the complaint.

- (18) All the investigations by the Audit Committee should be documented in the Audit Committee Meeting Minutes.
- (19) The Audit Committee shall discuss with the internal auditors and the independent auditors the overall scope and plans for their respective audits, including the adequacy of staffing and compensation.
- (20) The Audit Committee shall discuss with management, the internal auditors, and the independent auditors the adequacy and effectiveness of the accounting and financial controls, including the Company's system to monitor and manage business risk, and legal and ethical compliance programs, including the Company's Code of Conduct.
- (21) The Audit Committee shall annually review and approve the charter of the internal audit function, and the head of internal audit's proposed annual risk-based audit plan, financial budget and resources, and overall risk-assessment methodology, and shall approve any significant interim changes to the foregoing.
- (22) The Audit Committee shall receive periodic communications from the head of internal audit on the completion status of the annual risk-based audit plan, including any significant changes and the impact of resource limitations.
- (23) The Audit Committee shall receive, at least annually, communications from the head of internal audit on the internal audit function's quality assurance and improvement program, and shall discuss with the head of internal audit any external assessment and the qualifications and independence of any external assessor, including any potential conflicts of interest.
- (24) The head of internal audit shall obtain approval from the Audit Committee for any significant internal audit outsourcing engagements as defined in the internal audit charter.

## **VI. INDEPENDENT AUDITORS**

The Audit Committee shall have the sole authority to appoint or replace the independent auditor. The Audit Committee shall be directly responsible for the compensation and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The independent auditor shall report directly to the Audit Committee.

The Audit Committee has direct access to the independent auditors as well as to anyone in the organization and has the authority to conduct any investigation appropriate to fulfilling its responsibilities. The Audit Committee will have a clear understanding with the independent auditors that they must maintain an open and transparent relationship with the Audit Committee and that the ultimate accountability of the independent auditors is to the Audit Committee and the Board of Directors.

The Audit Committee shall obtain and review a report from the independent auditor at least annually regarding (a) the independent auditor's internal quality-control procedures, (b) 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 regarding one or more independent audits carried out by the firm, (c) any steps taken to deal with any such issues, and (d) all relationships between the independent auditor and the Company that could impair the auditors' independence, and the Audit Committee shall receive the written disclosures and the letters

from independent auditors required by Independence Standards Board Standard No. 1 (Independence Discussion with Audit Committee), as such may be modified or supplemented.

The Audit Committee shall ensure the rotation of the audit partners as required by regulation.

The Audit Committee shall establish board policies for the Company's hiring of employees or former employees of the independent auditor who participated in any capacity in the audit of the Company. The Audit Committee shall obtain annually from the independent auditors a formal written statement describing all relationships between the auditors and the Company.

The Audit Committee shall pre-approve all audit and permissible non-audit services to be performed by the independent auditors, provided that pre-approval is not required with respect to non-audit services if: (i) the aggregate amount of all such non-audit services provided to the Company constitutes 5% or less of the total amount paid by the Company to its independent auditor during the fiscal year in which the non-audit services are provided; (ii) such services were not recognized at the time of the engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Audit Committee and are approved by the Audit Committee or by one or more members of the Audit Committee to whom authority to grant such approvals has been delegated by the Audit Committee prior to the completion of the Audit.

The Audit Committee shall also (i) annually prepare a committee report as required by the SEC to be sent to shareholders as part of the Company's annual proxy statement; (ii) review significant reports prepared by the Company's internal and/or external loan review personnel together with management's response and follow-up to these reports; (iii) perform any other activities consistent with this Charter, the Company's bylaws, and governing law, as the Committee or the Board deems necessary or appropriate; (iv) establish procedures for the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters; and (v) have ultimate responsibility for determining matters of interpretation with respect to the audit and accounting related portions of the Company's Code of Ethics, and for making all final decisions concerning any disciplinary actions relating to those portions of the Code.

## **VII. INDEPENDENCE OF THE BSA OFFICER**

The Audit Committee has direct access to the BSA Officer as well as to anyone in the Company that performs BSA activities. The Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities and to direct the BSA Officer.

The BSA Officer shall report to the Audit Committee independently at least quarterly (a) the status of the BSA program, (b) Company-wide BSA training, (c) internal and external audit of the department, and (d) all ongoing BSA issues.

## **VIII. AUDIT FREQUENCY**

The Committee will review and approve the audit schedule of the auditors. The frequency of the audit reviews will be based on a risk assessment of the respective areas. The Company will prepare an Audit/Test Calendar showing audit area, firm to be used, and the status of each audit. The following areas should be reviewed at least annually:

- A/L Management /Interest Rate Risk
- Accounting/Finance Year-end
- Affiliates (TWA)/Related Party & Reg. O



**IX. COMPLIANCE OVERSIGHT RESPONSIBILITIES**

The Audit Committee is responsible for compliance and shall:

- (1) Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
- (2) Discuss with management and the independent auditor any correspondence with regulators or governmental agencies and any published reports that raise material issues regarding the Company's financial statements or accounting policies.
- (3) Discuss with the Company's Counsel legal matters that may have a material impact on the financial statements or the Company's compliance policies.
- (4) Review the appropriateness of the practices utilized to reimburse executive officers and to assure compliance with the Company's Code of Ethics.

**X. LIMITATION ON AUDIT COMMITTEE'S ROLE**

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with GAAP and applicable rules and regulations. These are the responsibilities of management and the independent auditor. The Audit Committee shall review the independent auditors' plan and discuss scope, staffing, locations, reliance upon management, and the external audit and general audit approach.

It is also not the duty of the Audit Committee to review and approve Company policies for compliance with the various state and federal rules and regulations. This duty is the responsibility of the Board of Directors.

**XI. OTHER AUDIT COMMITTEE RESPONSIBILITIES**

The Audit Committee shall perform any other activities consistent with this Policy and banking regulations as the committee or the Board of Directors deems necessary or appropriate.