

# **SERVICE1<sup>ST</sup> BANK OF NEVADA AUDIT COMMITTEE CHARTER**

## **I. PURPOSE AND AUTHORITY**

Service1st Bank of Nevada's (the "Bank") Audit Committee is a committee consisting entirely of members of the Bank's Board of Directors (the "Board"). The primary purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing, among other things, (i) the Bank's financial reports and other financial information provided by the Bank to any governmental body or the public, (ii) the Bank's systems of internal controls regarding finance, accounting, legal compliance, and ethics, (iii) the Bank's internal audit function, and (iv) the Bank's auditing, accounting, and financial reporting processes. Consistent with the Audit Committee's primary purpose, the Audit Committee should encourage continuous improvement of, and should foster adherence to, the Bank's policies, procedures, and practices at all levels.

The Audit Committee's primary duties and responsibilities are to:

- serve as an independent and objective party and to otherwise assist Board oversight of (a) the integrity of the Bank's financial statements and (b) the performance of the Bank's internal audit function, which may include oversight of outside firms that are contracted to provide internal audit and risk management services;
- be directly responsible for the appointment, compensation, retention, and oversight of the work of any registered public accounting firm employed by the Bank (the "independent auditor") for the purpose of preparing or issuing an audit report or related work;
- be directly responsible for the appointment, compensation, retention, and oversight of the work of any internal audit personnel, including any outside firms or persons that are contracted to provide internal audit and risk management services;
- pre-approve all auditing services and non-audit services provided to the Bank by the independent auditor and any other audit consultant engaged by the Bank;
- provide an open avenue of communication among the independent auditor, financial and senior management, outside firms that are contracted to provide internal audit and risk management services, any employees of the Bank who are involved in the Bank's internal audit function, and the Board;
- assist Board oversight and review the independent auditor's qualifications and independence;
- assist Board oversight and review of outside firms that are contracted to provide internal audit and risk management services;

- ensure that committee is informed or consulted with during significant investigations;
- committee is not responsible for actively looking for problems, violations or contraventions;
- assist Board oversight of and review the Bank's compliance with legal and regulatory requirements; and
- make regular reports to the Board.

## **II. COMPOSITION AND QUALIFICATION**

The Audit Committee shall be comprised of three or more directors who are "independent." To be considered "independent," the director must satisfy, as determined by the Board, the requirements of all applicable laws and regulations relative to the independence of directors and audit committee members. An Audit Committee member shall not be considered independent if he or she accepts consulting, advisory, or other compensatory fees from the Bank or any subsidiary, or because he or she is an affiliated person of the Bank or a subsidiary. No member of the Audit Committee may accept any consulting, advising, or other compensatory fee from the Bank except for service on the Board or a committee or committees of the Board. In addition, no member of the Audit Committee shall have participated in the preparation of the Bank's financial statements in the past three years.

Each member of the Audit Committee must, in the judgment of the Board, be financially literate and be able to read and understand the Bank's basic financial statements. Audit Committee members shall not simultaneously serve on the audit committee of more than two other public companies without prior Board approval.

In addition, at least one member of the Audit Committee should be an "audit committee financial expert," as that term is defined in SEC rules. The Board shall decide whether a member of the Audit Committee is an "audit committee financial expert." If none of the independent directors on the Bank's Board would qualify as an audit committee financial expert under SEC rules, the Audit Committee shall nevertheless be properly constituted without such an expert.

The members of the Audit Committee shall be appointed annually by the Board and shall serve until their successors are duly elected and qualified. Unless a Chair is elected by the full Board, the members of the Audit Committee shall appoint one of their members as the Chair. Any responsibilities of the Audit Committee may be delegated by the Audit Committee to the Chairman or any other member; provided that any delegate shall report any actions taken by him or her to the whole Audit Committee at its next regularly scheduled meeting.

### **III. MEETINGS**

The Audit Committee shall meet at least four times annually, or more frequently as circumstances dictate. The Chair shall be responsible for leadership of the Audit Committee, including preparing the agenda, presiding over the meetings, making committee assignments, and reporting for the Audit Committee to the Board. As part of its job to foster open communications, the Audit Committee should meet at least annually with management, the internal auditor, and the independent auditor in separate executive sessions to discuss any matters that the Audit Committee or each of these groups believes should be discussed privately. In addition, the Audit Committee may request any officer or employee of the Bank or the Bank's internal and outside legal counsel or independent auditor to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee. The Audit Committee shall have direct access to management, internal staff, the independent auditor, outside firms that are contracted to provide internal audit and risk management services, the corporate compliance staff, and the Bank's legal counsel, both at meetings and otherwise.

### **IV. RESPONSIBILITIES AND DUTIES**

In furtherance of its responsibilities, the Audit Committee believes its policies and procedures should remain flexible in order to best react to changing conditions and to ensure to the Board and the stockholders that the corporate accounting and reporting practices of the Bank are in accordance with all applicable legal and regulatory requirements.

In carrying out these responsibilities and duties, the Audit Committee shall:

#### *DOCUMENTS/REPORTS REVIEW*

1. Review and reassess at least annually the adequacy of this Audit Committee Charter and update the Charter and any audit policies and guidelines to the extent the Audit Committee determines it to be necessary or advisable. The Audit Committee shall also review on an annual basis the Audit Committee's own performance and recommend any proposed changes to the Board.
2. Review any material related party transaction that occurred in the most recent fiscal year, including the transaction's business purpose, pricing, and fairness.
3. Review and discuss, as appropriate, with management, the independent auditors, and the internal audit function (including outside firms that are contracted to provide internal audit and risk management services):

(a) the Bank's annual audited financial statements;

- (b) analyses prepared by management and/or the independent auditor setting forth the significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements;
- (c) the effect of regulatory and accounting initiatives on the financial statements of the Bank;
- (d) any significant changes required in the independent auditor's audit plan;
- (e) any material correcting adjustments that have been identified by the independent auditor in accordance with GAAP and applicable laws, rules, and regulations;
- (f) any material off-balance sheet transactions;
- (g) assessments of the adequacy of the Bank's internal control structure and procedures of the Bank for financial reporting and the resolution of any identified material weaknesses in such internal control structure and procedures;
- (h) any report that effects senior management of the Bank or describes accounting improprieties; and
- (i) other matters related to the conduct of the audit which are to be communicated to the Audit Committee under generally accepted auditing standards, including under Statement on Auditing Standards No. 61, Communications with Audit Committees.

## *INDEPENDENT AUDITOR*

4. The Audit Committee shall be directly responsible for (a) the appointment, compensation, retention, and oversight of the work of the independent auditor, who shall report directly to the Audit Committee and (b) approve all audit engagement fees and terms of any audit, audit-related, tax or other services (to the extent permitted under applicable law) with the independent auditor. The Audit Committee shall approve in advance the provision by the independent auditor of all services to be performed by the independent auditor. In addition, all significant non-audit services should be approved by the Audit Committee. The independent auditor shall not be engaged to perform any services prohibited by banking regulations. The Bank shall provide to the Audit Committee appropriate funding, as determined by the Audit Committee, for payment of (i) compensation of the independent auditors engaged for the purpose of preparing or issuing an audit report or performing other audit, review, or attest services for the Bank, (ii) compensation of any advisers employed by the Audit Committee, and (iii) ordinary administrative expenses of the Audit Committee that are necessary or appropriate to carry out its duties.
5. Review the performance of the independent auditor.
6. Periodically consult with the independent auditor out of the presence of management about internal controls and the completeness and accuracy of the Bank's financial statements.
7. Take appropriate action to oversee the independence of the independent auditor, including:
  - (a) periodically review management consulting services and non-audit services not prohibited by applicable law, and the respective related fees, provided by and to the independent auditor, which shall have been pre-approved by the Audit Committee, and any transactional or other relationships between the Bank and the independent auditor; and consider whether, under criteria the Audit Committee determines to be appropriate, the independent auditor's provision of non-audit services to the Bank is compatible with maintaining the independence of the independent auditor;
  - (b) ensuring the Audit Committee's receipt from the independent auditor, and reviewing, a formal written report from the independent auditor at least annually delineating (i) the independent auditor's internal quality control procedures; (ii) any material issues raised by the most recent quality control reviews, by peer reviews of the firm, or by any inquiry or investigation by governmental or professional authorities relating to any audit carried out by the firm and any steps taken to deal with any such issues, and (iii) (to assess the independent auditor's independence) all relationships between the independent auditor and the Bank;

- (c) reviewing and evaluating the experience and qualifications of the senior members of the independent auditor team; evaluating the qualifications, performance, and independence of the independent auditor, including the review and evaluation of the lead partner of the independent auditor and whether the auditor's quality controls are adequate and the provision of non-audit services is compatible with applicable law and compatible with maintaining the auditor's independence, taking into account the opinions of management and the outside firms that are contracted to provide internal audit and risk management services; and presenting its conclusions to the full Board and, if so determined by the Audit Committee, recommend that the Board take additional action to satisfy itself of the qualifications, performance, and independence of the independent auditor;
  - (d) actively engaging in a dialogue with the independent auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditor and taking appropriate action or recommending to the Board such appropriate action, as necessary, on any disclosed relationships to satisfy itself of the independent auditor's independence;
  - (e) complying with all relevant laws and regulations relative to the independence of the independent auditor, including but not limited to rotation of independent auditor or outside audit personnel and the lead audit partner as required by law;
  - (f) establishing clear hiring policies relating to the employment or retention by the Bank of employees or former employees of the independent auditor.
8. Meet and review with the independent auditor prior to the audit to discuss the planning, scope of services, and staffing of the audit, as well as the audit procedures to be utilized.

#### *FINANCIAL REPORTING PROCESSES AND INTERNAL AUDIT*

9. Discuss with management and the independent auditor and otherwise review (a) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Bank's selection or application of accounting principles, and any major issues as to the adequacy of the Bank's internal controls, and any special audit steps adopted in light of material control deficiencies, (b) analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effect of alternative assumptions, estimates or GAAP methods on the Bank's financial statements, and (c) the type and presentation of information to be included in earnings press releases (paying particular attention to any use of "pro forma" or "adjusted" non-GAAP information).
10. Discuss with management and the independent auditor the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the Bank's financial statements.

11. Inquire of management, internal staff, outside firms that are contracted to provide internal audit and risk management services and/or the independent auditor about the Bank's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Bank's risk assessment and risk management policies. Also, review and assess the Bank's guidelines and policies that govern the processes for identifying and assessing significant risks or exposures and for formulating and implementing steps to minimize such risks and exposures to the Bank.
12. Discuss, upon becoming a publicly traded company, the Bank's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies, although this may be done generally (*i.e.*, discussion of the types of information to be disclosed and the type of presentation to be made), and the Audit Committee need not discuss in advance each earnings release or each instances in which the Bank may provide earnings guidance.
13. Meet with internal audit personnel and the outside firms that are contracted to provide internal audit and risk management services on a periodic basis to discuss the scope of services. Review all internal audit reports and related dispositions with management and outside firms that are contracted to provide internal audit and risk management services as deemed necessary.

#### *PROCESS IMPROVEMENT*

14. Following completion of the annual audit, review separately with each of management and the independent auditor any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
15. Review any significant disagreements between management and the independent auditor. The Audit Committee shall have sole authority to resolve any disagreements between the independent auditor and management.
16. Review with the independent auditor and management the extent to which changes or improvements in financial or accounting practices, as approved by the Audit Committee, have been implemented. (This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Audit Committee.)

#### *ETHICAL AND LEGAL COMPLIANCE*

17. Review management's monitoring of the Bank's compliance with the organization's conduct policies, and ensure that management has the proper review system in place to ensure that the Bank's financial statements, reports, and other financial information disseminated to governmental organizations, and the public, satisfy legal requirements.

18. Review, with the Bank's counsel and regulatory compliance specialist, any legal and regulatory matters that could reasonably have a significant impact on the Bank's financial matters or business activities.
19. Perform any other activities and functions as may be required by the Bank's articles of incorporation, by-laws, and by applicable laws, rules, and regulations, or by the Board, or as the Audit Committee or the Board deems necessary or appropriate.
20. Establish a confidential process for receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters, as well as for confidential, anonymous submissions by the Bank's employees of concerns regarding questionable accounting or auditing matters.
21. Report regularly to the full Board and review any issues that arise with respect to the quality or integrity of the Bank's financial statements, the Bank's compliance with legal or regulatory requirements, the performance and independence of the independent auditor or the performance of the internal audit function.
22. Obtain advice and assistance from outside legal, accounting, or other advisors as the Audit Committee deems necessary to carry out its duties and receive appropriate funding, as determined by the Audit Committee, from the Bank for payment of compensation to the outside legal, accounting, or other advisors employed by the Audit Committee.

## **V. LIMITATION OF AUDIT COMMITTEE'S ROLE**

The independent auditor, internal audit personnel, and outside firms that are contracted to provide internal audit and risk management services are or shall be ultimately accountable to the Audit Committee, in its capacity as a committee of the Board, and to the full Board. While the Audit Committee has the oversight, supervisory, and other powers and responsibilities set forth in this Charter, it is not the responsibility of the Audit Committee to plan or conduct audits, to implement internal controls, or to determine or certify that the Bank's financial statements are complete and accurate or are in compliance with GAAP. These matters and tasks are the responsibility of the Bank's management, the independent auditor, internal audit personnel, and outside firms that are contracted to provide internal audit and risk management services. Likewise, it is the responsibility of Bank management and/or the independent auditor to bring appropriate matters to the attention of the Audit Committee and to keep the Audit Committee informed of matters which Bank management or the independent auditor believe require attention, guidance, resolution, or other actions, the bases therefore, and other relevant consideration. While it is not the duty of the Audit Committee to conduct investigations or to assure compliance with applicable laws, rules, and regulations, the Audit Committee may take such actions with respect to such matters as it deems necessary or advisable in fulfilling the duties identified above.

It is acknowledged that all of the above-listed tasks and focus areas may not be relevant to all matters and tasks that the Audit Committee may consider and act upon from time to time, and members of the Audit Committee may, in their judgment, determine the relevance thereof and the attention such items shall receive in any particular context.