

# **ConnectOne Bancorp, Inc.**

## **Audit and Risk Committee Charter**

### **A. Purpose**

The purpose of the Audit and Risk Committee is to assist the Board of Directors' oversight of the Company's accounting and financial reporting processes, including its internal audit function, and the audits by the external auditor of the Company's financial statements, and to identify, evaluate and establish policies for management to utilize in managing the Enterprise Risks (as specified below) inherent in and associated with the Company's business and business and strategic plans.

### **B. Structure and Membership**

1. Number. The Audit and Risk Committee shall consist of at least three (3) members of the Board of Directors.
2. Independence. Except as otherwise permitted by the applicable Nasdaq rules, each member of the Audit and Risk Committee shall be independent as defined by Nasdaq rules, meet the criteria for independence set forth in Rule 10A-3 (b)(1) under the Exchange Act (subject to the exemptions provided in Rule 10A-3(c)), and not have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three years. Specifically, the Nasdaq rules state that a director does not qualify as "independent" if:
  - (a) such director is, or during the past three years was, an employee of the company or any parent or subsidiary of the company or an immediate family member of an individual who is, or in the past three years has been, employed by the company or any parent or subsidiary of the company as an executive officer. Prior service as an interim Chairman or CEO will not disqualify an otherwise independent director;
  - (b) such director accepts or has an immediate family member who accepts any payments from the company or any parent or subsidiary of the company in excess of \$120,000 during the current or any of the past three fiscal years. This disqualification does not apply to (i) compensation for board service, (ii) payments arising solely from investments in the company's securities, if available to all security holders, (iii) compensation to an immediate family member who is a non-executive employee of the company or of a parent or subsidiary of the company, (iv) compensation for prior service as an interim Chairman or CEO, (v) benefits under a tax-qualified retirement plan, (vi) non-discretionary compensation, or (vii) personal loans to executives permitted by the Securities Exchange Act of 1934, as amended;
  - (c) such director is, or has an immediate family member who is, a partner in, or a controlling shareholder or an executive officer of, any organization to which the company made, or from which the company received, payments (other

**ConnectOne Bancorp, Inc.**  
**Audit and Risk Committee Charter**

than payments arising solely from investments in the company's securities and available to all security holders or payments under non-discretionary charitable contribution matching programs) that exceed the greater of 5% of the recipient's gross revenues for that year or \$200,000, in any of the most recent three fiscal years;

(d) such director is, or has an immediate family member who is, employed as an executive officer of another company at any time during the most recent three fiscal years at which any of the listed company's officers serve on such other company's compensation committee; or

(e) such director is, or has an immediate family member who is, a current partner of the company's outside auditor, or such director or immediate family members was a partner or employee of the company's outside auditor who worked on the company's audit engagement at any time during the past three fiscal years.

In addition, a member of the audit committee will not be deemed independent if he or she accepts any consulting, advisory, or other compensatory fee from the Company, other than for board service.

3. Background, Experience and Financial Literacy. Each member of the Audit and Risk Committee must be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement, and cash flow statement, at the time of his or her appointment to the Audit Committee. In addition, at least one member must have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. [Finally, at least one member shall experience in identifying, assessing and managing the risk exposures of a financial institution of a size, complexity and risk profile comparable to that of the Company]
4. Chair. Unless the Board of Directors elects a Chair of the Audit and Risk Committee, the Audit Committee shall elect a Chair by majority vote.
5. Compensation. The compensation of Audit and Risk Committee members shall be as determined by the Compensation Committee.
6. Selection and Removal. Members of the Audit and Risk Committee shall be appointed by the Board of Directors. The Board of Directors may remove members of the Audit and Risk Committee from such committee, with or without cause.

**C. Authority and Responsibilities**

**General**

The Audit and Risk Committee shall discharge its responsibilities, and shall assess the information provided by the Company's management, internal audit function and the

**ConnectOne Bancorp, Inc.**  
**Audit and Risk Committee Charter**

independent auditor, in accordance with its business judgment. Management is responsible for the preparation, presentation, and integrity of the Company's financial statements and for the appropriateness of the accounting principles and reporting policies that are used by the Company. Management is also responsible to ensure that the Company's operations comply with the Audit/Risk Committee's approved risk parameters. The independent auditors are responsible for auditing the Company's financial statements and for reviewing the Company's unaudited interim financial statements. The authority and responsibilities set forth in this Charter do not reflect or create any duty or obligation of the Audit and Risk Committee to plan or conduct any audit, to determine or certify that the Company's financial statements are complete, accurate, fairly presented, or in accordance with generally accepted accounting principles or applicable law, or to guarantee the independent auditor's report.

## **I Audit Oversight**

### **Oversight of Independent Auditors**

1. Selection. The Audit and Risk Committee shall be solely and directly responsible for appointing, evaluating, retaining and, when necessary, terminating the engagement of the independent auditor. The Audit and Risk Committee may, in its discretion, seek stockholder ratification of the independent auditor it appoints.
2. Independence. The Audit and Risk Committee shall take appropriate action to oversee the independence of the independent auditor. In connection with this responsibility, the Audit and Risk Committee shall obtain and review a formal written statement from the independent auditor describing all relationships between the auditor and the Company, including the disclosures required by Independence Standards Board Standard No. 1. The Audit and Risk Committee shall actively engage in dialogue with the auditor concerning any disclosed relationships or services that might impact the objectivity and independence of the auditor.
3. Compensation. The Audit and Risk Committee shall have sole and direct responsibility for setting the compensation of the independent auditor. The Audit and Risk Committee is empowered, without further action by the Board of Directors, to cause the Company to pay the compensation of the independent auditor established by the Audit and Risk Committee.
4. Preapproval of Services. The Audit and Risk Committee shall preapprove all audit services to be provided to the Company, whether provided by the principal auditor or other firms, and all other services (review, attest and non-audit) to be provided to the Company by the independent auditor.
5. Oversight. The independent auditor shall report directly to the Audit and Risk Committee, and the Audit and Risk Committee shall have sole and direct responsibility for overseeing the work of the independent auditor, including resolution of disagreements between Company management and the independent auditor regarding financial reporting. In connection with its oversight role, the Audit and Risk Committee shall, from time to time as appropriate, receive and consider the reports required to be made by the independent auditor regarding:

**ConnectOne Bancorp, Inc.**  
**Audit and Risk Committee Charter**

- critical accounting policies and practices;
- alternative treatments within generally accepted accounting principles for policies and practices related to material items that have been discussed with Company management, including ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and
- other material written communications between the independent auditor and Company management.

The Committee shall also review the independent auditors' letter to management, and other comments, if any, regarding the system of internal accounting controls and review any management response thereto.

**Audited Financial Statements**

1. Review and Discussion. The Audit and Risk Committee shall review and discuss with the Company's management and independent auditor the Company's audited financial statements, including the matters about which Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards, AU §3 80) requires discussion.
2. Recommendation to Board Regarding Financial Statements. The Audit and Risk Committee shall consider whether it will recommend to the Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K.
3. Audit Committee Report. The Audit and Risk Committee shall prepare an annual committee report for inclusion where necessary in the proxy statement of the Company relating to its annual meeting of security holders.

**Oversight of Internal Audit Function**

The Audit and risk Committee shall oversee the internal audit function of the Company including (a) the planned scope of the internal audit work, (b) findings of the internal auditors and related management actions, (c) the adequacy of the staffing of the internal audit function, (d) the adequacy and effectiveness of the internal accounting controls and compliance with the Foreign Corrupt Practices Act, if applicable (e) the adequacy, effectiveness and compliance with the Code of Conduct of the Company and (f) the effectiveness of the electronic data processing procedures and controls and related security programs; and (g) the Company's internal audit function, whether internal or outsourced, shall report directly to the Chief Executive Officer of the Company and to the Committee. The

**ConnectOne Bancorp, Inc.**  
**Audit and Risk Committee Charter**

Committee shall have direct access to the internal auditors. The Committee shall report regularly to the Board.

**Review of Other Financial Disclosures**

Independent Auditor Review of Interim Financial Statements. The Audit and Risk Committee shall direct the independent auditor to use its best efforts to perform all reviews of interim financial information prior to disclosure by the Company of such information and to discuss promptly with the Audit and Risk Committee and the Chief Financial Officer any matters identified in connection with the auditor's review of interim financial information which are required to be discussed by applicable auditing standards. The Audit and Risk Committee shall direct management to advise the Audit and Risk Committee in the event that the Company proposes to disclose interim financial information prior to completion of the independent auditor's review of interim financial information.

**Controls and Procedures**

1. Oversight. The Audit and Risk Committee shall coordinate the Board of Directors' oversight of the Company's internal control over financial reporting, disclosure controls and procedures and code of conduct. The Audit and Risk Committee shall receive and review the reports of the CEO and CFO required by Rule 13a-15 of the Exchange Act.
2. Procedures for Complaints. The Audit and Risk Committee shall establish procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
3. Related-Party Transactions. The Audit and Risk Committee shall review all related party transactions (other than extensions of credit subject to Federal Reserve Regulation O) on an ongoing basis, and all such transactions must be approved by the Audit and Risk Committee.

**II Risk Management**

**(a) Risk Oversight**

- 1) *Risk Appetite.* The Committee shall oversee the Company's establishment of a Risk Appetite Statement and a risk assessment aligned with the Company's strategic plan and Risk Profile.
- 2) *Risk Reporting.* Management shall ensure that quarterly reports are made to the Audit/Risk Committee relative to the level and movement of each Top Risk

**ConnectOne Bancorp, Inc.**  
**Audit and Risk Committee Charter**

identified in the Risk Profile through the use of Dashboard indicators.

- 3) *ERM Policy.* Review and update the Enterprise Risk Management Policy on an annual basis, or when significant changes in ERM processes occur.
- 4) *Review of Enterprise Risks.* The Committee shall review with senior management the current and emerging Enterprise Risks associated with the Company, and the program and processes for identification, management, evaluation, monitoring and planning for Enterprise Risks. Enterprise Risks are categorized as follows:
  - i. *Operations/IT Risk*, which includes
    - a. *Transaction Risk*, which arises from problems with service or product delivery;
    - b. *Information Technology Risk*, which arises from dependency on certain technologies;
    - c. *Vendor Risk*, which arises from reliance on vendor organizations;
    - d. *Business Continuity Risk*, which arises from the ability to continue or resume service or product delivery in the event of a disaster; and
    - e. *Cybersecurity Risk*, which arises from third party attacks on the Company's technology or data.
    - f. *Customer Information Risk*, which arises from the collection, processing, storing and destruction of non-public customer information;
  - ii. *Compliance Risk*, which arises from violations of, or non-conformance with, laws, rules, regulations, prescribed practices or ethical standards;
  - iii. *Strategic Risk*, which arises from adverse business decisions or improper implementation of those decisions;
  - iv. *Reputation Risk*, which arises from negative public opinion, affecting the Company's ability to establish new relationships or services, or continue servicing existing relationships;
  - v. *Interest Rate Risk* which arises from fluctuations in interest rates;
  - vi. *Credit Risk*, which arises from an obligor's failure to meet the terms of any contract with the Company or otherwise fail to perform as agreed;
  - vii. *Liquidity Risk*, which arises from the inability to meet obligations as they become due, without incurring unacceptable losses.
- 5) *Review Risk Mitigation and Capital.* The Committee shall review with senior management, risk management and mitigation tools, techniques, and processes for the above Enterprise Risks, including applicable risk related policies, procedures, internal controls and insurance. The Committee shall periodically review whether the Company maintains adequate capital given the Enterprise Risks inherent to the Company or emerging from its planned activities. The

**ConnectOne Bancorp, Inc.**  
**Audit and Risk Committee Charter**

primary responsibility for Capital Planning rests with the Chief Financial Officer and the ALCO Committee.

- 6) *[Review of Incentive Compensation Plans.* The Committee shall review the report of the Chairman of the Compensation Committee presented to the Human Resources/Compensation Committee to assist that committee in its review of any risks created by the Company's compensation practices and that risks and controls are considered as part of compensation.]

**(b) Business Planning.**

- 1) *Development of Business Plan.* The Committee shall review the Company's business and strategic plan on an annual basis, and provide recommendations to the Board for modifications as deemed appropriate based upon changes in the external economy and the Company's markets.

**(c) Other Committee Responsibilities.**

- 1) *Other Functions.* The Committee shall perform such other functions and activities as are provided by the Nasdaq, the SEC and the federal securities and banking laws and regulations, or are consistent with this Charter, the Company's by-laws, and governing law, as the Committee or the Board deems necessary or appropriate. The Committee shall receive and review reports on selected risk topics as management or the Committee deems appropriate from time to time.
- 2) *Review of Charter.* At least annually, the Committee shall review and reassess the adequacy of this Charter, and submit any recommended changes to the Board for approval.

**D. Procedures and Administration**

1. Meetings. The Audit and Risk Committee shall meet as often as it deems necessary in order to perform its responsibilities, but in any event, no less than once per quarter. The Audit and Risk Committee may also act by unanimous written consent in lieu of a meeting. The Audit and Risk Committee shall keep such records of its meetings as it shall deem appropriate.
2. Subcommittees. The Audit and Risk Committee may form and delegate authority to one or more subcommittees (including a subcommittee consisting of a single member), as it deems appropriate from time to time under the circumstances. Any decision of a subcommittee to preapprove audit, review, attest or non-audit services shall be presented to the full Audit and Risk Committee at its next scheduled meeting.
3. Independent Advisors. The Audit and Risk Committee is authorized, without further action by the Board of Directors, to engage such independent legal, accounting and other advisors as it deems necessary or appropriate to carry out its responsibilities. Such

**ConnectOne Bancorp, Inc.**  
**Audit and Risk Committee Charter**

independent advisors may be the regular advisors to the Company. The Audit and Risk Committee is empowered, without further action by the Board of Directors, to cause the Company to pay the compensation of such advisors as established by the Audit and Risk Committee.

4. Funding. The Audit and Risk Committee is empowered, without further action by the Board of Directors, to cause the Company to pay the ordinary administrative expenses of the Audit and Risk Committee that are necessary or appropriate in carrying out its duties.