



## AUDIT COMMITTEE CHARTER

**Board Approved:** November 2009  
**Last Revision:** October 2009  
**Department Accountability:** Board of Directors  
**Individual Accountability:** Audit Liaison

### Purpose

The Audit Committee (or “the Committee”) is a dual-purpose committee appointed by the Boards of Directors of Coastal Banking Company and CBC National Bank (“the Board”) to assist the Board in monitoring:

- (1) The integrity of the financial statements of Coastal Banking Company (the “Holding Company”) and CBC National Bank (the “Bank”);
- (2) The independent auditor's qualifications and independence;
- (3) The performance of the Holding Company’s and the Bank's internal audit function and independent auditors;
- (4) The compliance by the Holding Company and the Bank with legal and regulatory requirements;
- (5) The Holding Company’s and the Bank’s system of internal controls.
- (6) The audit committee will also prepare the report that SEC rules require be included in the company's annual proxy statement.

The Audit Committee shall prepare a report of such activities to the Board.

### Committee Membership

The Audit Committee shall consist of no fewer than three members. The majority of the members of the Audit Committee shall meet the independence and experience set by the Board. At least one member shall satisfy the definition of, and be designated as, a “financial expert”, as defined by the Board. Audit committee members shall not simultaneously serve on the audit committees of more than two other companies. The members of the Audit Committee shall be appointed by the Board. Audit Committee members may be replaced by the Board in its discretion.

### Meetings

The Audit Committee shall meet as often as it determines, but not less frequently than semi-annually. The Audit Committee shall meet periodically with management, the internal auditors and the independent auditor in separate executive sessions. The Audit Committee may request any officer or employee of the Holding Company and or the Bank or the Bank's outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

### Committee Authority, Duties and Responsibilities

The Audit Committee shall have the sole authority to appoint or replace the independent auditor (subject, if applicable, to shareholder ratification). 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 shall pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Holding Company and the Bank by its independent auditor. The Audit Committee shall approve all other outside compliance and review services. The Chairman may grant pre-approvals of audit and permitted non-audit services, provided that decisions of the Chairman to grant pre-approvals shall be presented to the full Audit Committee at its next scheduled meeting.

The Audit Committee shall have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting or other advisors. The Holding Company and the Bank shall provide for appropriate funding, as determined by the Audit Committee, for payment of compensation to the independent auditor for the purpose of rendering or issuing an audit report and to any advisors employed by the Audit Committee.

The Audit Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval. The Audit Committee shall annually review the Audit Committee's own performance.

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

**Financial Statement and Disclosure Matters**

1. Review and discuss with management and the independent auditor the annual audited financial statements, including disclosures made in management's discussion and analysis.
2. Review and discuss with management and the independent auditor the Holding Company's and the Bank's quarterly financial statements including the results of the independent auditor's review of the quarterly financial statements, when and if completed.
3. Discuss with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of the Holding Company's and the Bank's financial statements, including any significant changes in the Holding Company's and the Bank's selection or application of accounting principles, any major issues as to the adequacy of the Holding Company's and the Bank's internal controls and any special steps adopted in light of material control deficiencies.
4. Review and discuss quarterly 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 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) Other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
5. Discuss with the Holding Company's and the Bank's external auditors any issues arising from their review prior to the release of earnings. This discussion may be held with the Chairman of the Board.
  6. Discuss with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Holding Company's and the Bank's financial statements.
  7. Discuss with management the Bank's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Bank's risk assessment and risk management policies.
  8. Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 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.
  9. Review disclosures made to the Audit Committee by the Bank's CEO and CFO during their certification process 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.

#### Oversight of the Bank's Relationship with the Independent Auditor

10. Review and evaluate the lead partner of the independent auditor team.
11. 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 respecting one or more independent audits carried out by the firm;
  - (c) Any steps taken to deal with any such issues;
  - (d) Any material issues on which the national office of the independent auditor was consulted by the Bank's audit team;
  - (e) All relationships between the independent auditor and the Bank. Evaluate the qualifications, performance and independence of the independent auditor, including considering whether the auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditor's independence, and taking into account the opinions of management and internal auditors. The Audit Committee shall present its conclusions with respect to the independent auditor to the Board.
12. Consider the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law, or at least every five (5) years.

13. Meet with the independent auditor prior to the audit to discuss the planning and staffing of the audit.  
Oversight of the Bank's Internal Audit Function (performed internally or outsourced)
14. Review the appointment and replacement of the senior internal auditing executive or external review firms.
15. Review the significant reports to management prepared by the internal auditing department / external review firms and management's responses.
16. Discuss with the independent auditor and management the internal audit department / external review firm's responsibilities, budget and staffing, and any recommended changes in the planned scope of the internal audit.

#### **Compliance Oversight Responsibilities**

17. Obtain reports from management, the Bank's senior internal auditing executive / external review firms and the independent auditor that the Bank and its affiliated entities are in conformity with applicable legal requirements and the Bank's Code of Ethics and other similar policies. Review reports and disclosures of insider and affiliated party transactions. Advise the Board with respect to the Bank's policies and procedures regarding compliance with applicable laws and regulations and with the Bank's Code of Ethics and other similar policies.
18. Establish procedures for the receipt, retention and treatment of complaints received by the Bank regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
19. Discuss with management and the independent auditor any correspondence with regulators or governmental agencies and any published reports that raise material issues regarding the Bank's financial statements or accounting policies.
20. Discuss with the Bank's Internal or General Counsel legal matters that may have a material impact on the financial statements or the Bank's compliance policies.

#### **Limitation of 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 Bank's 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 independent auditor.