

AUDIT COMMITTEE CHARTER AND POLICY

The Audit Committee (“Committee”) shall constitute a standing committee of the Board of Directors, with duties and responsibilities as set forth herein. The Committee shall consist of at least two independent directors appointed by the Board. If possible, one member shall be a “financial expert” as defined in the Sarbanes-Oxley Act of 2002. The Board shall appoint the Chairman of the Committee.

Qualifications for Audit Committee Service

Membership on the Committee is dependant upon the individual’s capacity to serve productively as a committee member based on the following:

1. Broad experience in and/or knowledge of the Bank’s operations, finance accounting and auditing.
2. Facility in obtaining information by inquiry.
3. Commitment and time availability.
4. It is preferable that at least one member of the Committee qualify as a “financial expert” with knowledge of generally accepted accounting principles; financial statements; preparation of and auditing of financial statements; accounting for estimates, accrual and reserves; internal accounting controls; and, audit committee functions.

The preparation necessary to serve as an audit committee member depends on the responsibilities assigned by the Board to the Committee. These duties include, but are not limited to:

- Establishing and periodically reviewing the code of conduct and ethics policy
- Performing and supervising special investigations
- Reviewing executive expenses
- Reviewing policies on special or sensitive payments
- Reviewing compliance with applicable government regulations
- Reviewing policies to avoid conflicts of interest and reviewing past or proposed transactions between the Bank and members of management
- Assessing the performance of financial management
- Reviewing the amounts of fees paid to the independent accountant for management advisory services and a description of the services received
- Supervising the internal audit function directly including engaging the outsourced audit service provider, approving the provider’s fees and evaluating the providers’ performance

Organizational Structure and Audit Committee Meetings

The internal auditors and certified public accountants shall report directly to the Committee. The auditors are also accountable to the Executive Management of the Bank. The Committee shall meet at least six times per year and may conduct additional meetings as conditions warrant. Generally Robert’s Rules of Order will govern the conduct of the meeting and minutes will be taken. The Committee Chair shall, after consultations with the Bank’s CEO and/or CFO, prepare an agenda in advance of each meeting. The agenda will be provided to the attendees in advance

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of the meeting date.

The Committee Chair will meet privately in executive session (that is, without management present) at least once annually with the auditors to discuss any matters that the Committee deems prudent.

Responsibilities

It is the function of the Committee to enable the Board of Directors, with reliance on the Committee, to discharge their fiduciary responsibility to shareholders in respect to financial reporting and the safety and soundness of the Bank. For this purpose, the Committee shall have the following general duties and functions:

1. To review and monitor the financial controls and accounting procedures of the Bank and direct changes and improvements thereto as they may deem appropriate, and to supervise the maintenance thereof. Discuss significant financial risk and the steps management has taken to monitor, control and report such exposures.
2. To review all quarterly and other periodic financial reports issued by the Bank and, in connection therewith, to determine whether the accounting policies and procedures employed in connection with these reports are appropriate and in accordance with generally accepted accounting principles.
3. To review all releases and other information to be disseminated by the Bank to bank regulators, other federal and state regulators and agencies with jurisdiction over the Bank, or shareholders which concern disclosures of financial condition or projections of financial condition of the Bank.
4. To review the adequacy and effectiveness of this policy at least once every other year or as otherwise mandated by regulations.
5. To meet with the Bank's independent public accountants from time to time to review their findings with respect to audits of the financial statements conducted by them and to meet with the internal auditors and contracted external auditors if any are used regarding the internal control structure of the Bank. In connection therewith, the Committee may authorize the independent auditors to perform special services, at the Bank's expense, in the form of audits or examinations of any aspect of the Bank's business operations or financial or accounting procedures as the Committee deems necessary or appropriate. No engagement with the Bank's independent public accountants prohibited by the Sarbanes-Oxley Act of 2002 or any subsequent or other ruling by any regulator or agency with jurisdiction over the Bank will be permitted.
6. To review and approve the auditors' annual audit plan, scope, schedule, staffing, reliance on management, fees and engagement letter.
7. In the event of a disagreement or controversy between the external or internal auditors and management of the Bank with respect to any matter that may arise during an audit, the Committee shall determine the Bank's position in the matter. The Committee shall also review and discuss with the independent auditors all relationships they have with the Bank that could impair the auditors' independence.

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8. To approve or disapprove any change of independent public accountants or other internal or external auditors of the Bank subject to the final authority of the Board of Directors.

The duties of the Audit Committee will normally be discharged in conjunction with three component parts of the Bank's organization, namely, the internal auditors' periodic audit visitations, the certification of accounts program as directed by the Chief Financial Officer, and the audits of the independent public accountants.

Relations with Outsourced Internal Auditors

1. Ensure the service provider's full compliance with the "Revised Guidance on Internal Auditing and its Outsourcing" (FFIEC, March 17, 2003).
2. Discuss and approve scope of audit examinations before engagement is begun.
3. Review scope and adequacy of internal audit programs.
4. Review audit findings, trends, ratings and corrective action responses.
5. Review auditor's letter to management on efficiency of accounting, administration and internal controls.
6. Discuss pronouncements of regulatory authorities and their effect on the Bank's operations.
7. Review performance of internal auditors by consulting with appropriate Bank personnel.
8. Review scope and qualification of special services performed or to be performed by contracted internal auditors at the request of management.
9. Assess the quality of the internal audit program and periodically recommend changes in program if it does not meet desired standards.
10. Meet with the internal auditor group and independent auditors, including joint meetings, as appropriate.
11. Review findings with respect to Code of Ethics and Code of Conduct issues.

Relations with Chief Executive Officer, Chief Financial Officer and Independent Public Accountants

Although the Chief Executive Officer and the Chief Financial Officer are not designated as members of the Committee, their attendance at the Committee's meetings may be customary. They shall report on financial results, accounting problems, staffing of accounting functions and other elements of financial controls and coordinate the activities of the independent public accountants in their periodic and annual visitations. This arrangement will assure good communication between the CEO, CFO, the internal auditors and the independent public accountants without impairing the independence of the Committee.

The Committee assumes the following duties and responsibilities:

1. Review and approve, for Board consideration, all filing of financial condition reports with regulatory agencies.
2. Undertake any appropriate assignments requested by the Board of Directors.
3. Review financial content of Bank's annual financial and business plans.
4. Counsel Board of Directors on selection of accounting policies under certain

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circumstances.

5. Recommend or initiate investigation of adverse operating results or trends where applicable.
6. Prepare and approve minutes of all Committee meetings for Board distribution.

Communications Standards

1. The auditors shall provide the Committee, in written form, a report of all findings both positive and negative regarding the Bank's operating condition. Reports shall be prepared in a narrative format.
2. The auditors shall meet with the Committee not less than once annually to review material presented in the audit reports.
3. Findings shall be submitted on a timely basis to permit effective response.
4. The Bank shall plan and execute corrective action and report results to the Audit Committee in a written response to the audit report.

The Audit Program

The Bank's audit program shall be comprised of no less than the following:

1. A chart or narrative that includes the scope of examination and or a checklist of what is being examined.
2. A schedule that describes the frequency of the audits to be performed.
3. Description of controls that the auditors recommend be built into the operating system to preclude the possibility of fraud or loss to the Bank.
4. Management's prompt written response to the audit reports with corrective action and responsibilities clearly indicated.
5. The requirement that the Committee follow-up on audit findings and, if necessary, obtain validation of the corrective actions taken by management by way of spot audits. Specifically, any finding identified as a major deficiency will require reexamination by the internal auditors. Availability of the auditors' working papers for Committee review. Emphasis on the necessity for controls and their usefulness to improve operations and identify weaknesses critical in nature. Such controls include segregation or rotation of duties and independence in the reconciliation of general ledger accounts and other off-balance sheet control accounts.
6. Determination that records of the Bank are adequate and that the assets and liabilities of the Bank are properly stated and protected.