

## Shore Bancshares Inc. Audit Committee Charter

### AUTHORITY

The Board of Directors (the "Board") of Shore Bancshares Inc. (referred to as "the Company") establishes this Audit Committee (the "Committee") as a standing committee of the Board to serve the Board in overseeing the policies, procedures and practices related to financial reporting, and external and internal auditing standards. This charter is intended as a component of a flexible governance framework within which the Board, assisted by its committees, directs the affairs of the Company. It should be interpreted within the context of all applicable laws, regulations, listings rules and the Company's articles of incorporation and corporate bylaws. It is not intended to establish by its own force legally binding obligations. While the Committee has the responsibilities set forth in this charter, it does not have responsibility for planning or conducting audits or for determining that the financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Those are responsibilities of management and the independent accountants, rather than the Committee. The Committee also is not responsible for ensuring compliance with laws or regulations.

### PURPOSE

The primary function of the Committee is to oversee and report to the Board regarding the (1) the integrity of the Company's financial statements and accounting and financial reporting processes of the Company and its subsidiaries, (2) the Company's compliance with legal and regulatory requirements, (3) the independent auditor's qualifications, independence, and performance (4) the qualifications and performance of the Company's internal audit function and 5) perform the other duties of the Committee specified by federal and state banking and securities laws and regulations, the listing standards of The NASDAQ Stock Market, Inc. and other securities exchange or market on which the Company's securities are listed or eligible for trading ("Listing Standards"), Consistent with this function, the Committee should encourage continuous improvement of, and should foster adherence to, the Company's policies, procedures, and practices at all levels.

The Committee is empowered to:

- Appoint, compensate, and oversee the work of the public accounting firm employed by the organization to conduct the annual audit. This firm will report directly to the Committee.
- Appoint, compensate, oversee, and supervise the work of the internal audit function. This function will report directly to the Committee.
- 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, officers, directors, or external parties—all of whom are directed to cooperate with the Committee's requests.
- Meet with Company officers, internal auditors, independent accountant, or outside counsel, as necessary.
- The Committee may delegate authority to subcommittees, including the authority to pre-approve all auditing and permitted non-audit services, providing that such decisions are presented to the full Committee at its next scheduled meeting.
- The Company will provide appropriate funding as determined by the Committee to be necessary or appropriate.

### COMPOSITION, MEETINGS, GENERAL RESPONSIBILITIES AND ACTIONS

1. The Committee will consist of at least three and no more than six members of the Board. The Board's Nominating Committee will appoint the Committee members and the Committee chair as well as address succession planning. The Board may remove a Committee member from membership of the Committee at any time with or without cause. In determining the independence of members of the Committee, the Board shall meet current standards of independence established for service on the Audit Committee by applicable law, the regulations of the Securities and Exchange Commission ("SEC"), the Listing Standards and the Federal Deposit Insurance Corporation (FDIC).
2. Each member of the Committee must be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement and cash flow statement. At least one member of the Committee must have past employment experience in finance or accounting, requisite professional certification in accounting or other comparable experience or background that leads to financial sophistication. At least one member of the Committee must be an "audit committee financial expert" as defined in Item 407(d)(5)(ii) of Regulation S-K. A person who satisfies this definition of audit committee financial expert will also be presumed to have financial sophistication. No member of the Committee shall 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. No Committee member shall simultaneously serve on the Audit Committees of more than two other public companies.
3. The Committee will meet at least four times a year, with authority to convene additional meetings, as circumstance require. Three (3) Committee members will be a quorum for the transaction of business. The Committee member will not vote on any

matter which he or she is not independent. The Committee may ask members of management or others to attend meetings and is authorized to receive all pertinent information from management. Each regularly scheduled meeting will conclude with an executive session of the Committee absent members of management. As part of its responsibility to foster open communication, the Committee will also meet periodically with management, the leadership of the internal audit function, and the independent accountant/auditor in separate executive sessions. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared.

4. It is the responsibility of the Committee to maintain open avenues of communication among the internal auditors, the independent accountant/auditor, management, and the Board.
5. The Committee shall establish procedures for the receipt, retention and treatment of ethical and fraudulent complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, including procedures for the confidential, anonymous submissions by the Company's employees of concerns regarding questionable accounting or auditing matters.
6. The Committee shall review the regular internal audit reports to management (or summaries thereof) prepared by the internal audit function, as well as management response.
7. The Committee Chairman shall regularly report on its duties and responsibilities, activities, any issues encountered (that arise with respect to the quality or integrity of the financial statements, legal or regulatory compliance requirements, and the performance and independence of the company's internal auditors and independent auditors), to the Board no later than the next Board meeting. The Committee shall provide the Board with such information as the Board may request, and shall make such recommendations as the Committee shall deem appropriate.
8. The Committee shall fulfill such other duties and responsibilities as are required by applicable law, the regulations of the SEC, or the Listing Standards, and as assigned to the Committee from time to time by the Board.

#### **OVERSIGHT AND RELATIONSHIP WITH THE INDEPENDENT AUDITORS**

9. The Committee shall be responsible for the appointment, compensation, retention, oversight (including resolution of disagreements between management and the independent accountants regarding financial reporting), and termination of the Company's independent accountants engaged for the purpose of preparing or issuing an audit report or performing other audit, review and attest services. The independent auditor will report directly to the Committee. The Committee will ascertain that the independent auditor views the Committee as its client, and that it will provide the Committee with a timely analysis of significant financial reporting issues.
10. The Committee shall review the qualifications, performance (effectiveness, objectivity, and independence) of the independent auditor at least annually. The Committee will oversee compliance with lead (or coordinating) and review partner and other rotation requirements by the independent accountant as promulgated by applicable rules and regulations are executed. This will include considering whether there should be a regular rotation of the independent accounting firm itself. In addition, the Committee will obtain and review the required written disclosures and letters from the independent accountant/auditor describing 1) the firm's internal quality control procedures 2) any material issues raised by the most recent internal quality-control review or peer review, or by any inquiry or investigation conducted by applicable authorities during the preceding five years and any steps taken to deal with such issue 3) all relationships between the independent accountant/auditor and the Company. The Committee will actively engage in dialogue with the firm with respect to any disclosed relationships or services that may affect the independence and objectivity of the independent accountant/auditor and take appropriate actions to oversee the independence.
11. The Committee shall set policies, consistent with governing laws and regulations, for hiring personnel of the independent accountant/auditor.
12. The Committee will listen to management and the independent accountant if either thinks there might be a need to engage additional auditors. The Committee will decide whether to engage an additional firm and, if so, which one.
13. The Committee will review and assess the overall scope and focus of the annual/interim audit, including the scope and level of involvement with unaudited quarterly or other interim-period information.
14. The Committee shall meet with the independent auditor in separate executive sessions to discuss any matters that warrant committee attention.

#### **OVERSIGHT OF INTERNAL AUDIT FUNCTION**

15. The Committee shall oversee the internal audit function as it relates to the affairs of the Company. The Committee shall be responsible for the appointment, replacement, reassignment or dismissal of the internal audit leadership. The Committee, in concert with subsidiary companies, will annually review the performance of the Company's internal audit function. The Committee will ensure that the Company is in compliance with the March 17, 2003 Interagency Policy Statement on the Internal Audit function and its Outsourcing.
16. Internal audit shall present annually an audit risk assessment and internal audit plan for approval by the Committee and regular reports on the results and findings of internal audits. The Committee shall meet with internal audit leadership in separate executive sessions to discuss any matters that warrant committee attention.
17. Internal audit shall oversee the tracking and follow up of reported findings and provide regular reports to the Committee on management action plans and related remediation efforts for Committee oversight and review.

18. The Committee shall annually review, assess the continued adequacy, and recommend changes (if any) to the Internal Audit Charter.
19. The Committee shall periodically review the responsibilities, qualifications, activities, staffing, and performance of the internal audit function. The Committee will also ensure that there are no unjustified restrictions or limitations for the internal audit function or any significant difficulties. This would also include a periodic review of the completed audit working papers to determine that the audits are being performed in accordance with the engagement letter and the approved audit plan.

#### **MONITOR FINANCIAL REPORTING, DISCLOSURES, AND RISK CONTROL RELATED MATTERS**

The Committee shall review and assess:

20. The Committee will review and discuss with management, the internal auditor and the independent accountant/auditor the significant risks and exposures and will assess management's steps to minimize them.
21. The Committee in consultation with the independent accountant/auditor and the internal auditor will review the integrity of the Company's financial reporting processes (both internal and external), controls, and disclosures.
22. The Committee will review and discuss the following with management, the internal auditor and the independent accountant/auditor:
  - a. The adequacy of the internal controls, including information technology system controls and security; policies and procedures and the resolution of identified material weaknesses and reportable conditions in internal controls.
  - b. Any fraud that involves management or other employees who have a significant role in the Company's internal controls.
  - c. Any significant findings and recommendations made by the independent accountant or internal auditing, together with management's responses to them;
  - d. All critical accounting policies and practices and any other material components of the Company's financial statements involving management's judgment or estimates, and about the quality of accounting principles and the clarity of financial disclosure practices used or proposed to be used by the Company. This may also include any complex or unusual transactions;
  - e. The alternative treatments of financial information within generally accepted accounting principles that have been discussed with management officials, ramifications of the use thereof, and the treatment preferred by the independent accountants, as well as any required or suggested changes in auditing or accounting practices or principles;
  - f. Material off-balance sheet transactions, arrangements, obligations and other relationships of the Company and regulatory initiatives that may have a material current or future effect on the Company's financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources of significant components of revenue or expenses;
  - g. Any material changes in accounting policies or practices and the impact thereof on the Company's financial statements;
  - h. The annual audited financial statements and related regulatory filings and quarterly financial statements, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations";
  - i. 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;
  - j. Any report or recommendations of the independent accountant;
  - k. Comment letters from the SEC or related to NASDAQ listing rules and management's response hereto.
  - l. Anything else about the audit procedures or findings that GAAP requires the accountants to discuss with the Committee.
  - m. Any difficulties or disputes encountered with management while conducting audits, including any restrictions on the scope of their work or access to required information.
  - n. Any material legal affairs of the company and company's compliance with applicable law and listing standards with the company's General Counsel.
23. The Committee will review (in advance of filings or distributions) quarterly and annual filings with the SEC and other published documents containing the Company's financial statements and will consider whether the information in the filings is consistent with the information in the financial statements. The Committee shall discuss public release of financial information including earnings press releases (particularly use of "pro forma," or "adjusted" non-GAAP, information) as well as financial information and earnings guidance provided to analysts and rating agencies. This review may be general (i.e., the types of information to be disclosed and the type of presentations to be made). The committee does not need to discuss each release in advance. The Committee will determine that the quarterly financial statements have been reviewed by the independent accountants before those interim statements are released to the public or filed with the SEC.
24. The Committee shall prepare a report for inclusion in the proxy statement that describes the Committee's composition and responsibilities, and how they were discharged, including a statement regarding their review and discussion of the annual financial statements, review of the independence of the independent accountants, and discussions with the independent accountants, and a statement that based on the foregoing, the committee recommended that the annual financial statements be included in the Company's annual report on Form IO-K..

#### **RELATED PARTIES AND CONFLICT OF INTEREST RESPONSIBILITIES**

25. On an on-going basis, the Committee shall conduct an appropriate review of existing policies and practices specific to related party transactions and potential conflicts of interest. All such transactions shall be approved by the Committee to the extent required by applicable law.

#### **FUNDING AND EXTERNAL ADVISORS**

26. In performing its duties hereunder, the Committee shall have the authority to conduct and authorize, any matters within its scope of responsibility. This includes the institute and oversight of any special investigation deemed necessary. The Committee may utilize, consult with, or engage members and resources of the committee or external advisers in the discharge of their duties.
27. The Company shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent auditors employed by the Company for the purpose of rendering an audit report or performing other audit, review, or attest services for the Company and to any advisors employed by the Committee and for payment of ordinary administrative expenses of the Committee that are necessary and appropriate in carrying out its duties. The Committee must pre-approve all audit and permitted non-audit and tax services that may be provided by the independent auditors or other registered public accounting firms, and establish policies and procedures for the Committee's pre-approval of permitted services by the independent auditors or other registered public accounting firms on an on-going basis..

#### **ENTERPRISE RISK MANGEMENT**

28. The Committee shall discuss the Company's policies with respect to enterprise risk assessment and risk management policies and guidelines, including legal and compliance programs and major financial risk exposures. The Committee shall review and receive updates on steps taken by management to monitor and control major financial risk and other significant risk exposures. The Committee shall review and receive updates on legal and regulatory matters that may have a material effect on the organization's financial statements, compliance policies, programs, and reports from regulators. This may include a 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.

#### **CORPORATE GOVERNANCE RESPONSIBILITIES**

29. The Committee members shall participate in Audit Committee education activities at the committee level or one-on-one as appropriate
30. The Committee shall evaluate the Committee and individual members' performance at least annually (self-assessment), seeking input from senior management, the Board, and others, and present the result of the evaluation to the Board.
31. The Committee shall confirm annually that all responsibilities outlined in this Charter have been carried out and shall perform other activities as requested and delegated by the Board.
32. The Committee shall review and assess at least annually the adequacy of this Charter in light of changes with applicable laws and regulations, Company's bylaws, or with the Committee responsibilities. The Committee shall recommend to the Board any necessary amendments for their approval. The Company shall publish or otherwise make publicly available the Charter in accordance with the rules and regulations of the SEC and the Listing Standards.

#### **AUTHORITIES AND MANAGEMENT SUPPORT**

33. The Committee has authority to request information and reports from internal and external advisors with respect to its area of responsibility. The Committee may request any director, officer or employee, or other person to attend any meetings of the Committee to provide such information.
34. To assist the Committee, management will provide the Committee with information and recommendations as needed and recommended by the Committee.
35. The Committee shall have access to the Company's General Counsel and/or outside legal counsel, at its discretion, if it desires.