

# First Farmers and Merchants Bank

## Audit Committee Charter

The Board of Directors of First Farmers and Merchants Bank (the “Bank”) establishes an Audit Committee (the “Committee”) with the purpose, authority, composition, meetings and responsibilities as outlined below:

### **PURPOSE**

To assist the Board of Directors in fulfilling its oversight responsibilities for:

- The integrity of the Bank's financial statements.
- The Bank's compliance with legal and regulatory requirements.
- The independent External Auditor qualifications & independence (see Appendix A).
- The independent Internal Auditors qualifications & independence (see Appendix A).
- The performance of the Bank's Internal Audit function.
- The Bank's Ethics Policy, Code of Conduct, and Fraud Policy.
- Special investigations and Whistleblower responsibilities.

### **AUTHORITY**

The Audit Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility, and it is empowered to:

- Appoint, compensate, and oversee the work of outside independent firms with whom the Bank outsources selected internal audit functions. The firms will report directly to the Audit Committee.
- Resolve any disagreements between Bank Management and the independent External or Internal Auditor regarding financial reporting.
- Pre-approve all auditing and permitted non-audit services performed by the Bank's External and Internal Audit firms.
- 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 Bank Officers, External and Internal Auditors, or outside counsel, as necessary.
- Review the effectiveness of the Audit Committee Secretary.

## **COMPOSITION**

The Audit Committee will consist of at least three and no more than seven members of the Board of Directors (see Appendix B). Audit Committee members are appointed annually by a majority vote of the Board. One of the members shall be appointed Audit Committee Chairman by the Chairman of the Board. Each committee member will be both independent and financially literate. At least one member shall be designated as the "financial expert," as defined by applicable legislation and regulation. No committee member shall simultaneously serve on the audit committees of more than two other public companies.

## **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 phone conference. The committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary. It may meet separately, periodically, with management, with Internal Auditors and with External Auditors. It may also meet periodically in executive session. Meeting agendas will be prepared by the Board appointed Audit Committee Secretary and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared.

## **RESPONSIBILITIES**

The committee will carry out the following responsibilities:

### **Financial Statements**

- Review significant accounting and reporting issues and understand their impact on the financial statements. These issues include:
  - Complex or unusual transactions and highly judgmental areas.
  - Major issues regarding accounting principles and financial statement presentations, including any significant changes in the Bank's selection or application of accounting principles
  - The effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Bank.
- Review analysis prepared by management or the independent External Auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.
- Review with Management, the External and the Internal Auditors the results of the audits, including any difficulties encountered. This review will include any restrictions on the scope of the independent External and Internal auditor's activities or on access to requested information, and any significant disagreements with management.
- Discuss the annual audited financial statements and quarterly financial statements with management and the External Auditors, including the bank's disclosures under "Management's Discussion and Analysis of Financial Condition & Results of Operations".

Review disclosures made by CEO and CFO during the Forms 10-K and 10-Q certification process about significant deficiencies in the design or operation of internal controls or any fraud that involves management or other employees who have a significant role in the bank's internal controls.

### **External Audit**

- Review the independent External Auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- Review the performance of the independent External Auditors, and exercise final approval on the appointment or discharge of the auditors.
- Review and evaluate the lead partner of the independent External Auditor.
- Present the report's conclusions with respect to the independent External Auditor to the Board.
- Ensure the rotation of the lead audit partner every five years and other audit partners every seven years, and consider whether there should be regular rotation of the audit firm itself.
- As needed, meet separately with the independent External Auditors to discuss any matters that the committee or auditors believe should be discussed privately.

### **Internal Audit**

- Review the independent Internal Auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- Review with Bank Management and the Internal Controls Officer the charter, plans, activities, staffing, and organizational structure of the internal audit function.
- Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the Internal Controls Officer.
- Review the effectiveness of the internal audit function.
- As needed, meet separately with the Internal Controls Officer to discuss any matters that the committee or internal audit believes should be discussed privately.

### **Internal Controls**

- Review the effectiveness of the Internal Controls Officer.
- Consider the effectiveness of the Bank's internal control process, including information technology security and control.
- Understand the scope of the Internal and External Auditors' review of internal control processes over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.
- Review of the Sarbanes-Oxley Act (SOX) Testing. Also review the effectiveness of the Whistleblower program through Compliance Partners. (Note: This program is the established procedures for monitoring complaints received by The Compliance Partners company from bank employees regarding accounting, internal accounting controls, or auditing matters, and, the confidential, anonymous reporting of concerns regarding questionable accounting or auditing matters.)

## **Regulatory Compliance**

- Review the effectiveness of the Chief Compliance Officer.
- 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. Monitor management's follow-up/responses to these findings.
- Obtain regular updates from management regarding compliance matters.

## **Reporting Responsibilities**

- Regularly report to the Board of Directors about committee activities and issues that arise with respect to the quality or integrity of the Bank's financial statements, the Bank's compliance with legal or regulatory requirements, the performance and independence of the Bank's independent External and Internal Auditors, and the performance of the internal audit function.
- Provide an open avenue of communication between Internal Audit, the independent External and Internal 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 Bank 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.
- The Audit Committee will annually review its effectiveness.

# **First Farmers & Merchants Bank**

## **Audit Committee Charter**

### **Appendix A**

#### **Independent External Auditor:**

- BKD CPA, LLP

#### **Independent Internal Auditors:**

- Professional Bank Services, Inc. (PBS)
- Crowe Horwath, LLP
- Credit Risk Management, LLC (CRM)
- Tennessee Automated Clearing House Association (TACHA)

# **First Farmers & Merchants Bank**

# Audit Committee Charter

## Appendix B

### **Bank Audit Committee Members:**

Matthew M (Sonny) Scoggins, Jr., Chairman & Financial Expert

Dalton M. Mounger, Vice Chairman

Dr. David S. Williams

Jonathan M. Edwards

Kimberly D. Vella