

Heritage Land Bank, ACA

Audit Committee Charter

Board Approved: February 17, 2009

PURPOSE

To assist the board of directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, and the audit process. While the Audit Committee has the powers set forth in this Charter, it is not the duty of the committee to plan or conduct audits, or to determine that the Bank's financial statements are complete and accurate, and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent accountant. However, it is the responsibility of the Audit Committee to ensure reasonable steps are taken by management to ensure the accuracy of financial reporting and adequacy of the institutions system of internal controls.

AUTHORITY

The audit committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- Appoint, compensate, and oversee the work of any certified public accounting firm employed by the organization (appointment and compensation subject to board approval).
- Resolve any disagreements between management and the auditor/reviewer regarding findings.
- Pre-approve all auditing and non-audit services required to fulfill the responsibilities of the committee.
- Contract with independent legal counsel and expert advisors.
- Seek any information it requires from employees—all of who are directed to cooperate with the committee's requests—or external parties employed by the committee.
- Meet with company officers, external auditors, or outside counsel, as necessary in the conduct of their responsibilities.
- Call upon the association to provide monetary and nonmonetary resources to enable the committee to contract for external auditors, outside advisors, and ordinary business expenses. A two-thirds majority vote of the full board of directors is required to deny an audit committee's request for resources.

COMPOSITION

The audit committee will consist of at least three and no more than six members of the board of directors and must include any director designated as a financial expert as required by FCA regulation 620.30. The Chairman of the Board will appoint committee members and the committee chair. If an expert advisor has been hired, this advisor will also serve as an advisor to the audit committee.

Each committee member will be both independent and financially literate. All committee members should be knowledgeable in at least one of the following areas: public and corporate finance, financial reporting and disclosure, or accounting procedures. Every committee member must be free from any relationship that, in the opinion of the board, would interfere with the exercise of independent judgment as a committee member.

MEETINGS

The committee will meet at least four times a year, with authority to convene additional meetings, as circumstances require. All committee members are expected to attend each meeting, in person or via tele- or video-conference. The committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary. It will hold private meetings with auditors (see below) and executive sessions. Meeting agendas will be prepared and provided in advance to members at the direction of the audit committee chairman, along with appropriate briefing materials. Minutes will be prepared and approved at the next meeting. The committee must maintain records of meetings, including attendance, for at least 3 fiscal years. The minutes must document agreement or disagreement with financial policy, procedures, or reports under review.

RESPONSIBILITIES

The committee will report only to the board and carry out the following responsibilities:

Financial Statements

- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review with management the results of the audit, including any difficulties encountered.
- Oversee management's preparation of the report to shareholders, ensuring the financials state as such.
- Review the annual and quarterly financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles.
- Review accounting policy changes relating to preparation of financial statements.
- Review other sections of the annual and quarterly reports and related regulatory filings before release and consider the accuracy and completeness of the information.
- Review with management and the external auditors all matters required to be communicated to the committee under generally accepted auditing *Standards*.
- Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.
- Review the impact of any significant accounting and auditing developments.
- The committee chairman is designated to sign the quarterly financial reports.

Internal Control

- Oversee the association's system of internal controls relating to the preparation of financial reports, including controls relating to the association's compliance with applicable laws and regulations.
- Identify areas of risk and develop an audit plan to test and evaluate controls in those areas.

- Consider the effectiveness of the company's internal control system, including information technology security and control.
- Understand the scope of the review of internal controls, meet with the reviewer to discuss findings and recommendations together with management's responses and monitor actions to correct any noted deficiencies.
- Review the effectiveness of the internal controls review and the independent party performing the function.

Internal Credit Review

- Understand scope of review and ensure the review will monitor and evaluate asset quality, compliance with lending policies and procedures, credit administration, and collateral valuation.
- Ensure there are no unjustified restrictions or limitations with the reviewer.
- Review the effectiveness of the internal credit review function and the independent party performing the function.
- Meet with the reviewer to discuss findings and recommendations together with management's responses and monitor actions to correct any noted deficiencies.

External Audit

- Responsible, with the concurrence of the Association board of directors, for the appointment, compensation, retention and oversight of the work of the external auditors, who shall report directly to the committee for the purpose of issuing an audit report.
- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the company, including non-audit services, and discussing the relationships with the auditors.
- If necessary, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.
- Review the performance of the external auditors.

Reporting and Other Responsibilities

- Regularly report to the board of directors about committee activities, issues, and related recommendations.
- Provide an open avenue of communication between internal credit reviewers, the external auditors, financial and senior management, the board of directors, and any third party contracted to perform audit work for the Association.
- Review and assess the adequacy of the committee charter annually, requesting board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
- Confirm annually that all responsibilities outlined in this charter have been carried out.
- Evaluate the committee and each individual members' performance on an annual basis.
- Report to the Board Chairman, excessive absences to committee meetings, conflicts of interest, or dereliction of duties.
- On a quarterly basis, review reports of complaints related to questionable accounting, internal accounting controls, or auditing matters.