

## **CORPORATE GOVERNANCE GUIDELINES**

### **GENERAL PHILOSOPHY**

The board of directors of Crystal Valley Financial Corporation and First State Bank of Middlebury (hereafter referred to as the “Bank”) sets high standards for the Bank’s employees, officers, and board of directors. Implicit in this philosophy is the importance of sound corporate governance. It is the duty of the board of directors to serve as a prudent fiduciary for stockholders and to oversee the management of the Bank’s businesses. To fulfill its responsibilities and to discharge its duty, the board of directors follows the procedures and standards that are set forth in these guidelines.

### **BOARD OF DIRECTOR FUNCTIONS**

The board of directors shall:

- » Review and approve strategic plans to enhance stockholder value
- » Review corporate performance
- » Oversee and evaluate management’s systems for internal control, financial reporting and public disclosure
- » Establish corporate governance standards
- » Oversee and evaluate senior management performance and compensation
- » Plan for effective succession of the chief executive officer and senior management
- » Be appraised of relations with stockholders
- » Set a tone for a climate of corporate trust and confidence
- » Set standards for director qualification
- » Set standards for director orientation and continuing education
- » Make an annual performance evaluation of the board of directors

### **DIRECTOR QUALIFICATIONS**

The board of directors shall have a majority of directors who meet the criteria for independence required by the New York Stock Exchange. The Nominating and Board of Directors Corporate Governance Committee is responsible for reviewing with the board of directors, on an annual basis, the requisite skills and characteristics of members of the board of directors. This assessment will include independence, business, strategic and financial skills, as well as overall experience in the context of the needs of the board of directors as a whole. Nominees for directors will be selected by

the Nominating and Board of Directors Governance Committee in accordance with the policies and principles of its charter and these Corporate Governance Guidelines. Stockholders may submit the name and qualifications of candidates for the board of directors to the Chairman of the Nominating and Board of Directors Governance Committee. Each stockholder recommendation that is supported by adequate information about the candidates' qualifications will be evaluated by the Nominating and Board of Directors Governance Committee.

The number of directors shall be governed by the Corporation's by laws. No director may serve on more than one (1) other public company boards of directors. To preserve independence and to avoid conflicts of interest, each directors shall advise the Chairman of the Nominating and Board of Directors Corporate Governance Committee in advance of accepting an invitation to serve on another public company board of directors.

The following standards shall be used to determine director qualification:

- » A local citizen of the communities in which the Bank services.
- » The board of directors may determine that a person up to the age 60 is eligible for election as director
- » Serves on no more than one (1) other publicly held corporation boards of directors.
- » Serves on no more than one (1) other audit committee of the boards of directors of publicly held corporations.
- » May not be, or be affiliated with, a service provider to the Bank such as an attorney accountant or consultant.
- » The individual has particular skills or expertise that enhance the overall composition of the board of directors.
- » A new Director and existing Director will agree to maintain a minimum corporation stock ownership value of \$30,000 market value. Any exception to this would require board approval.

There is no specified term limit that a director may serve on the Bank's board of directors. The Nominating and Board of Directors Governance Committee will review each director's performance annually to assess independence, attendance, and overall performance.

## **EXECUTIVE SESSIONS OF THE BOARD OF DIRECTORS**

Annually, the board of directors shall hold at least one (1) executive session without management and the chief executive officer and in addition, at least one (1) executive session with the chief executive officer present, but without senior management. The Chairman of the Nominating And Board of Director Governance Committee shall preside at the executive sessions of the board of directors.

## **DIRECTOR RESPONSIBILITY**

Directors must exercise sound business judgment and act in what they reasonably believe to be the best interest of the Bank and its stockholders. In discharging this obligation, directors may reasonably rely on the honesty and integrity of the Bank's management as well as that of its general auditor and independent auditor.

The Bank will purchase reasonable directors' and officers' liability insurance for the benefit of its board of directors and management. In addition, directors and management shall be entitled to reasonable indemnification to the fullest extent permitted within the by-laws of Crystal Valley Financial Corporation.

In order to effectively oversee the management of the Bank, all directors are expected to attend meetings of the board of directors and meetings of committees of the board of directors of which they are members. Directors who attend less than seventy-five percent (75%) of meetings of the board of directors and meetings of committees of the board of directors of which they are members for two (2) consecutive years will not be eligible for nomination to the board of directors. Directors are expected to be prepared for these meetings and to be able to devote the time required. Information and data that are important to the understanding of the business to be conducted at a board of directors or committee meeting will generally be distributed in advance of the meeting.

## **BOARD OF DIRECTORS COMMITTEES**

The board of directors will maintain an Audit Committee, a Compensation/Nominating Committee, Board of Directors Governance Committee, Loan Committee, Trust Committee and Planning Committee and such other committees as it determines appropriate. All the members of the Audit Committee, Compensation/Nominating Committee and Board of Directors Governance Committee shall be independent directors under the criteria established by these Corporate Governance Guidelines.

## **INDEPENDENT DIRECTORS**

"Independent director" means a director who:

- » has not been employed by the Bank within the last five (5) years;
- » is not, and has not been affiliated with or employed, with the last five (5) years, by an (present or former) auditor of the Bank;
- » within the past five (5) years, has had no personal service relationship and has not been affiliated with an organization that has had a personal service relationship with the Bank, or with a member of the Bank's senior management;
- » within the past five (5) years, has not accepted any fee or compensation from the Bank other than director's fees and compensation.

- » within the last five (5) years, has not had any material business relationship (such as commercial, industrial, consulting, legal, or accounting) with the Bank for which the Bank has been required to make disclosure under Regulation S-K of the Securities and Exchange commission;
- » has not, in the past five (5) years, been part of an interlocking directorate in which an executive officers of the Bank serves on the compensation committee or a committee of a similar nature of another company that concurrently employs the director;
- » is not a member of the immediate family of any director, any member of senior management or of any person described above.

The board of directors and each committee shall have the power to engage independent legal, financial or other advisors as it may deem necessary, without consulting or obtaining the approval of the board of directors or management of the Bank in advance.

The Audit Committee shall have exclusive authority to engage and terminate the Bank's independent auditor. The Audit Committee shall also pre-approve all engagements of the public auditor for all non-audit services. Fees paid to the public auditor for all non-audit services should not exceed the fees paid for audit services.

The Nominating and Board of Directors Governance Committee shall have exclusive authority to engage and terminate any consultant or search firm utilized to identify or recruit director candidates and to nominate directors for election by stockholders.

The Compensation Committee shall have exclusive authority to set the compensation of the chief executive officer and senior management.

## **DIRECT ACCESS TO OFFICERS AND EMPLOYEES**

Directors have full and free access to officers and employees of the Bank. Any meetings or contacts that a director wishes to initiate may be arranged through the chief executive officer or the secretary or directly by the director. Directors should use their judgment to ensure that any such contact is not disruptive to the business operations of the Bank.

## **DIRECTOR COMPENSATION**

The form and amount of director compensation are determined by the Compensation/Nominating and Board of Directors Governance Committee in accordance with policies and principles set forth in its charter. The Compensation/Nominating and Board of Directors Governance Committee will conduct an annual review of the director compensation.

In order to maintain independence for members of the Audit Committee, members of the Audit Committee may not directly or indirectly receive fees or other compensation for services as a consultant, legal advisor or financial advisor, regardless of the amount. Due to the Audit Committee's time commitment and responsibilities, Audit Committee members may receive reasonable fees and compensation that are greater than those paid to other directors.

## **DIRECTOR ORIENTATION AND CONTINUING EDUCATION**

All new directors must participate in a comprehensive orientation to acquaint them with the Bank's strategy, long-range plans, financial statements, properties and operations, corporate governance guidelines, and the code of ethics. The orientation program will introduce new directors to the Bank's principal executives, its general auditor, and its independent auditor. All other directors are invited to attend the orientation program.

From time to time, directors will receive information and updates on legal and regulatory changes that affect the Bank, the directors and the employees.

## **CRISIS MANAGEMENT**

The board of directors shall be proactive in the context of any governance, compliance or business crisis affecting the Bank. The board of directors will work with management and any outside advisors in order to assess a crisis situation and choose a proper course of action. The board of directors will use its best efforts to maintain and preserve the value, integrity and control of the Bank.

## **ANNUAL PERFORMANCE EVALUATION**

The board of directors will conduct an annual self-evaluation of itself and its committees to determine whether they are functioning effectively. The Compensation/Nominating and Board of Directors Governance Committee will survey and receive comments from each director and report annually to the board of directors with an assessment of the board of director's performance.