

AUDIT COMMITTEE CHARTER

PURPOSE

To assist the board of directors in fulfilling its oversight responsibilities for (1) the integrity of the Banks' financial statements and reporting process, (2) the Banks' compliance with legal and regulatory requirements and the code of conduct, (3) the external auditor's qualifications and independence, and (4) the performance of the Banks' internal audit, compliance, and external auditor functions. In doing so, it is the responsibility of the Committee to maintain free and open means of communication between the directors, the external auditors, the internal auditing department, and the financial and senior management of the Bank.

AUTHORITY

The audit committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It 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 audit committee.
- ◆ Resolve any disagreements between management and the external auditor regarding financial reporting.
- ◆ Pre-approve all auditing and permitted non-audit services performed by the Banks' external audit firm.
- ◆ 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 auditors, 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.

COMPOSITION

The audit committee will consist of at least four external members of the board of directors. The Board of Directors or its nominating committee will appoint committee members and the committee chair. Each committee member will be both independent and financially literate. Independent Committee members shall be free of any relationship that, in the opinion of the Board of Directors, would interfere with their exercise of independent judgment as committee members. All members of the audit committee shall be "financially literate" at the time of their appointment. "Financial literacy" shall be determined by the Board in the exercise of its business judgment, and shall include a working familiarity with basic finance and accounting practices and an ability to read and understand fundamental financial statements, including a balance sheet, cash flow statement, and income statement. At least one member shall be designated as the "financial expert," as defined in item 401 of Regulation S-K and as determined by the Board of Directors.

MEETINGS

The committee will meet at least six times a year, with authority to convene additional meetings, as circumstances require. All committee members are expected to attend each meeting. The committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary. It will meet separately, and periodically, with management, with the internal auditor, and with the external auditors, as necessary. It will also meet periodically in executive session as necessary. Meeting agendas will be prepared 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 Banks' 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 analyses prepared by management or the 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 financial statements.
- ◆ Review with management and the external auditors the results of the audit, including any difficulties encountered. This review will include any restrictions on the scope of the external auditor's activities or on access to requested information, and any significant disagreements with management.
- ◆ Discuss the annual financial statements and quarterly financial statements with management and the external auditors, including the Banks' disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations."
- ◆ Review disclosures made by CEO and CFO during the Forms 10-KSB and 10-QSB 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 Banks' internal controls.

Internal Control

- ◆ Consider the effectiveness of the Banks' internal control system, including information technology security and control.
- ◆ Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

Internal Audit and Compliance

- ◆ Review with management, the internal auditor, and the compliance officer the charter, plans, activities, staffing, and organizational structure of the internal audit and compliance functions.
- ◆ Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the internal auditor or compliance officer.
- ◆ Review the effectiveness of the internal audit function.
- ◆ 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.
- ◆ Establish procedures for the confidential and anonymous receipt, retention, and treatment of complaints received by the Banks' employees regarding questionable accounting, internal accounting controls, or auditing matters.
- ◆ Review the findings of any examinations by regulatory agencies, and any auditor observations.
- ◆ Review the process for communicating the code of conduct to Bank personnel, and for monitoring compliance therewith.
- ◆ Obtain regular updates from management and Bank legal counsel regarding compliance matters.
- ◆ As circumstances warrant, meet separately with the internal auditor or compliance officer to discuss any matters that the committee or internal audit and compliance believes should be discussed privately.

External Audit

- ◆ Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- ◆ Review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors.
- ◆ Obtain and review annually a formal written statement from the external auditor delineating all relationships between the external auditor and the Bank (“Statement as to Independence”), addressing each non-audit service provided to the Bank and at least the matters set forth in Independence Standards Board No.1.
- ◆ 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.
- ◆ Present its conclusions with respect to the external auditor to the Board.
- ◆ Set clear hiring policies for employees or former employees of the external auditors.
- ◆ As circumstances warrant, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.

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 Banks’ financial statements, the Banks’ compliance with legal or regulatory requirements, the performance and independence of the Banks’ external auditors, and the performance of the internal audit and compliance functions.
- ◆ Provide an open avenue of communication between internal audit, the external 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 Audit Committee Charter at least 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 shall perform an annual self-assessment of its performance with the goal of continuing improvement and will report on such assessment and any recommendations with respect thereto, to the full Board of Directors.

Approved by Board of Directors April 8, 2010.