

## **AUDIT AND COMPLIANCE COMMITTEE CHARTER**

### **PURPOSE**

The Audit and Compliance Committee shall carry out the Board's overall responsibility with respect to: (1) the integrity of the Company's financial statements and the financial reporting process, (2) the independent auditor's qualifications and independence, (3) the performance of the company's internal audit function and independent auditor, (4) the Company's compliance with legal and regulatory requirements, (5) oversight of the Company's system of internal controls, including controls relating to operations, financial reporting and compliance with laws and regulations and (6) the credit review function.

The Audit and Compliance Committee shall review and approve the audit report.

### **COMMITTEE MEMBERSHIP**

The Audit and Compliance Committee shall consist of no fewer than four members. All members of the Audit and Compliance Committee shall meet the independence and experience requirements of the Nasdaq Rules and applicable SEC rules and regulations. At least one member of the Audit and Compliance Committee shall be qualified and designated as an "audit committee financial expert" as defined by SEC regulations. Audit and Compliance Committee members shall not simultaneously serve on the audit committees of more than two other public companies.

The Board shall appoint the members of the Audit and Compliance Committee on the recommendation of the Board Chair. The Board shall appoint the Committee's members at the Board meeting next following the Corporation's annual meeting of shareholders. The Board may replace a Committee member at any time.

### **COMMITTEE CHAIR**

The Board shall appoint one of the Committee members as the Committee Chair. The Committee may appoint one of its members as Vice Chair, to carry out the duties of the Committee Chair in his or her absence.

### **MEETINGS**

The Audit and Compliance Committee shall meet as often as it determines, but at least quarterly. The Audit and Compliance Committee shall meet periodically with management, the internal auditors and the independent auditors and it shall regularly meet in executive sessions, without management present. The Committee Chair may request any officer or employee of the Company or the Company's outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

## **COMMITTEE REPORTS**

The Committee Chair shall report the Committee's activities and actions to the Board at the regular Board meeting next following each Committee meeting. The Committee may refer to the Board any matter that the Committee believes should be addressed by the Board. The Audit and Compliance Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval. The Audit and Compliance Committee shall annually review the Audit and Compliance Committee's own performance, as it related to compliance with this Charter.

## **COMMITTEE AUTHORITY AND RESPONSIBILITIES**

The Audit and Compliance Committee shall have the sole authority to appoint or replace the Company's registered independent public accounting firm ("independent auditor") (subject, if applicable, to shareholder ratification). The Audit and Compliance Committee shall be directly responsible for the compensation and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The independent auditor shall report directly to the Audit and Compliance Committee.

The Audit and Compliance Committee shall pre-approve all auditing services and permitted non-audit services (including fees and terms thereof) to be performed for the Company by its independent auditor, subject to the de minimis exceptions for non audit services described in Section 10A(i)(1)(B) of the Exchange Act, which are approved by the Audit and Compliance Committee prior to the completion of the audit. The Audit and Compliance Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant pre-approvals shall be presented to the full Audit and Compliance committee at its next scheduled meeting.

The Audit and Compliance Committee shall have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting or other advisors. The Company shall provide for appropriate funding, as determined by the Audit and Compliance Committee, for payment of compensation to the independent auditor for the purpose of rendering or issuing an audit report and to any advisors employed by the Committee.

The Audit and Compliance Committee shall have all of the authority of the Board to act or exercise corporate powers with respect to the following:

### **Financial Statement and Disclosure Matters**

1. Review and discuss with management and the independent auditor the annual audited financial statement, including disclosures made in management's discussion and analysis.
2. Discuss with management and the independent auditor significant financial

reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies.

3. Review and discuss the periodic reports from the independent auditors on:
  - a. All critical accounting policies and practices to be used.
  - b. All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor.
  - c. Other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
4. Discuss with management and independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.
5. Discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.
6. Discuss with the independent auditor the matters to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, and restrictions on the scope of activities or access to requested information, and any significant disagreements with management.
7. Review disclosures made to the Audit and Compliance Committee by the Company's CEO and CFO during their certification process about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.

### **Oversight of the Company's Relationship with the Independent Auditor**

8. Review and evaluate the lead partner of the independent auditor team.
9. Obtain and review a report from the independent auditor at least annually regarding (a) the independent auditor's internal quality-control procedures, (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities during the preceding five years respecting one or more

independent audits carried out the by firm, (c) any steps taken to deal with issues, and (d) all relationships between the independent auditor and the Company. Evaluate the qualifications, performance and independence of the independent auditor, including considering whether the auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditor's independence, and taking into account the opinions of management and internal auditors. The Audit and Compliance Committee shall present its conclusions with respect to the independent auditor to the Board.

10. The lead and concurring audit partners will be reviewed every 5 to 7 years or as otherwise required by law. In order to assure continuing auditor quality and independence, it is appropriate to continue the present policy of reviewing the independent auditor engagement every five years or upon review of the engagement term.
11. Recommend to the Board policies for the Company's hiring of employees or former employees of the independent auditor who participated in any capacity in the audit of the Company.
12. Review, with the Company's CEO, the appointment and replacement of the senior internal audit executive or chief compliance officer.
13. Review the audit plans, operational audit reports, compliance audit reports and other significant reports prepared by the internal audit and compliance department and management's responses to those reports.
14. Discuss with the independent auditor, CCO and management the internal audit and compliance department responsibilities, budget and staffing and any recommended changes in the planned scope of the internal audit and compliance program.

### **Compliance/Risk Management Oversight Responsibilities**

15. Review and report to the Board on all state and federal regulatory examination reports and management's response to those reports.
16. Obtain reports from management, the Company's senior internal auditing executive and the independent auditor that the Company and its subsidiary entities are in conformity with applicable legal requirements and the Company's Business Ethics and Conflict of Interest Code. Review reports and disclosures of insider and affiliated party transactions. Advise the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations and with the Company's Business Ethics and Conflict of Interest Code.
17. 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.

18. Discuss with management and the independent auditor any correspondence with regulators or governmental agencies and any published reports that raise material issues regarding the Company's financial statements or accounting policies.
19. Discuss with the Company's General Counsel legal matters that may have a material impact on the financial statements or the Company's compliance policies.
20. Periodically review the Company's insurance coverage, to include property and casualty, directors and officer's insurance, entity errors and omissions, fiduciary liability and other coverage carried by or recommended to the Company.

### **Oversight of the Credit Review Function**

21. Review and approve the annual Credit Review Plan on an annual basis.
22. Review activity reports, portfolio analysis, project summaries and plan to actual status on a periodic basis.
23. Discuss with management, the credit review department responsibilities, budget, staffing and any recommended changes in planned scope.
24. Review, approve, disapprove and modify the following policies:
  - Business Resumption Plan
  - Affiliate Tax Sharing Agreement
  - Bank Security Policy
  - Electronic Funds Transfer Act Policy (Reg E)
  - Fair Credit Reporting Act
  - Regulatory Compliance Policy
  - Truth-In-Savings Act (Reg DD)
  - Funds Availability Policy (Reg CD)
  - Account Excess Transactions Policy (Reg D)
  - Anti-Money Laundering Policy
  - Information Security Policy
  - Authorized Signing Authority
  - Vendor Management Policy
  - Allowance for Loan and Lease Losses Policy
  - Impaired Loan Policy
  - Code of Ethics Policy
  - Automatic Clearing House Policy & Risk Management Policy
  - Backup and Offsite Storage Policy

- Electronic Banking Policy
- Micro Computer Policy
- Incident Response Plan
- Wire Transfer Policy
- Telephone Consumer Protection Policy (No Call Policy)
- Cash Limits & Controls Guidelines
- Dormant Accounts Policy

#### **LIMITATIONS OF COMMITTEE'S ROLE**

While the Audit and Compliance Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management the independent auditor and chief compliance officer.

Reviewed and Approved by the Board of Directors

January, 2010