

## **AUDIT COMMITTEE CHARTER PENNIAN BANK**

### **AUDIT COMMITTEE MISSION**

The Audit Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities. The Audit Committee's primary duties and responsibilities are to:

- Monitor the integrity of the Bank's financial reporting process and systems of internal controls regarding finance, accounting and regulatory compliance.
- Monitor the independence and performance of the Bank's independent auditors and outsourced internal audit.
- Provide an avenue of communication among the independent auditors, management, the outsourced internal auditors, and the Board of Directors.

To effectively perform his or her role, each Committee member will obtain an understanding of the detailed responsibilities of Committee membership. At any time, the Audit Committee may delegate any or all of its duties described below to the full Board of Directors after consultation and agreement between the Chairman of the Audit Committee and the Chairman of the Board of Directors.

### **AUDIT COMMITTEE ORGANIZATION**

The Audit Committee shall be comprised of three or more directors as determined by the Board, each of whom shall be independent, non-affiliated directors, free from any relationship that would interfere with the exercise of his or her independent judgment. All members of the committee shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, including a balance sheet, income statement, and cash flow statement. At least one member of the Committee shall have accounting or related financial management expertise. One of the members shall be designated "Chairman".

The Committee shall meet quarterly, or more frequently as circumstances dictate.

The Committee believes that the above mission statement sets fourth its primary roles and responsibilities. In that connection, the following is meant to serve as a guide in achieving that mission.

### **ROLES AND RESPONSIBILITIES**

#### **Financial Statement Review Procedures**

1. Review the Corporation's interim financial results and annual audited financial statements prior to filing or distribution. The review should include discussion with management and independent auditors of significant issues regarding accounting principles, practices, and

judgments. Discuss with Independent Auditors its judgment about the quality, not just acceptability, of the Company's accounting principles as applied in its financial reporting. This process may be fulfilled or designated to the full meeting of the Board of Directors at the discretion of the Audit Committee Chair.

## **AUDIT COMMITTEE CHARTER (Cont.)**

### **ROLES AND RESPONSIBILITIES (Cont.)**

2. In consultation with management, independent accountants, verify that the CEO and CFO have certified that they disclosed to the independent auditors and to the Audit Committee all significant deficiencies in the design or operation of internal controls that could affect the Corporation's ability to record, process, summarize and report financial data, any material weaknesses in the internal controls, and any fraud- whether or not material- that involved management or other employees who have a significant role in the Corporation's internal controls.
3. Analyze any internal control deficiencies and management or employee fraud identified by the President/CEO and/or CFO certification process or by the Security Officer, Chief Risk and Compliance Officer, or Outsourced Internal Audit Vendor.
4. In consultation with management, independent accountants, and outsourced internal auditors, consider the integrity of the Bank's financial reporting processes and controls. Discuss significant financial risk exposures and steps taken by management to monitor, control, and report such exposures.
5. Review significant findings prepared by the independent accountants and the outsourced internal audit vendor together with management's responses. Gain an understanding of whether internal control recommendations made by internal auditors and independent accountants have been implemented by management.

### **Independent Accountants**

1. The independent accountants are ultimately accountable to the Audit Committee and the Board of Directors. The Audit Committee shall review the independence and performance of the accountants and annually recommend to the Board of Directors the appointment of and compensation for the independent accountants or approve any discharge of auditors when circumstances warrant.
2. Review the independent accountants' timetable, scope and approach of the quarterly reviews and annual examination of the financial statements. Confirm that the lead partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit have been rotated after five years, should regulations require this action. This process may be fulfilled or designated to the full meeting of the Board of Directors at the discretion of the Audit Committee Chair.

3. Review and discuss with the independent accountants (1) all critical accounting policies and practices to be used, (2) all alternative treatments of financial information within GAAP that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent accountant, and (3) other material written communications between the independent accountant and management, such as any management letter or schedule of unadjusted differences.

## **AUDIT COMMITTEE CHARTER (Cont.)**

### **ROLES AND RESPONSIBILITIES (Cont.)**

4. Review and discuss with the independent auditors all significant relationships they have with the Company that could impair the auditors' independence.
5. Review and pre-approve all audit and permitted non-audit services provided by the independent accountants. The Audit Committee has delegated to the Chairman of the Committee the authority to grant such pre-approvals. All pre-approvals granted by the Chairman of the Committee shall be presented to and reviewed by the full committee at its next regularly scheduled meeting.
6. Resolve any financial reporting disagreements between the independent accountants and management.

### **Internal Audit Vendor**

1. Approve an Annual Risk Assessment and Audit Plan developed by the internal audit vendor and Chief Risk and Compliance Officer.
2. Meet quarterly with internal audit vendor to gain an understanding of the effectiveness of the internal audit function. These meetings will also serve in evaluating their performance.
3. Review significant reports prepared by the internal audit vendor together with management's response and follow-up to these reports.
4. The Audit Committee may contract for internal audit services as necessary to assess the adequacy and effectiveness of internal controls, the accuracy of management reporting and compliance with laws, regulations and bank policy. The Audit Committee will set forth the outsourcing vendor's responsibilities in a written contract the terms of which comply with the "Interagency Policy Statement of Internal Audit and Internal Audit Outsourcing."

### **Compliance with Laws and Regulations**

1. Obtain updates quarterly from management and compliance auditors regarding compliance with laws and regulations.

2. Review the findings of any examination by regulatory agencies such as the Federal Reserve, FDIC, or Office of the Comptroller of the Currency.
3. Be familiar with Management's response to regulatory examinations in conjunction with the Enterprise Risk Management Committee.

### **AUDIT COMMITTEE CHARTER (Cont.)**

#### **Other Committee Responsibilities**

1. Review and update the Audit Charter annually and submit the charter to the Board of Directors for approval. Ensure that the charter is included within the Corporation's proxy statement once every three years or is available for review on the Company's website and at the Main Office.
2. Prepare an annual Audit Committee Report for inclusion in the Corporation's Annual Proxy Statement that states a formal audit charter has been approved and that the Audit Committee has satisfied its responsibility during the year.
3. Perform other oversight functions as requested by the Board of Directors. Further, The Audit Committee shall have the power to conduct or authorize investigations into any matters within the committee's scope of responsibilities.
4. The Audit Committee has the authority to engage independent counsel and other advisors, as they determine necessary to carry out their duties, and appropriate funding, as determined by the Audit Committee, for compensating such advisors as well as the accounting firm for its audit services.
5. Maintain minutes of meetings and periodically report to the Board of Directors on significant results of the foregoing activities.
6. Meet periodically with the internal audit vendor, the independent accountants, and management in separate executive sessions to discuss any matters that the committee or these groups believe should be discussed privately with the audit committee. This process may be fulfilled or designated to the full meeting of the Board of Directors at the discretion of the Audit Committee Chair.
7. Report Audit Committee actions to the Board of Directors with such recommendations, as the Audit Committee may deem appropriate.
8. Review complaints received from the Corporation or anonymously from employees of the Bank relative to accounting, internal accounting controls, or auditing matters. All complaints will be forwarded to the Audit Committee.