



## **Audit Committee Charter**

The purpose of the Audit Committee (the “Committee”) is to represent and assist the Board of Directors in the general oversight of the Company’s accounting and financial reporting processes, audits of the financial statements, and internal control and audit functions. The Committee reports to the full Board of Directors on all matters within the Committee’s responsibilities. The Committee will not infringe on and does not undertake to supervise or control activities and functions properly belonging to the senior management of the Company in the normal operations of the Company.

The Committee shall be composed of no fewer than three directors determined by the Board of Directors to meet the independence and financial literacy requirements of The NASDAQ SmallCap Market (“NASDAQ”) and applicable federal law. Appointment of the Committee and designation of any Committee members as “audit committee financial experts” shall be made on an annual basis by the Board of Directors. Committee members shall elect a Chairperson for the Committee. The Committee shall review and reassess the adequacy of its charter annually. The Committee shall cause to be provided to NASDAQ such appropriate written confirmation concerning these matters as NASDAQ may from time to time require.

The independent auditors shall be ultimately accountable to the Committee on all matters pertaining to their engagement, and the independent auditors shall report to the Committee as the Board of Directors’ representative. The Committee shall encourage open communication among the Committee, independent auditors and the Company’s management regarding matters within the Committee’s responsibilities. The Committee shall establish a calendar incorporating regular reporting items it requires from independent auditors and the senior management during the fiscal year.

To carry out the Committee’s responsibilities:

1. The Committee, as the Board of Directors’ representative, has the authority and responsibility to evaluate, appoint, compensate, retain, replace and oversee the independent auditors. The Committee shall require the independent auditors to submit periodically a formal written statement delineating all relationships between the independent auditors and the Company, including audit and non-audit assignments and the fees and any other compensation paid to the independent auditors therefor. The Committee is responsible for actively engaging in a dialogue with the independent auditors with respect to any disclosed relationships or services that may impact the objectivity or independence of the independent auditors, and for taking appropriate action in response to the independent auditors’ report to satisfy itself of their independence. More specifically, the Committee will pre-approve services to be performed by the independent auditors prior to commencement of the specified service. Consistent

with Securities and Exchange Commission requirements regarding auditor independence, the Committee must pre-approve the provision of services by the Company's principal auditor under arrangements not in existence on May 6, 2003 prior to commencement of the specified service. The requests for pre-approval are submitted to the Committee by the Chairman of the Board of Directors, President and Chief Executive Officer, the Chief Financial Officer, or a designate of either with a statement as to whether in their view the request is consistent with the Securities and Exchange Commission's rules on auditor independence.

2. The Committee will meet with the independent auditors and the Company's senior management to review the scope and methodology of the proposed audits for each fiscal year. The independent auditors shall provide regular reports to the Committee during the fiscal year on the underlying process and status of their audits and any findings or preliminary conclusions that have been reached. At least annually, the independent auditors and senior management will review with the Committee any audits of and recommendations relating to employee benefit plans.
3. Senior management and the independent auditors shall review with the Committee the Company's interim and annual financial statements, and, prior to filing with the Securities and Exchange Commission, drafts of the Company's Quarterly Reports on Form 10-Q-SB and Annual Report on Form 10-K-SB (or successor forms). Quarterly, the independent auditors may provide to the Committee, at the Committee's request, a review letter as contemplated by applicable auditing standards. During each fiscal year, the independent auditors shall review with the Committee their comments and recommendations, if any, which are intended to improve the Company's internal controls over financial accounting and reporting. The Committee will also review in detail any reports of examination issued by federal and state regulatory agencies as well as the Company's responses thereto.
4. The independent auditors shall discuss with the Committee matters required to be communicated by applicable auditing standards which include, among other things:
  - the independent auditors' judgments about the quality, not just the acceptability, of the Company's accounting principles and underlying estimates in the Company's financial statements;
  - the critical accounting policies and practices used by the Company;
  - any alternative treatments within accounting principles generally accepted in the United States of America for policies and practices related to material items that have been discussed with management, including ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the independent auditors;
  - methods used to account for significant unusual transactions;

- the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus;
- the process used by management in formulating particularly sensitive accounting estimates and the basis for the auditors' conclusions regarding the reasonableness of these estimates;
- disagreements with management over the application of accounting principles, the basis for management's accounting estimates, and the disclosures in the financial statements;
- audit adjustments and any uncorrected financial statement misstatements; and
- other material written communications between the independent auditors and management.

The independent auditors shall also provide to the Committee the written disclosures required by applicable independence standards and the independent auditors shall discuss with the Committee that firm's independence from the Company and its management.

5. The independent auditors and senior management shall identify to the Committee significant business, financial, regulatory or legal issues that may significantly impact the Company's financial statements and internal control systems. During each fiscal year, senior management shall report to the Committee as to all significant litigation, threatened litigation or potential litigation in which the Company and its subsidiaries are or may be engaged, as well as the anticipated or potential impact of such litigation, threatened litigation or potential litigation on the Company.
6. During each fiscal year, senior management shall review with the Committee the Company's monitoring efforts and procedures to ensure compliance with laws and governmental regulations, including without limitation compliance with consumer and other banking laws and regulations. Senior management shall provide such information to the Committee as is reasonably required to keep the Committee current on changes in accounting standards and securities and other regulations affecting the Company, as well as material developments in the industry generally and the promulgation of regulations materially affecting the industry.
7. If the occasion arises, senior management will report as soon as possible to the Committee any material violation of laws or governmental regulations or fraud. The Committee has the authority to investigate any matter brought to its attention within the scope of its duties and to retain independent legal counsel, at its discretion and without permission from the Board of Directors or management.

8. The Committee shall establish procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
9. The Committee shall hold at least four meetings each fiscal year. The Chairperson of the Committee, if any, has authority to call Committee meetings, to preside at such meetings and to make assignments to Committee members. The Committee will evaluate findings and recommendations of the independent auditors and make recommendations as warranted to the Board of Directors.
10. At every meeting of the Committee where the independent auditors are present, the independent auditors shall for at least a portion of such meeting meet with the Committee without members of management present.
11. Senior management shall report all proposed related party transactions to the Committee, and the Committee shall be responsible for the approval, review and oversight contemplated by NASDAQ with respect to any such reported transactions.
12. The Company shall provide the Committee such support, including payment of ordinary administrative expenses and access to and use of the Company's records, physical properties, management, staff, independent auditors, attorneys and consultants, as the Committee deems necessary to discharge its responsibilities.
13. The Committee shall have the authority to engage independent legal, accounting and other advisers, as it determines necessary to carry out its duties. The Committee shall have sole authority to approve related fees and retention terms for such advisors.