

AUDIT COMMITTEE CHARTER

I. Purpose

The Audit Committee shall assist the Board of Directors in fulfilling its oversight responsibilities over the Bank's financial reporting policies, practices and control, as well as the internal and external audit functions.

The Committee shall also monitor and evaluate the adequacy and effectiveness of the Bank's internal control system.

II. Committee Membership

The Committee shall be composed of at least three (3) members of the Board of Directors, who shall all be non-executive directors, majority of whom shall be independent directors including the chairperson. Preferably, the Committee members must have accounting, auditing, or related financial management expertise or experience.

III. Authorities and Responsibilities

A. The Audit Committee shall have the explicit authority to:

1. Investigate any matter within its terms of reference;
2. Have full access to, and cooperation by, management;
3. Have full discretion to invite any director or executive officer to attend its meetings; and
4. Have adequate resources to enable it to effectively discharge its functions.

B. The Audit Committee shall have the following responsibilities:

1. Appointment of the internal auditor and the independent external auditor who shall both report directly to the Committee;
2. Oversee the Internal Audit function by:
 - a. Reviewing and approving Internal Audit Charter;
 - b. Reviewing the budget and staff needs of the Internal Audit Department;
 - c. Reviewing and approving the audit scope and frequency;
 - d. Receiving key audit reports;
 - e. Reviewing Internal Audit's compliance with the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing;
 - f. Meeting in executive session with the Head of Internal Audit on a regular basis to discuss any matters that the Committee believes should be discussed in confidence; and
 - g. Reviewing and confirming the qualifications and independence of the Internal Audit Department staff annually.

3. Oversee the external audit function by:
 - a. Reviewing the external auditor's proposed annual audit scope, plan, and approach;
 - b. Reviewing the performance of the independent auditor;
 - c. Making recommendations to the Board of Directors on the appointment, renewal or termination of engagement of an external auditor;
 - d. Reviewing and confirming the qualifications and independence of the independent auditor, at least annually;
 - e. Obtaining and reviewing a report prepared by the external auditor, describing the latter's internal control procedures, and any material issues raised in the most recent internal control review;
 - f. Discussing with the external auditor its independence from the Bank, and obtaining and reviewing a written statement prepared by the external auditor describing all relationships between the independent auditor and the Bank;
 - g. Pre-approving audit and non-audit services performed by the external auditor, consistent with the independence rules applicable to the independent auditor;
 - h. Confirming with the external auditor whether it is compliant with the partner rotation requirements established by the Securities and Exchange Commission; and
 - i. Meeting in executive session with the external auditor on a regular basis to discuss any matters that the Committee or the external auditor believes should be discussed in confidence.
4. Review and approve the Internal Auditor's report on the result of audit conducted by the Internal Audit Department and corresponding recommendations.
5. Endorse to Senior Management the imposition of recommended sanctions to identified bank employees and ensure that timely corrective actions are taken to address the weaknesses, non-compliance with policies, laws and regulations and other exceptions/violation noted by the internal auditors.
6. Ensure that Senior Management maintains the reliability and integrity of the accounting policies and financial reporting and disclosure practices of the Bank;
7. Undertake a review of the effectiveness of the Bank's internal controls and risk management at least annually;
8. Review with Senior Management and the external auditor:
 - a. The Bank's annual financial statements and related notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations;
 - b. The external auditor's audit of the financial statements and audit report;

- c. Major issues regarding accounting principles and financial statement presentations, including any significant changes in the Bank's selection or application of accounting principles, and major issues as to the adequacy of the bank's internal controls and any special audit steps adopted in light of material control deficiencies;
 - d. Any analyses prepared by management or the external auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the Bank's financial statements;
 - e. The effect of regulatory and accounting initiatives on the Bank's financial statements;
 - f. Correspondence from or with the regulators or governmental agencies and any employee complaints or published reports that raise material issues regarding the Bank's financial statements, financial reporting process, accounting policies or internal audit function.
9. Review the basis for, and discuss with Senior Management and the internal auditor, the Bank's annual audited financial statements, as well as the external auditor's opinion rendered with respect to the financial statements;
 10. Provide an independent, direct channel of communication between the Board and the internal and external auditors, and provide them with unrestricted access to the Committee;
 11. Conduct or authorize investigations into any matters within the Committees' scope of responsibilities;
 12. Establish a whistleblowing policy by which officers and staff shall, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action; and
 13. Conduct an annual self-assessment of its performance as a whole.

IV. Meetings

The Committee shall meet once every quarter, or more frequently as needed, as determined by the Committee Chairman or its members.

V. Accountability

The Committee, through the Committee Chairman, shall report periodically to the Board of Directors, its activities, recommendations, and findings, including any issues that arise with respect to the quality or integrity of the Bank's financial statements, the performance and independence of the Bank's internal auditor, the performance of the Bank's internal audit function, or any other matter the Committee determines should be reported to the Board.

VI. Charter Review

The Committee shall review, assess the adequacy of, and amend this Charter on an annual basis, or as appropriate.

PHILTRUST BANK