

Patriot State Bank

Audit Committee Charter

MISSION STATEMENT

The Audit Committee shall assist the Board of Directors in fulfilling its oversight responsibilities. The Audit Committee shall review the financial reporting process, the system of internal control, the audit process, and Patriot State Bank's (hereafter known as the "Company") process for monitoring compliance with laws and regulations with the Board of Directors, Management, and the Internal and External Auditors. To effectively perform his or her role, each committee member shall obtain an understanding of the detailed responsibilities of committee membership, as well as the Company's business, operations, and risks.

ORGANIZATION

Committee Composition

The Audit Committee shall be comprised of three or more directors as determined by the Board, each of whom shall be independent directors¹, and free from any relationship that, in the opinion of the Board, would interfere with the exercise of his or her judgment. All members must be able to read and understand financial statements of similar complexity as those of the Company (including balance sheet, income statement and statements of cash flow) and may not have participated in the preparation of the financial statements of the Company or subsidiary thereof at any time during the preceding three years. Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Company or an outside consultant.

At least one member of the Audit Committee shall be an "audit committee financial expert" as defined by the Commission. The members of the Audit Committee shall be appointed by the Board on the recommendation of the Committee on Governance. Audit Committee members may be replaced by the Board.

Unless a Chairman is elected by the full Board, the members of the Committee may designate a Chairman by majority vote of the full Committee membership.

Quorum and Frequency of meetings

A quorum of the Committee shall be declared when a majority of the appointed members of the Committee are in attendance, except for receiving the quarterly review report of the independent accountants relating to the interim financial statements included in the Company's Form 10-Q (or Form 10-QSB). This report may be received on behalf of the

¹ Independence is defined under the rules and regulations of the Securities and Exchange Commission and the listing requirements of any exchange on which the Company's securities are listed.

Committee by the Committee Chairman (as permitted by the SEC regulations) and reported to the full Committee at its next scheduled meeting.

The Audit Committee shall hold four regular meetings each year. Any member of the Committee, the Internal Auditor or the External Auditor may make a request to the Chairman for special meetings. For both regular and special meetings, a quorum must be present in order to transact official business. Meetings shall be scheduled at the direction of the Chairman.

ROLES AND RESPONSIBILITIES

Internal Control

- Evaluate whether management is communicating the importance of internal control and ensuring that all individuals possess an understanding of their roles and responsibilities.
- Focus on the extent to which internal and external auditors review computer systems and applications, the internal security, and the contingency plan in the event of a systems breakdown.
- Determine whether or not internal control recommendations made by internal and external auditors have been implemented by management.
- Ensure that management, the external auditor and the internal auditors keep the Audit Committee informed about fraud, illegal acts, or deficiencies in internal control.
- The Committee will perform such other functions as are authorized for this Committee by the Board of Directors.

Financial Reporting

General

- Review significant accounting principles and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Ask management and the internal and external auditors about significant risks and exposures and the plans to minimize such risks.

Annual Financial Statements

- Review the annual financial statements and determine whether they are complete and consistent with the information known to Committee members; assess whether the financial statements reflect appropriate accounting principles. Prior to releasing the

year-end audited financial statements, discuss the results of the audit with the independent auditors. Discuss certain matters required to be communicated to the audit committee in accordance with AICPA SAS 90.

- Pay particular attention to complex and/or unusual transactions such as restructuring charges and derivative disclosures.
- Focus on judgmental areas such as those involving valuation of assets and liabilities, including, for example, the accounting for and disclosure of loan losses; warranty, product, and environmental liability; litigation reserves; and other commitments and contingencies.
- Meet with management and the external auditors to review the financial statements and the results of the audit.
- Consider management's handling of proposed audit adjustments identified by the external auditors.
- Review Management's Discussion and Analysis and other sections of the annual report before its release and consider whether the information is adequate and consistent with members' knowledge about the Company and its operations.
- Review disclosures made by the Company's chief executive officer and chief financial officer in connection with their certifications required by the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder to be contained in the Company's reports on Form 10-KSB and 10-QSB regarding (i) the effectiveness of the Company's disclosure controls and procedures; (ii) any significant deficiencies or material weaknesses in the design or operation of the Company's internal controls; (iii) any change in the in the Company's internal controls over financial reporting that occurred during the most recent fiscal quarter and has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting; and (iv) any fraud involving management or other employees who have a significant role in the Company's system of internal controls.

Interim Financial Statements

- Be briefed on how management develops and summarizes quarterly financial information, the extent of internal audit involvement, the extent to which the external auditors review quarterly financial information, and whether that review is performed on a pre- or post-issuance basis.
- Meet with management and, if a pre-issuance review was completed, with the external auditors, either by telephone or in person, to review the interim financial statements and the results of the review, which may be done by the Committee Chairman or the entire Committee.

- To gain insight into the fairness of the interim statements and disclosures, obtain explanations from management and from internal and external auditors on whether;
 - ◆ Actual financial results for the quarter or interim period varied significantly from budgeted or projected results;
 - ◆ Changes in financial ratios and relationships in the interim financial statements are consistent with changes in the Company's operations and financing practices;
 - ◆ Generally accepted accounting principles have been consistently applied;
 - ◆ There are any actual or proposed changes in accounting or financial reporting practices;
 - ◆ There are any significant or unusual events or transactions;
 - ◆ The Company's financial and operating controls are functioning effectively;
 - ◆ The Company has complied with the terms of loan agreements or security indentures.

- Ensure that the external auditors communicate all required matters to the Committee.

Compliance with Laws and Regulations

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) on any fraudulent acts or accounting irregularities.

- Periodically obtain updates from management and general counsel regarding the Company's tax policies, any pending audits or assessments and tax compliance.

- Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements.

- Review the findings of any examinations by regulatory agencies.

Internal Audit²

- Review the activities, organizational structure and the effectiveness of the internal audit function.

- Review the qualifications of the internal audit function and concur in the appointment, replacement, reassignment, or dismissal of the firm engaged to perform the audit.

- Review the significant reports from the internal audit firm together with management's responses and follow up to these reports.

² This function is currently outsourced and the Audit Committee will review this annually and make appropriate recommendations to the Board of Directors.

External Audit

- Review the external auditors' proposed audit scope and approach.
- Appoint, retain or replace and determine the compensation of the external auditors. The Company shall provide funding for payment of compensation, as determined by the Committee, to the external auditors engaged by the Committee.
- The Audit Committee shall have the sole authority to appoint or replace the independent auditor.
- Pre-approve all audit and permissible non-audit services to be provided by the external auditors, as well as the terms of the auditors' engagements for those services. The Committee may delegate authority to pre-approve non-audit services to one or more Committee members. If this authority is delegated, all approved non-audit services shall be presented to the full Committee at its next meeting.
- Oversee and evaluate the work of the external auditors by regularly reviewing their performance, and at least once every two years reviewing their "peer review" reports.
- Ensure receipt from the external auditors of a formal written statement delineating all relationships between the auditors and the Company and other information required by Independence Standards Board Standard No. 1. On an annual basis, the Committee shall review and discuss with the external auditors any such relationships to determine the auditors' independence and objectivity, and take appropriate action to oversee the independence of the auditors.
- Ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law.
- Meet with the independent auditor prior to the audit to discuss the planning and staffing of the audit.

Other Responsibilities

- Meet with the firms engaged to perform the external audit, internal audit and with management in separate executive sessions to discuss any matters that the Committee or these groups believe should be discussed privately.
- Ensure that significant findings and recommendations made by the internal and external auditors are received and discussed on a timely basis.

- Establish procedures for the receipt, retention and treatment of reports of complaints or concerns about accounting, auditing, internal controls or compliance matters, and for the confidential and anonymous submission by employees of information relating to such matters. Procedures for submission of concerns or complaints are to be incorporated into the employee handbook distributed to all employees.
- If necessary, institute special investigations and, if appropriate, hire special counsel or other experts to assist. The Company shall provide funding to pay the fees and expenses of any special counsel or other experts retained by the Committee.
- Perform other oversight functions as requested by the full board.
- Review and update the charter *on an annual basis*, receive approval of changes from the Board.
- Maintain minutes of meetings and periodically report to the Board of Directors on significant results of the audit committee activities.

REPORTING RESPONSIBILITIES

- Regularly update the Board of Directors about committee activities and make appropriate recommendations.
- Report to shareholders in the Company's proxy statement for its annual meeting whether the Committee has satisfied its responsibilities under this Charter. The report should be included in the Company's annual proxy statement.

LIMITATIONS OF COMMITTEE'S ROLE

While the Committee has the responsibilities and powers set forth in this Audit Committee Charter, it is not the duty of the Committee to prepare financial statements, 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 laws and regulations. These are the responsibilities of management and the external auditors. The Committee shall be entitled to rely on the advice of the outside auditors, counsel and other experts retained by it in the conduct of its duties under this Charter.